



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



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REVIEW OF THE
INDEPENDENT AUTHORITY FOR FISCAL RESPONSIBILITY (AIREF)

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ABBREVIATIONS AND ACROMYMS

| | |
|---------|--|
| AC | Autonomous Community |
| AIReF | Independent Authority for Fiscal Responsibility |
| AEVAL | Spanish Agency for Public Policy Evaluation |
| ARIMA | Autoregressive integrated moving average |
| BVAR | Bayesian vector autoregression |
| BVARX | Bayesian vector autoregressive model with exogenous variables |
| CBO | US Congressional Budget Office |
| CBR | Slovak Council for Budget Responsibility |
| CIT | Corporate income tax |
| CPB | CPB Netherlands Bureau for Economic Policy Analysis |
| EC | European Commission |
| ECM | Error correction model |
| EU-IFIs | Network of EU Independent Fiscal Institutions |
| FISK | Austrian Fiscal Advisory Council |
| FTE | Full-time equivalent |
| GDP | Gross Domestic Product |
| IFI | Independent Fiscal Institution |
| IGAE | General State Comptroller |
| IMF | International Monetary Fund |
| INE | National Statistics Institute |
| IRP | Index for pension revaluation |
| LC | Local Community |
| LOEPSF | 2012 Organic Law on Budgetary Stability and Financial Sustainability |
| LSM | Least squares method |

| | |
|-------------|--|
| MINHAFP | Ministry of Finance and Public Administrations |
| MoU | Memorandum of Understanding |
| MTOs | Medium-term budgetary objectives |
| OBR | UK Office for Budget Responsibility |
| OLS | Ordinary least squares |
| PFERS | Public Finances and Economic Research Section |
| PIT | Personal income tax |
| PBO | Parliamentary Budget Office |
| PBO Network | OECD Network of Parliamentary Budget Officials and Independent Fiscal Institutions |
| UK | United Kingdom |
| US | United States |
| VAR | Vector autoregression |
| VAT | Value added tax |

EXECUTIVE SUMMARY

The Autoridad Independiente de Responsabilidad Fiscal (AIReF) was established in 2013 as part of a national reform process with the aim of reinforcing the Spanish fiscal framework, meeting new European obligations, and restoring Spain's public finances and setting them on a sustainable path. AIReF has a broad mandate to ensure effective compliance with Spain's constitutional budgetary stability principle by public administrations at all levels of government. This includes continuous monitoring of the budgetary cycle and public indebtedness, as well as analysis of government economic forecasts. The mandate takes into account the specificity of Spain's decentralised system and the breadth of AIReF's subnational mandate is unparalleled among peers.

Although AIReF is still a young organisation, it has established a reputation for independence and high quality analysis with Spanish stakeholders. Internationally, AIReF has also built a strong reputation among its peers in the European Union (EU), the OECD, and more globally. In particular, AIReF has led efforts by EU independent fiscal institutions (IFIs) to strengthen the EU fiscal framework.

The reviewers found AIReF's work to be in line with good practice in terms of approach, rigour and transparency, as well as in comparison to peer IFIs, although it would benefit from more emphasis on the medium term. Stakeholders report that AIReF's work has contributed to better fiscal management in Spain across the fiscal policy cycle. In particular, AIReF has helped generate improvements in economic forecast methods, the monitoring of budget implementation and early detection of non-compliance with fiscal rules. Subnational stakeholders view AIReF as an honest broker in national/subnational fiscal coordination. In relation to transparency, stakeholders across levels of government welcome the new economic and fiscal information provided by AIReF and note the contributions that AIReF has made more generally to promoting a new culture of transparency in Spain.

AIReF has been effective in communicating its work, although there are some ways in which it could enhance its outreach. It receives regular press coverage around the release of key reports and its analysis is increasingly used in the parliamentary debate.

While it is off to an excellent start, AIReF faces several challenges. The most prominent among them are as follows:

- First, AIReF has struggled in terms of access to information. While it is natural for there to be some growing pains around access to information early on, at this stage AIReF's needs, particularly around its legally mandated reports, should be more or less predictable. Experience from across the OECD suggests a Memorandum of Understanding (MoU) between an IFI and the government can provide the basis for a more collaborative and predictable access to information relationship. Where there are issues around timing of access to information, the strategy of giving the IFI advance sight of preliminary data or draft documents on a confidential basis has also been used successfully by peer IFIs and their government counterparts. It is a positive sign that at the time of the writing of this review, the Ministry of Finance and Public Administrations

(MINHAFP) was already in the process of reviewing and amending the regulations limiting AIREF's information access.

- Second, AIREF must balance its ambitions and stakeholder demands for new work against existing budgetary and staff constraints. AIREF should avoid taking on additional tasks unless they are given commensurate resources to undertake these tasks with in-house staff. The addition of new staff in 2017 and 2018, in relation to AIREF's new spending review role, is a welcome development and should allow AIREF to better deliver on its mandate and strengthen and develop its analytical activities in future. On a related note, the process in place around the elaboration of AIREF's budget puts some limits on AIREF's independence, both real and perceived. This could be practically addressed by providing a multi-annual funding commitment.
- Finally, while AIREF has had some success using the comply-or-explain principle, only around half of AIREF's recommendations have been complied with. Forthcoming legal changes which require each institution to publish responses to AIREF's recommendations may help improve this situation. AIREF also has a role to play in terms of its approach to this tool and may benefit from using it more selectively with the aim of emphasising and focusing on its most important messages in subsequent dialogue with relevant administrations and in its public follow-up.

