

AIReF **Strategic** **Plan**

2015-2020



Independent Authority
for Fiscal Responsibility

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1. INTRODUCTION

The Independent Authority of Fiscal Responsibility (AIReF, in the Spanish acronym) was created to contribute to the application of the constitutional principle of budgetary stability of the Public Administrations (PAs) by means of an Organic Law passed in November 2013¹, and embarked on its mission with the appointment of its President in February of the following year.

AIReF's Strategic Plan for 2015-2020 was designed at the beginning of the Authority's activity in order to reflect the organisation's major targets in the 6-year period of its President's mandate. The Plan's time horizon coincides with the mandate of AIReF's President for a non-renewable period of six years. When he was appointed, AIReF's President made a commitment before Congress to carry out a mid-term external evaluation of the Authority. The Strategic Plan for 2015-2020 reflected this commitment and also the commitment that, after this evaluation, there would be a review of its content.

In 2017, the OECD was commissioned to carry out the external evaluation of the Authority, fulfilling this commitment. The independent evaluation, which aimed to promote accountability and improve the efficiency of AIReF, was led by members of the OECD Budget and Public Expenditure Division with the participation of members from certain international financial institutions (IFIs). The conclusions and recommendations of the report were taken into account when revisiting this Strategic Plan.

The Strategic Plan was revisited in 2018 following the external evaluation in order to reflect the Authority's new targets, simplify its actions and incorporate the OECD's recommendations as far as possible. The draft revision of the Strategic Plan was submitted to AIReF Advisory Board in February 2018, and the fundamental aspects will be submitted to the Commission of Finance and Public Administrations of the Congress of Deputies in the first half of 2018. The Plan sets out the organisation's medium-term targets (Section II), the challenges it faces (Section III), and the way it proposes to fulfil them (Section IV).

1. Organic Law 6/2013, of 14th November, establishing AIReF

The implementation, priorities and monitoring of the Strategic Plan will be carried out through yearly action plans that AIReF is obliged to publish. Indeed, the Action Plan will expand on the implementation of the Strategic Plan and will set the priorities for the strategic lines and targets contained in this Plan. Furthermore, an evaluation of compliance with the Action Plan will be completed alongside the Authority's Annual Report and will be used for monitoring the Strategic Plan.

AIReF's essential tool to fulfil its mandate is the possibility of including recommendations in its reports. AIReF exercises its functions by preparing and publishing reports, opinions and studies and its scope of responsibility encompasses all the entities that comprise the public sector in Spain. The PAs to which the recommendations included in the reports are addressed must implement said recommendations or else explain the reasons why they are not following AIReF's judgement (comply-or-explain principle).

2. STRATEGIC AIMS, TARGETS AND CONCRETE ACTIONS FOR 2015-2020

For 2015-2020, AIReF will organise its activity around four strategic aims, plus one cross-cutting aim that covers the instrumental targets for implementing the first four lines and for the proper functioning of the Authority. The specific targets to achieve are detailed on a second level and the lines of action to be followed on a third level. The strategic aims are:

1. Contribute to budgetary stability.
2. Foster the financial sustainability of the PAs.
3. Enhance the efficiency of public expenditure and budgetary practices in the management of public sector accounts.
4. Help Spanish society to perceive the benefits of budgetary stability and financial sustainability.
5. Cross-cutting aim: create an efficient and transparent AIReF.

1. CONTRIBUTE TO BUDGETARY STABILITY.

Article 135 of the Spanish Constitution establishes this as the guiding principle for the Public Administrations' actions, in clear reference to compliance with the commitments undertaken within the European Union. According to the mandate detailed in AIReF's establishing law, its actions will aim to ensure the application of this principle.

- a. **Monitor and analyse the economic and budgetary situation.** AIReF needs to internally develop the necessary capacities to track the real economic and budgetary situation of Spain as a whole and its PAs. The high degree of decentralisation in Spain, implies the need for tools that allow the budgetary situation of each of the PAs to be monitored effectively, enabling the risk of non-compliance with fiscal rules to be detected early.

- i. Develop forecasting and projection models for the macroeconomic and budget variables.
 - ii. Develop data bases and establish and maintain budget implementation data monitoring and early warning systems for possible imbalances in each of the PAs.
 - iii. Identify key issues regarding budgetary stability that can be specifically analysed in the reports or more in-depth in the working papers.
 - iv. Self-evaluation of the quality of the macro-fiscal forecasts made in the short and medium term.
 - v. Addition of benchmarking techniques into the analysis of the economic and budgetary situation of the PAs.
- b. ***Help to enforce and improve the design of national and EU fiscal rules.*** Independent fiscal institutions like AIReF have a major information advantage for improving enforcement of national and EU budgetary rules. Discussions between governments on methodologies are often not governed by purely technical criteria, so the independence that characterises AIReF clearly represents an added value when analysing fiscal rules.
- i. Internal development of the capacities necessary to estimate the variables used in determining fiscal rules, especially the structural balance and the output gap.
 - ii. Analyse the application of fiscal rules, the consistency and compatibility between the EU and national rules and, if appropriate, propose methodological improvements.
 - iii. Collaborate with the major international economic institutions and with the independent fiscal institutions network to improve the evaluation of the fiscal rules.

2. FOSTER THE FINANCIAL SUSTAINABILITY OF THE PAs.

Fiscal policy decisions must take into account the sustainability of public finances with a medium and long-term perspective that goes beyond the electoral cycle.

Analyse the long-term sustainability of public finances and relevant implications of some public policies. AIReF must ensure the long term sustainability of the public sector. Many public policy decisions have a budgetary impact that extends beyond their time of approval; they are affected by exogenous factors and can compromise the financial sustainability of the PAs. Consequently, their effects must be objectively analysed from a medium and long-term standpoint, without interfering in any way in the debate on the composition of revenues and expenditure or their level.

- i. Monitoring and analysis of the debt sustainability of each of the PAs.
- ii. Systematisation of medium-term fiscal projections and their connection with economic trends.
- iii. Construction and publication of synthetic and easy to communicate indicators to foster awareness about the importance of sustainability in the long term.
- iv. Analyse the long-term sustainability of the Social Security system.
- v. Analyse trends and long-term dynamics of the main expenditure components: pensions, healthcare, education and social services, among others.

3. ENHANCE THE EFFICIENCY OF PUBLIC SPENDING AND BUDGETARY PRACTICES IN THE MANAGEMENT OF PUBLIC ACCOUNTS.

Efficiency and transparency in the management of public resources are fundamental tools to explain the benefits of budgetary stability and financial sustainability. AIReF will endeavour to help increase efficiency through an independent evaluation of public spending. Also, for the sake of the principle of transparency, AIReF will work to increase the information available to all social stakeholders in good time and in an appropriate form, whilst maintaining the highest possible quality standards, and will work to improve budgeting techniques.

- a. ***Provide objective elements, figures and recommendations to aid in the budgeting process, in decision-making and in the design of legislative initiatives.*** Public administrators must have rigorous, high-quality technical information available when making decisions affecting fiscal policy. In this sense, AIReF will strive to help improve the process through a technical and quantitative analysis of public policies that have a significant impact on public spending. It will also support the PAs in matters within its competence.
 - i. Spending Review (SR), for the general government on the basis of strategy, procedure, efficiency and effectiveness evaluations.
 - ii. Analyse and provide technical support to the PAs in macro-budgetary matters within its competence.
- b. ***Promote transparency among the PAs in the management of their resources.*** The availability of relevant and timely information facilitates decision-making by those responsible as well as their accountability. A certain information bias towards the processes of presenting and approving budgets has been identified in Spain, whereas budget implementation data beyond major aggregate figures receive less attention, due in part to a lack of accessible and relevant information in good time and in an appropriate form.

- i. Identify gaps in the existing economic and budgetary information and help to standardise, simplify and disseminate said information.
 - ii. Publish the data from the PAs that contribute to better awareness on the PAs themselves.
- c. ***Help to improve budgetary procedures and to promote the application of a multi-year budgetary planning framework.*** The need to modernise and advance budgetary procedures requires a review of the application of its basic principles. In particular, it would require progress in medium-term budgetary planning in accordance with European Regulations and the regulations of our own Organic Law on Budgetary Stability and Financial Sustainability (LOEPySF), and in results-base budgeting, all under the principle of transparency of economic information.
 - i. Analyse and diagnose improvements for results-based budgeting and other performance indicator systems.
 - ii. Analyse and make proposals for applying a multi-year budgetary planning framework.
 - iii. Promote and help to estimate and publish the short, medium and long-term economic and budgetary effects of the reforms undertaken by the PAs.