A summary of the main recommendations follows.

SUMMARY OF RECOMMENDATIONS

Inputs

1. **AIReF and MINHAFP and/or relevant administrations should work collaboratively to develop a MoU on access to information**, establishing what information AIReF needs to fulfil its mandate and mutually agreeable and collaborative processes for information requests, including indicative and realistic timeframes for responses, steps to take when requests are not or cannot be complied with, and provisions regarding the treatment of confidential data. This is in line with OECD Principle 6.1.
2. **Where there are issues around timing of access to information, consideration should be given to allowing AIReF advance sight of data or documents on a confidential basis.** The strategy of giving the IFI advance sight of data on a confidential basis has been used successfully by peer IFIs and their government counterparts and would have the potential benefit of strengthening AIReF's analysis and the timeliness of its work.
3. **A multiannual funding commitment should be considered for AIReF, covering the period of the medium term expenditure framework**, to further enhance its independence and provide additional protection from political pressures, or perceptions by stakeholders that AIReF could be subject to political pressures. This would have the added benefit of improving the predictability of funding for AIReF. In the longer term, it may be useful to review the budget process for AIReF in light of OECD Principle 4.1 which also states that the appropriations for IFIs should be published and treated in the same manner as the budgets of other independent bodies.
4. **In light of AIReF's already extremely broad mandate, and the new demands being placed on AIReF, there should be a reassessment of whether the resources allocated to AIReF are commensurate with its mandate**, as outlined in OECD Principle 4.1. Such an assessment should include a review of the sufficiency of the supervision fee system in meeting AIReF's budgetary needs.
5. **AIReF should avoid taking on additional tasks unless they are given commensurate resources to undertake these new tasks with in-house staff.** More generally, AIReF should use outside contractors sparingly. For a limited number of projects AIReF has had to rely on consultants. Doing so creates potential risks around consistency, transparency, independence, and communication of the results, especially for a young organisation. In the longer term, it may also impact AIReF's ability to generate and sustain internal professional capacity.
6. **In the longer term, the calendar for AIReF reports should be revisited in light of information constraints.** One practical solution would be to indicate a time period for analysis upon the receipt of the necessary information rather than specific calendar dates. Changes to the calendar would reopen AIReF's Organic Law to amendment and so may not be practicable in the near term but should be considered when an appropriate political and legislative juncture arises.

Methodology and outputs

7. **AIReF should regularly include projections for a medium-term period of three to five years beyond the current year.** Shifting some of the existing focus and resources to more emphasis on the mid-term would improve the balance in AIReF's work. With some exceptions, the majority of AIReF's products over the past few years have been heavily focused on near-term estimates for the current year and the upcoming budget year and would benefit from a medium-term perspective.
8. **When documenting its analysis, AIReF should include more tables with summaries of numbers and more graphics to show recent history and the near- or medium-term projections of economic and budgetary results.** Some AIReF reports tend to be "text-heavy" with minimal use of numeric tables or data visualisations. As reports are expanded to include more years of budget projections (as recommended above), it would also be helpful to include line- or bar-charts to present the multiple years of analytic results. Including recent history of budget aggregates in such graphs would further assist in presenting the context for AIReF's forward-looking projections.
9. **AIReF reports should include more details on both its economic and budgetary estimates.** Most reports have presented high-level summaries of AIReF projections. It would be useful to include the key components of those summary totals that AIReF has prepared during its analysis. Such underlying details can provide helpful context for the top-line totals.
10. **AIReF should continue to conduct and publish regular self-evaluations of its economic forecasts and budget projection records.** This may include an examination of the accuracy of their projections and of whether there have been any significant biases underlying past forecasts by the government or by AIReF, with attempts made to understand the underlying causes of inaccuracies. AIReF will benefit from continuing to compare past forecasts against both observed data and the projections of other forecasters.
11. **AIReF should periodically review the decision to refrain from publishing its own independent macroeconomic forecast.** While AIReF has chosen to focus on its endorsement role and the uncertainty of such forecasts (as opposed to providing point estimates of its own), there may come a time over the longer term when it may be both informative and useful to the public debate for AIReF to eventually publish its own staff projections for the Spanish economy.

Subnational

12. **AIReF should continue to develop its already well-received work on benchmarking regions and municipalities.** Given the number of municipalities, a focus on the most fiscally stressed municipalities would be particularly useful.
13. Where resources allow, **AIReF should broaden communication and engagement efforts at the subnational level.** There is demand for AIReF to increase its engagement with non-governmental stakeholders at the regional level, including with regional parliaments, the press, and academics.
14. **In the longer term, AIReF should focus on improving the quality and deepening the reach of existing regional and local analysis,** developing more detailed and robust regional economic models and broadening the coverage of its work to include smaller municipalities. In addition, to further enrich the debate on subnational fiscal sustainability, AIReF should continue to develop its self-initiated analysis on the vertical distribution of fiscal targets across different levels of government as a complement to its mandatory report on the horizontal distribution of targets. In

future, should AIREF's mandate be revisited, stakeholders may wish to consider whether analysis on the vertical distribution should become a mandatory part of AIREF's work. Again, such engagement has resource implications which must be taken into consideration.

Impact

15. **AIREF should pursue a strategy of increased selectivity regarding its comply-or-explain recommendations** with the aim of emphasising and focusing on its most important messages in subsequent dialogue with relevant administrations and in its public follow-up. AIREF may also wish to consider testing different approaches to ascertain their effect on compliance rates, for example, varying the time given to comply according to complexity of the recommendation.
16. **AIREF should develop materials that are more accessible for non-technical stakeholders** at both the national and subnational level. This may include short summaries of the key messages of AIREF's most important reports. Accessibility would also be facilitated by continuing to develop a distinct and consistent "design language" to facilitate navigation across AIREF's reports and highlight key information both in print and online.
17. Building on its already well-developed communications with print and online press, **AIREF should promote its most important reports in a targeted way through a broader range of media that have the potential to reach a wider public.** Television appearances by AIREF's President are one option with the potential to bring AIREF's work to a larger audience but should be highly selective to minimise the noise-to-signal ratio and to increase the chance of key messages penetrating the public debate.
18. **AIREF should set clear and measurable communications targets regarding its communications via social media platforms.** AIREF should consider limiting the resources it dedicates to communication via social media platforms where there has been demonstrably lower response from stakeholders and focus on tools that have shown higher potential for uptake such as Twitter.
19. **AIREF should expand its outreach to academics and universities.** Research faculty and students today represent an important current and future constituency for AIREF analysis.
20. **AIREF should periodically undertake stakeholder satisfaction surveys for key stakeholder groups** such as parliamentarians and academics.

INTRODUCTION AND REVIEW METHODOLOGY

1. In line with internationally agreed best practice, the President of AIReF committed to undertaking a mid-term independent external evaluation with a view to promote efficiency in AIReF's functioning, and improve its organisation, transparency, and the outreach of its activities, with reference to the work carried out by other IFIs.

2. The methodology for this review is anchored in the *OECD Principles for Independent Fiscal Institutions* (OECD, 2014) and a subsequent evaluation framework elaborated within the OECD Network of Parliamentary Budget Officials and Independent Fiscal Institutions (PBO Network).¹

Principle 9.1 of the OECD Principles for Independent Fiscal Institutions states that:

IFIs should develop a mechanism for external evaluation of their work – to be conducted by local or international experts. This may take several forms: review of selected pieces of work; annual evaluation of the quality of analysis; a permanent advisory panel or board; or peer review by an IFI in another country.

3. The Network of EU Independent Fiscal Institutions (EU-IFIs) reaffirmed this OECD Principle in their document *Defining and Enforcing Minimum Standards for Independent Fiscal Institutions* (2016).²

4. The evaluation framework takes as a starting point internationally agreed standards (e.g. the OECD Principles). As such, the review assesses AIReF against these standards, benchmarks it against peer institutions in OECD countries and, where possible, identifies observable counterfactuals. The framework covers four main elements:

- **Context**, the institutional setting and mandate of AIReF

¹ See discussions at the 2014 and 2015 annual meetings of OECD Network of Parliamentary Budget Officials and Independent Fiscal Institutions (PBO Network). Elements of this framework were first tested in the *External Review of the UK Office for Budget Responsibility* (2014) and then in *How is the Irish Fiscal Advisory Council Performing? An Independent Evaluation of the First Years of IFAC* (2015). The UK and Irish reviews, and the two Australian reviews in 2014 by the Australian National Audit Office and in 2017 by an independent panel also provided an assessment against the OECD Principles.

² Some OECD IFIs have external evaluation built into their legislation: Australia (foreseen after a general election at the request of the Joint Committee of Public Accounts and Audit) and the United Kingdom (at five year intervals). Others, in line with international good practice, have chosen to undergo external evaluation. The Irish Fiscal Advisory Council proposed that a peer review take place on a regular basis, such as every four years. The CPB Netherlands Bureau for Economic Policy Analysis (CPB) undergoes evaluation of its work by academics and by clients every five years.

- **Inputs**, human and financial resources, access to information and independence
- **Outputs**, AIReF's core products, including effectiveness of the methodology
- **Impact**, of AIReF's work, including effectiveness of communications and stakeholder confidence

5. The evaluation framework follows a performance framework approach used by governments globally and leverages conventional evaluation tools such as stakeholder interviews and peer review.

6. The final report will be published by the OECD in English and Spanish and made available electronically on the OECD's website. Evaluations of IFIs benefit the entire IFI community and not just the IFI being evaluated. With this in mind, the review will be presented and discussed at a peer review session at the 2018 meeting of the OECD PBO Network, as part of ongoing discussions on the governance arrangements and working methods of member IFIs, as well as on evaluation of IFIs and the network's evaluation framework.

The review team

7. The review team included two members of the OECD Secretariat's Budgeting and Public Expenditures Division in the Directorate for Public Governance, two international peers from IFIs in the Netherlands and the United States (US) and one Spanish academic peer (see Annex A). The team was also able to draw upon contributions from other relevant members of the OECD Secretariat and peers within the PBO Network. Two missions to capital and two missions to the regions (Galicia and the Valencian Community) for stakeholder interviews were undertaken in July and September 2017 (see Annex B).

CHAPTER 1. CONTEXT

8. AIREF was legally established in November 2013, part of the wave of crisis inspired or “second generation” independent fiscal institutions set up the 2010s. It became operational in 2014. The economic situation – Spain was particularly hard hit by the global economic and financial crisis with deficits between 9-11% of Gross Domestic Product (GDP) in the period of 2009-12, compared to significant surpluses in 2006 and 2007 – contributed to the two closely related reform processes that gave life to Spain’s new independent fiscal institution. Externally, reforms to the European Union’s fiscal policy governance framework (fiscal compact, “six-pack”, “two-pack”) created new obligations for Spain including a requirement for an independent body to monitor compliance with national fiscal policy rules and to assess or produce forecasts. Internally, a national reform process reinforced the Spanish fiscal framework and put in place strict new budgetary rules across all levels of government with the goal of meeting European commitments, restoring sound public finances and setting them on a sustainable path.