4. HELP SPANISH SOCIETY TO PERCEIVE THE BENEFITS OF BUDGETARY STABILITY AND FINANCIAL SUSTAINABILITY.

AIReF has to help society to become aware of and, in this way, generally accept the benefits of budgetary stability. To this end, AIReF is planning to:

a. Define and roll out a communication strategy to generate credibility and build a reputation in line with its governing principles: independence, transparency and accountability. In order to achieve its targets, AIReF must maintain a significant presence in the media and social media. Moreover, it is important that the strictly technical nature of its work prevails at all times, based on a positive approach and developed away from legislative concepts.

- i. Define and roll out a global communication strategy including the website, media and social media.
- ii. Easy access for society to the work done by AIReF (website).
- iii. Appearance before the Parliament.
- iv. Participate in discussion forums to explain AIReF's work, promoting its work at the sub-national and international level.

b. Promote fiscal awareness in society as a whole. The importance of fiscal issues is not always clearly perceived, so AIReF must work on raising awareness among the general public of its work and of the issues that affect budgetary stability and financial sustainability by enhancing the quality of the debate on economic and budgetary matters.

- i. Reinforce the informative nature of AIReF's documents so that they are more accessible to citizens.
- ii. Organise internal and external seminars and conferences about issues of budgetary stability and financial sustainability.

c. Promote economic research in the field of fiscal policy. Bearing in mind its functions, AIReF is in a position to actively contribute to economic research in the field of fiscal policy, both directly and through cooperation with the academic world. In this way, AIReF can also benefit from an increase in the quality and the degree of innovation of its work.

- i. Publish working papers on matters within AIReF's scope of action.
- ii. Establish collaboration mechanisms with universities and research centres, international institutions and other independent fiscal institutions in order to carry out research.
- iii. Research fellowships and scholarship programme at AIReF.

5. CROSS-CUTTING AIM: CREATE AN EFFICIENT AND TRANSPARENT AIReF.

This aim is cross-cutting and helps to achieve the targets set out in the other aims. The regulations provide AIReF with a set of instruments and tools, along with allocated human and financial resources, for it to fulfil its mission. AIReF must organise these instruments and resources efficiently and transparently, bearing its accountability obligation in mind at all times.

a. Design and prepare reports, opinions and studies. AIReF performs its functions through reports, opinions and studies. Apart from fulfilling its obligations on time, reports and opinions will be designed and drafted to help in the decision-making process that shapes budgetary procedure. To that end, they must contain relevant information and analysis, both for society as a whole and for those who are directly responsible for implementing budgetary policies. Objectivity of the analysis is also a quality requirement.

- iv. Help provide more in-depth information with the greater use of graphic tools and connections to AIReF's web platform.
- v. Prepare and publish the methodologies used in reports and opinions.
- vi. Advisory Board on economic, budgetary and institutional matters.

b. Substantiate the comply-or-explain principle and the duty of collaboration when submitting information. Recommendations are the main tool available to AIReF for influencing the behaviour of the PAs, so there is a need to establish a system for monitoring these recommendations. The information must also be available in good time and in an appropriate form for it to be useful in preparing these reports.

vii. Adapt recommendations to each of the public administrations and monitor in accordance with the principle of comply-or-explain.

viii. Define and gather the information necessary to prepare reports and monitoring of requests for said information.

ix. Prepare protocols, agreements or procedures for the exchange of information and develop institutional relationships between AIReF and the main bodies of the PAs.

c. Efficient and transparent management of human and financial resources. Regulations give AIReF a clear mandate and wide scope of responsibility, which determines the Authority's needs with respect to human and financial resources. Moreover, as with any public institution, AIReF must manage its resources efficiently and be accountable to society.

i. Consolidate and maintain a competent team of people. Continuous staff training.

ii. Create an independent administrative and management structure.

iii. Establish an assessment and monitoring system for AIReF's activity, including the mid-term external review.