9. A range of legislation applies to AIREF (see Box 1.1 below). The core of AIREF’s remit is defined in Organic Law 6/2013 on the establishment of an Independent Authority for Fiscal Responsibility (14 November 2013) and is operationalised by Royal Decree 215/2014 (21 March 2014).³ AIREF is a public law institution with its own legal personality and full public and private capacity to act. Although it is attached to the Ministry of Finance and Public Administrations (MINHAFP), it has been conceived as an entity with functional autonomy and full independence. According to the organic law, *the AIREF President and staff cannot seek or take any instructions whatsoever from any institution, whether public or private.*

10. Unlike many of its peers, AIREF did not enjoy broad cross-party support at the outset. It was approved by the governing political party of the day (57% of the votes in parliament). Opposition parties raised questions about AIREF’s institutional design with some arguing that it should be attached to the parliament. Some on the left also viewed AIREF as imposed by Europe and associated with unpopular austerity measures. It is one of the particular successes of AIREF today that it now has broad cross-party support and that its analysis is used by all parties (see Chapter 5).

Box 1.1. AIREF’s legislative framework

The national reform process began with the modification of **Article 135 of the Spanish Constitution** (September 2011) obliging all levels of the public administration to respect the principle of budgetary stability.

Organic Law 2/2012 on Fiscal Stability and Financial Sustainability (27 April 2012) amended the budgetary framework and introduced a budget balance rule, a public debt rule, and an expenditure

³ The statute was informed by the views of AIREF’s President as well as those of the Bank of Spain, the European Commission, the IMF, regional governments and the Spanish federation of municipalities.

rule, and reinforced the monitoring procedures and preventive and corrective measures to ensure compliance.

Organic Law 6/2013 on the establishment of an Independent Authority for Fiscal Responsibility (14 November 2013) set up the authority introduced in Organic Law 2/2012. Its organisation and activities were further specified in **Royal Decree 215/2014** (21 March 2014), approving AIREF's organic statute. Additional regulations have also been put in place as regards access to information in **Ministerial Order HEP/1287/2015** and **Ministerial Order HFP/232/2017** (see Chapter 2).

Law 23/2013 on regulating the sustainability factor and the revaluation rate of the Social Security Pensions System (23 December 2013) provides for AIREF to issue an annual opinion on the determination of the Pension Revaluation Index.

Law 19/2013 on Transparency, Access to Public Information and Good Governance (9 December 2013) represents an attempt at an important cultural shift towards more transparency for public sector bodies, one that is still underway. The law establishes that a representative of AIREF is part of the Council on Transparency and Good Governance.

1.1. AIREF's governance structure, accountability and stakeholder relations

11. AIREF is headed by a President who has overall responsibility for AIREF's management decisions and represents AIREF publicly. The President's non-renewable six year mandate is independent from the political cycles of four-year general elections. The President is assisted by a Management Committee.⁴ AIREF's President and Management Committee also benefit from the input of a range of experts on their work programme and institutional arrangements, through their Advisory Board (see Chapter 2 for a full discussion of AIREF's organisational structure). AIREF's Strategic Plan 2015-2020 sets out and makes public the organisation's medium term objectives, the challenges it faces, and the way it proposes to meet them.

12. As an additional protection, the Congress plays a consultative role in both the appointment – a nominated candidate must appear before the Finance and Public Administrations Committee which assesses their skills and experience – and dismissal of the President ensuring that their view is made public. In addition, the President is supposed to appear, at least once a year, before the relevant committees of the Congress and the Senate. The President is now a regular participant in parliamentary hearings related to the budget process.

13. The Congress now regularly uses AIREF analysis in their debates but cannot request studies from AIREF. Some stakeholders within Congress see a potential role for AIREF to provide additional support to the Congress, particularly in the area of legislative cost estimates. This however is outside of AIREF's mandate and AIREF does not currently have the staff contingent to undertake this type of work which tends to be resource intensive and require specialised skill sets. One other option would be for the Congress to invest in its own independent budgetary capacity, building on the very small Public Finances and Economic Research Section (currently two staff) which provides analysis of budget-related issues and the Cortes Generales Budget Office (two staff) which tracks and provides summary reports on budgetary execution. While the staff of these units are very dedicated, they are extremely under-resourced.

⁴ Should the President wish, the Management Committee may be attended by experts of recognised standing nationally or internationally based on the subjects to be covered but this has not happened in practice.

14. AIREF makes a concerted effort to interact with other institutions within Spain that provide analysis on fiscal policy issues. For example, AIREF uses as a benchmark the macroeconomic forecasts produced by the Bank of Spain, and the FUNCAS consensus forecast. AIREF also participates in a working group organised by FUNCAS.⁵ AIREF seeks to engage academic economists and universities, through for example participating in and organising forums and seminars, and through internship programmes. AIREF's outreach and communications have successfully engaged the specialised press, although reaching the general public has proved more challenging.

15. As noted earlier, AIREF participates in the Council on Transparency and Good Governance and attends the meetings of, and provides analytical support to, the Fiscal and Financial Policy Council. It also maintains relations with the Technical Committee on National Accounts. AIREF does not have any formal links with the Court of Audit in relation to surveillance of fiscal policy but, as part of its accountability, it is subject to audits by the Court and a first audit was underway during this review. AIREF is also monitored by the General State Comptroller (IGAE).

1.2. Mandate

16. AIREF has a broad mandate to ensure effective compliance by public administrations at all levels with the budgetary stability principle as set forth in Article 135 of the Spanish constitution⁶. This includes the continuous monitoring of the budgetary cycle and public indebtedness, as well as the analysis of economic forecasts. The mandate takes into account the specificity of Spain's decentralised system, as well as Spain's European obligations, and allows AIREF to undertake work at its own initiative. AIREF's mandatory reports and the deadlines for these reports are established in law (see Chapter 3).⁷

17. AIREF performs studies at the request of the government or the co-ordination bodies in the government, sub-national entities and the social security system. AIREF may also perform studies at the request of autonomous regions and local governments provided they refer to matters under each administration's competence and that they do not affect any other administration. Before the preparation of such a study, a budget and progress schedule must be established and submitted to the interested party for approval. According to Article 23.1 of the statute, these requested studies are compulsory when requested by central government and the coordinating bodies.⁸ Although AIREF has some freedom to set its fees and the ability to hire external consultants, this creates a potential risk in terms of AIREF's already heavy workload, as well as a potential reputational risk when using outside contractors should those contractors not perform to AIREF's standards. There are now two cases where AIREF has had to essentially outsource studies by hiring consultancy firms, although AIREF remains responsible for quality control and the ultimate results.

18. In December 2016, AIREF was asked by the government to take on a new role in spending review over 2017 and 2018.⁹ To date, it is the only OECD IFI to take on a spending review task. In some ways the choice of AIREF to lead the review is natural given AIREF's reputation for independence and neutrality and its productive relations with the different levels of government. In exercising its spending review function, AIREF should be cautious about making normative recommendations that might compromise its reputation for independence. Stakeholders have also pointed to the risk of mission creep

⁵ About half of the members of the working group are drawn from the panel for the consensus forecast.

⁶ The breadth of AIREF's subnational mandate is unparalleled among peers. See discussion in Chapter 4.

⁷ For some reports the deadline is set in law, while others should be issued within ten days of the submission of the information and documentation needed for their preparation.

⁸ The Fiscal and Financial Political Council and the National Commission of Local Administrations.

⁹ As outlined in Spain's Stability Programme Update 2017-2020 to the European Commission which committed it to a spending review exercise with a focus on improving efficiency.

and becoming overcommitted, as highlighted in recent discussions of the AIReF Advisory Board which nevertheless ultimately supported the decision to take on the spending review task. To carry out this new task AIReF has been promised additional resources, including new staff. It was of concern to the review team that as of November 2017 new staff had not yet come on board.

19. It is interesting to note that there are no alternative institutions to undertake evaluation more generally. One of the only other institutions, the Spanish Agency for Public Policy Evaluation (AEVAL) which was established in 2007 to improve public policy evaluation, specifically government coordination of public policy implementation in the context of a decentralised Spain, was abolished in August 2017 as this review was being undertaken. AEVAL faced important challenges fulfilling its mandate and unlike AIReF was not seen as a truly independent and credible institution.

1.3. Global context: the IFI community

20. From the outset, AIReF has made a concerted effort to glean good practices from more established peer institutions and to promote cooperation among IFIs. AIReF is an active participant in the OECD Network of Parliamentary Budget Officials and Independent Fiscal Institutions and the President of AIReF has served as the Chair of the Network of EU Independent Fiscal Institutions since November 2015 and was reappointed for a second two-year term in November 2017. AIReF regularly engages with peers, for example by hosting seminars and study visits.

21. The OECD and EU community of IFIs provides a rich and useful comparative context in which to evaluate AIReF. The characteristics of this diverse group of institutions are informed by country-specific circumstances and, in the case of European IFIs, by supranational commitments leading to variations in terms of their institutional models, mandates, tasks, governance provisions and resources. Within its peer group, AIReF has several unique features such as its fee-based funding structure and the depth of its subnational mandate. Despite this variety, there is broad agreement on standards to ensure the independence and good functioning of IFIs, as defined in the *OECD Principles for Independent Fiscal Institutions*¹⁰ (OECD, 2014) and the document on *Defining and Enforcing Minimum Standards for Independent Fiscal Institutions* (EU-IFIs, 2016), and in line with the rich literature on independence for other independent institutions such as central banks and supreme audit institutions.

22. Analysis demonstrates that AIReF globally meets the OECD Principles many of which are reaffirmed by the EU-IFI Minimum Standards (see Table 1.2). This adherence to defined global standards provides AIReF with legitimacy among peer institutions and should provide confidence to its stakeholders in Spain. One standard that is unique to the EU-IFI Minimum Standards in that it is EU specific, relates to effective implementation of the comply-or-explain principle. Comply-or-explain provisions are specifically included in AIReF's enabling legislation and AIReF is among those EU IFIs which are most advanced in terms of its consistent use of comply-or-explain recommendations and of the impact that its work has had through this principle (see Chapter 5). Subsequent chapters show that in general, AIReF outputs (products) compare well with more experienced peers.

23. It is interesting to note that AIReF's legislation explicitly recognises that it can, in co-ordination with MINHAFP, collaborate with other institutions and organisms of the EU, in particular the European Commission. AIReF must report quarterly to MINHAFP on the communications and information exchanges carried out with EU institutions and organisations.

¹⁰ The OECD Principles for independent fiscal institutions are now a Council Recommendation. This means that the Principles were not only ratified by the Network, but also adopted by OECD member governments.