3. CHALLENGES

AIReF's key challenge is to materialise its regulations in order to fulfil its functions. Legislation provides the Authority with two main tools to carry out its work: access to information and the comply-or-explain principle, which gives it the capacity to interact with the PAs. To be successful, a set of conditions must be met. These depend not only on its own efforts, but also on the availability of enough information and the degree of collaboration of the other institutions involved in defining and managing the actions that make up the budgetary cycle.

The comply-or-explain principle should be based on a dialogue with the PAs that fosters improvement in the orientation of fiscal policy towards financial sustainability. In accordance with its report issuing schedule, AIReF releases recommendations to the PAs. The Authority subsequently monitors their compliance in order to facilitate a productive exchange of opinions (line of action 5.b.i), which requires the collaboration of the levels of government and administrations involved in the different stages of the budget cycle. The reports, opinions and studies must also clearly reflect the objectivity and rigour of the analysis in order to contribute to the debate on implementing fiscal policy (target 5.a). In this pursuit for excellence and the best design the Authority will set up several collaboration mechanisms, including the creation of the Advisory Board (line of action 5.a.iii).

Access to information in good time and an appropriate form is a prerequisite for AIReF to be able to perform its functions (target 5.b). The law guarantees this access, but it is still necessary to apply it optimally by establishing useful mechanisms of exchange between administrations. In the kind of work to be done by AIReF, which also has tight deadlines to meet, the possibility of drafting useful reports, put together rigorously and objectively, is significantly hampered when the necessary information is not available. In this regard, AIReF will promote the signing of the protocols, agreements or information exchange procedures that may be necessary (line of action 5.b.iii).

AIReF needs sufficient staffing for the tasks allocated (target 5.c). Bearing in mind the Authority's specific and explicit mandate, it is essential for AIReF to have a stable, highly qualified team with the necessary know-how and abilities to fulfil their functions to the highest possible quality standards. The international organisations consulted on this point concluded that AIReF requires a staff of around 65 people, a figure that the institution hopes to attain in order to be able to implement this Strategic Plan (line



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of action 5.c.i). AIReF also hopes to have sufficient financial resources to carry out these tasks, and which should be guaranteed by virtue of the financial resources assigned to AIReF by Organic Law 6/2013

AIReF shall work to convey the benefits of financial sustainability to society (aim 4) and thus help to enhance economic governance and, therefore, confidence in our country and its institutions. To this end, AIReF will seek to strengthen the informative nature of its documents (line of action 4.b.i) and will participate in discussion forums to help disseminate the work performed (line of action 4.a.iv).

4. IMPLEMENTING THE STRATEGY

The Strategic Plan will be implemented by way of the annual Action Plans for the whole period. The organisation of the strategic plan and the interaction between the different aims are described below. However, it must be borne in mind that the pace of implementation could vary depending on the challenges described above and the resources available.

AIReF shall issue the reports and opinions envisaged by law in a timely manner and to the highest possible quality standards (target 5.a). To this end, the methodology used for each type of report and opinion will continue to be included (line of action 5.a.ii) and these reports will be disseminated as much as possible (lines of action 4.a.i and 4.a.ii). The institution will provide more in-depth information through graphical tools and enhanced digital media (line of action 5.a.i). In addition to ensuring compliance with national fiscal rules throughout the budget cycle, which requires development of the capacity to estimate the variables that define it (line of action 1.a.i), reports will take a medium and long-term view to promote the sustainability of public debt (lines of action 2.a.i and 2.a.ii). Consequently, the Authority hopes to construct and publish synthetic indicators that underscore the importance of long-term sustainability (line of action 2.a.iii). Furthermore, to improve the public's fiscal awareness, AIReF will work to increase the informative nature of its documents (line of action 4.b.i).

The recommendations made in its reports are an essential tool for meeting some of the targets of this Strategic Plan. When preparing reports and opinions, AIReF identifies gaps in existing budgetary information (line of action 3.b.i), some of which may limit the scope of its reports, and necessary improvements in budgetary practices (line of action 3.c.i) such as harmonising presentation structures or the strict application of a multi-year framework (line of action 3.c.ii).