24. AIReF's international context has been enriched with the establishment of a European Fiscal Board, a supranational fiscal council, set up in line with a recommendation from the Five Presidents' Report *Completing Europe's Economic and Monetary Union* to strengthen the current economic governance framework. Among its responsibilities is cooperation with national IFIs in the EU, although the form of that cooperation is still being developed.

Table 1.2. Does AIReF meet OECD Principles (assessment of legislation and practice)

| OECD Principle | Is there related EU-IFI Principle | Assessment | Notes |
|--|-----------------------------------|------------|--|
| 1. LOCAL OWNERSHIP | | | |
| 1.1 Broad national ownership, commitment, and consensus across the political spectrum. Models from abroad should not be artificially copied or imposed. | In preamble | ● | Broad cross-party support lacking at establishment but rapidly built over past three years. |
| 1.2 Local needs and the local institutional environment should determine options for the role and structure of the IFI. | In preamble | ● | |
| 2. INDEPENDENCE AND NON-PARTISANSHIP | | | |
| 2.1 Does not present its analysis from a political perspective; strives to demonstrate objectivity and professional excellence, and serves all parties. IFIs should be precluded from any normative policy-making responsibilities to avoid even the perception of partisanship. | | ● | Normative advice limited and related to recommendations to ensure compliance with fiscal policy objectives. |
| 2.2 The leadership of an IFI should be selected on the basis of merit and technical competence, without reference to political affiliation. The qualifications should be made explicit. | ✓ | ● | Candidates must be professionals of recognised standing and with a minimum experience of ten years in budgeting and economics. |
| 2.3 Term lengths & number of terms that the leadership of the IFI may serve should be clearly specified in legislation along with dismissal criteria & process. | | ● | President holds a non-renewable six-year term and can only be removed for reasons provided in the organic law. |
| 2.3 The leadership's term should optimally be independent of the electoral cycle. | ✓ | ● | President appointed for six years, typical electoral cycle 4 years. |
| 2.4 The position of head of the IFI should be a remunerated and preferably full-time position. Strict conflict-of-interest standards should be applied. | ✓ | ● | |
| 2.5 The leadership of the IFI should have full freedom to hire and dismiss staff in accordance with applicable labour laws. | ✓ | ● | In practice, some restrictions on hiring. |
| 2.6 Staff should be selected through open competition based on merit & technical competence, without reference to political affiliation, in line with civil service conditions. | | ● | |
| 3. MANDATE | | | |
| 3.1 The mandate should be defined in legislation, including types of reports and analysis they are to produce, who may request them and timelines for release. | | ● | |
| 3.2 IFIs should have the scope to produce reports and analysis at their own initiative and autonomy to determine their own work programme within their mandate. | ✓ | ● | |
| 3.3. Clear links to the budget process should be established within the mandate. | | ● | |
| 4. RESOURCES | | | |
| 4.1 The resources allocated to IFIs must be commensurate with their mandate. | ✓ | ● | AIReF's already broad mandate is expanding with the risk of adding challenges to AIReF's already limited resources. |
| 4.1 The appropriations for IFIs should be published and treated in the same manner as the budgets of other independent bodies. | ✓ | ○ | Legislation states AIReF's budget will be submitted to MINHAFB for subsequent incorporation into the General State Budget. In practice MINHAFB can and does make changes without consulting AIReF. |
| 4.1 Multiannual funding commitments may further enhance IFIs independence | ✓ | ○ | |

| | | | |
|---|---|---|--|
| and provide additional protection from political pressure. | | | |
| 5. RELATIONSHIP WITH THE LEGISLATURE | | | |
| 5.1 Mechanisms should be put in place to encourage appropriate accountability to the legislature. | ✓ | ● | Congress plays a role in appointment and dismissal of AIReF President. AIReF reports and analysis sent to the legislature. AIReF President participates in parliamentary hearings. |
| 5.1 The budgetary calendar should allow sufficient time for the IFI to carry out analysis necessary for parliamentary work. | ✓ | ● | |
| 5.2 The role of the IFI vis-a-vis the parliament's budget committee (or equivalent), other committees, and individual members in terms of requests for analysis should be clearly established in legislation. | | ◐ | Legislation states that the President shall appear, at least once a year, before the appropriate committee of the Congress. AIReF's mandate does not provide for committees to ask AIReF for analysis. |
| 6. ACCESS TO INFORMATION | | | |
| 6.1 IFI should have full access to all relevant information in a timely manner. | ✓ | ◐ | Strong legislative underpinnings but regular problems with timely access in practice. |
| 6.2 Any restrictions on access to government information should be clearly defined in legislation. | ✓ | ◐ | Some restrictions deemed unclear and in the process of being amended. |
| 7. TRANSPARENCY | | | |
| 7.1 IFI should act as transparently as possible, including full transparency in their work and operations. | | ● | |
| 7.2 IFI reports and analysis (including underlying data and methodology) should be published, made freely available to all and sent to parliament. | | ● | |
| 7.3 The release dates of major reports and analysis should be formally established, especially in order to coordinate them with the release of relevant government reports and analysis. | | ◐ | While release dates of major reports and analysis are established in legislation, in practice, access to information issues sometimes delay reports. |
| 7.4 IFIs should release their reports and analysis, on matters relating to their core mandate on economic and fiscal issues, in their own name. | | ● | |
| 8. COMMUNICATIONS | | | |
| 8.1 IFIs should develop effective communication channels from the outset. | | ● | |
| 9. EXTERNAL EVALUATION | | | |
| 9.1 IFIs should develop a mechanism for external evaluation of their work. | ✓ | ● | Advisory board and first external evaluation conducted by international experts. |

Key: ●=yes; ◐=partial; ○= no

1.4. Conclusions

25. AIREF's legal framework, governance, mandate, and institutional landscape inform and affect its operations. From a domestic perspective, AIREF has had to build its reputation in difficult and unpredictable economic and political times. In this climate AIREF must find a delicate balance – it is a guardian of the fiscal rules but must not be misperceived as an enforcer of austerity.

26. Although AIREF is a very young organisation it is already well known and recognised as unique in the Spanish context. Its rapidly earned reputation for independence and high quality analysis, and the lack of alternatives in the institutional landscape, has led stakeholders to envisage additional tasks for AIREF. This is positive insofar as it speaks to AIREF's successes but it brings potential challenges. AIREF is being asked to do more than its resources reasonably allow for and it risks its mandate expanding to include projects outside of its core areas of expertise.

27. Internationally, AIREF has also built a strong reputation among its peers in the EU, OECD, and more globally. AIREF has played a particularly strong leadership role in the efforts of EU IFIs to review and strengthen the EU fiscal framework. It will need to continue to develop and define its cooperation with the new European Fiscal Board.

CHAPTER 2. INPUTS

2.1. Introduction

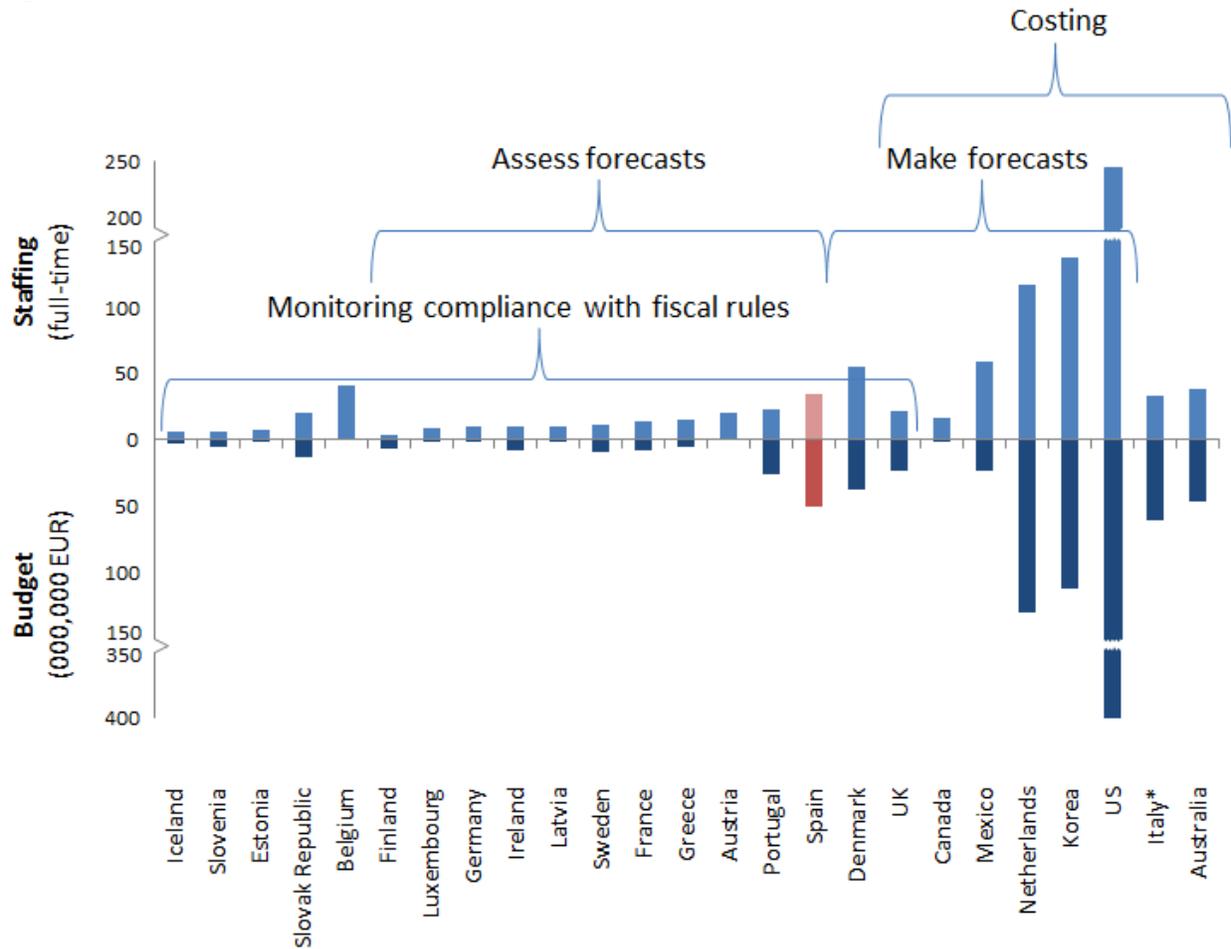
28. An assessment of an IFI's inputs must take into account the human and financial resources it has, as well as whether these resources are predictable and sustainable. It should examine the IFI's access to information and whether the IFI has the necessary level of independence, to carry out its work. According to the OECD Principles, an IFI must have resources commensurate with its mandate to fulfil it in a credible manner (Principle 4.1). An IFI must also have full access to all relevant information in a timely manner, including methodology and assumptions underlying the budget and other fiscal proposals (Principle 6.1). Finally, non-partisanship and independence are pre-requisites for any successful IFI (Principle 2.1).