There must be continuous monitoring of the recommendations made by AIReF, due to its importance in enhancing transparency in the management of the public accounts and their budgetary practices (strategic aim 3). This monitoring shall take the form of a constantly updated system (line of action 5.b.i), which will be disseminated on the website (line of action 4.a.ii).

The analysis and publication of economic and fiscal data are essential to AIReF. Analysis of the implementation of policies approved throughout the budget cycle (line of action 1.a.ii) and the publication of data from the PAs which contribute to their better understanding (line of action 3.b.ii) are the common thread running through AIReF's regular activity. In order to establish a system for monitoring budget implementation data (line of action 1.a.ii), AIReF will formulate and collect requests for information in order to improve data analysis (line of action 5.b.ii). In addition, to this end, AIReF will promote the development of protocols, agreements or information procedures with the main bodies of the PAs. (line of action 5.b.iii).

AIReF aims to continually enhance the quality of its analysis. The Advisory Board can make a fundamental contribution in this field (line of action 5.a.iii). The quality of the reports will increase as the forecasting models used in them are refined (line of action 1.a.i), the forecasts of which will also be the subject of self-evaluation (line of action 1.a.iv). Alongside refinement of the models, the most important issues for gaining in-depth insight into the analysis of budgetary stability will be defined (line of action 1.a.iii), which will be reflected in the reports or working documents to be disseminated on the web page (line of action 4.c.1). In order to improve the analysis, benchmarking techniques and early warning systems will be incorporated (line of action 1.a.v). AIReF will also promote the estimation and publication of the economic and budgetary effects of the reforms undertaken by the PAs (line of action 3.c.iii).

AIReF can help improve the economic policy decision-making process and improve the efficiency of the public sector. To help improve the efficiency of the PAs, AIReF will conduct an in-depth Spending Review (SR) (line 3.a.i) and will provide the PAs with useful technical material to assist in the decision-making process (line 3.a.ii). In addition, in order to help public policy reforms have a significant impact on financial sustainability, special attention will be given to the long-term analysis of the consequences of ageing and its effect on Social Security (line of action 2.a.iv), along with other demographic, technological and institutional factors which determine the long-term trends and dynamics of public spending (line of action 2.a.v). To this end, AIReF will also develop the capacities needed to estimate the structural balance (line of action 1.b.i).

AIReF provides for some lines of action in the field of training and research in order to achieve its targets. The most important of these are not only continuous staff training (line of action 5.c.i), but also regular cooperation with universities and research centres, international institutions and other independent fiscal institutions in order to carry out research tasks (line of action 4.c.ii), the organisation of seminars and conferences on budgetary and financial sustainability matters (line of action 4.b.ii) and the running of a research fellowship and scholarship programme within the Authority itself (line of action 4.c.iii). In addition, in order to inform the public of its work and the importance of stability and sustainability, AIReF will participate in debate forums (line of action 4.a.iv). In addition, AIReF not only intends to ensure the enforcement of the fiscal rules in force in Spain, but also to investigate their consistency and compatibility with EU rules (line of action 1.b.ii) and contribute opinions, where

appropriate, offering positive proposals for methodological improvements to the rules.

AIReF will reinforce its accountability processes. These processes include both the evaluation and monitoring of its activity and the mid-term external evaluation (line of action 5.c.iii), which has already been carried out by the OECD, as well as management of the public resources assigned to it (line of action 5.c.ii) and fulfilment of its statutory functions. The AIReF President appears before Parliament at least once a year, and as many times as requested (line of action 4.a.iii).

Collaboration with other institutions is essential for many of the targets that AIReF proposes to meet in this Strategic Plan. These include helping to enhance transparency in management (target 3.a), improve budgetary procedures and harmonise the budgetary structures of the general government (target 3.c), promote and analyse the application of a multi-year budgetary planning framework (target 3.c) and promote economic research in the field of fiscal policy (target 4.c). To this end, and in order to improve fiscal rules and raise awareness of the importance of budgetary stability and financial sustainability, AIReF will continue to collaborate with the major international economic institutions and with the independent fiscal institutions network (line of action 1.b.iii).

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