29. Analysis undertaken for the review indicates that AIREF is generally well resourced in comparison to its international peers. It has a legislative guarantee to access data and information from the administration, although this has not always been sufficient in practice. Its independence is also underpinned in legislation, although there are some weaknesses around its funding process. Importantly, stakeholders perceive AIREF to be politically independent. Each of the input categories of funding, human resources, access to information, and independence will be addressed in turn.

2.2. Funding

30. Article 11 of AIREF's organic law (6/2013) states that AIREF shall have sufficient economic and human resources to fulfil its duties. It also lays out AIREF's sources of funding. Although AIREF is among the more well-resourced IFIs, the volume and coverage of AIREF's outputs is particularly resource intensive. For example, AIREF produces elevenbox reports annually to deliver its legal mandate, which is more than any other OECD IFI (the average number of reports required each year across peer IFIs in the EU is 2.5). And the breadth of AIREF's subnational mandate is unparalleled among peers (see Chapter 4). AIREF's budget has not proved sufficient and AIREF has been drawing upon reserves from its first year of operation to make up for resource shortfalls in certain areas.

Figure 2.1. Mandate and resources of OECD IFIs



Source: OECD, 2017b

* Italy also monitors compliance with fiscal rules and assesses forecasts. Data on the budget for Belgium and Austria are not available.

2.2.1. AIReF budget approval process

31. In practice, AIReF prepares its draft budget and presents it to MINHAFP. Following negotiations with MINHAFP, a final proposal is included in the central government budget sent to parliament for approval. In 2015, 2016 and 2017 AIReF's budget proposal was reduced by MINHAFP. In the first years, reductions were made unilaterally. This situation has improved somewhat with some reductions being negotiated between MINHFP and AIReF for 2017 and 2018. The budget approved in the General State Budget Act, plus any subsequent additions from AIReF's reserves represent the total budget for the fiscal year.

Table 2.1. AIReF budget 2014-2017 (Euros)

| Year | 2014 | 2015 | 2016 | 2017 |
|---|-------------|-------------|-------------|-------------|
| AIReF’s proposed budget | n/a | 5,331,650 | 5,650,000 | 5,700,000 |
| Budget provided in General State Budget Act | 4,484,420 | 4,484,420 | 4,484,420 | 4,675,000 |
| Total available budget after addition of AIReF reserves | 4,238,285 | 5,334,420 | 4,654,420 | 5,071,181 |

Source: AIReF

32. The OECD Principles state that “the appropriations for IFIs should be published and treated in the same manner as the budgets of independent bodies, such as audit offices, in order to ensure their independence” (Principle, 4.1).¹¹ Some of the ways in which the budgets of OECD IFIs are protected from political interference are highlighted in Box 2.1. Many observers raised concerns about the ability of MINHAFP to alter AIReF’s annual budget as potentially impacting on AIReF’s independence or putting AIReF under political pressure, and expressed support for further protections. The Bank of Spain provides an existing local model that could be replicated for AIReF.¹² Its legislation establishes that the laws regulating the budgetary regime of state public sector entities are not applicable to the Bank of Spain and that its budget proposal, once approved by its governing council, is forwarded to the government, which submits it without any changes to parliament for review and approval. Its budget is not subject to consolidation with the remaining budgets of the state (Bank of Spain, 2017).

Box 2.1. Protecting IFI’s budgets from political pressure

Certain protections can be put in place regarding IFI budgets, such as the IFI having its own budget line (around half of IFIs in OECD countries) and multi-annual funding commitments. For example, in Australia, the government committed to funding over four years to establish the Parliamentary Budget Office.

Some institutions have their funding levels set out in legislation (e.g. Italy and Ireland). Legislation for the Portuguese Public Finance Council (CFP) provides for the financial independence of the CFP and its capacity to fulfil its mission are guaranteed through state budget appropriations, which can “only be reduced in duly justified exceptional circumstances” (statutes, article 27[3]).

The budget of the Irish Fiscal Advisory Council (IFAC) is guaranteed under the Fiscal Responsibility Act (2012) and paid directly out of the state’s central fund, similar to independent institutions such as the judiciary and the parliament. Its funding is not subject to annual authorisation through the budget process and so new legislation would be required to modify or withdraw funding, affording it a very high level of protection and multi-annual stability.

¹¹ For example, according to the OECD Budget Practices and Procedures database (2012) Supreme Audit Institutions in 19 OECD countries either submit their budget directly to the legislature for approval (Belgium, Canada, Estonia, New Zealand, Slovak Republic and the United Kingdom) or their budget is included in the government’s budget proposal without any changes before being submitted to parliament for approval (Denmark, Finland, Germany, Hungary, Israel, Italy, Luxembourg, Mexico, Norway, Poland, Switzerland, Turkey, and the US).

¹² The budget for the Bank of Spain is regulated in Article 4 of its Autonomy Law 13/94 of 1 June 1994.

Some IFIs such as the Austrian Fiscal Advisory Council (FISK) and the Slovak Council for Budget Responsibility (CBR) receive their financing via the central bank. The CBR, for example, has a budget line within the central bank budget and the government automatically reimburses that specific item to the central bank.

For institutions with a parliamentary budget office model, their funding is typically appropriated as part of the budget of the legislature and thus independently from the national budget. For example, the budget of the Korean National Assembly Budget Office (NABO) is part of the overall budget of the National Assembly, which is appropriated independently in the national budget. NABO's prepares its budget proposal which is examined and approved by the National Assembly's House Steering Committee. The Speaker transmits the National Assembly budget to the Ministry of Strategy and Finance, but only for consolidation purposes.

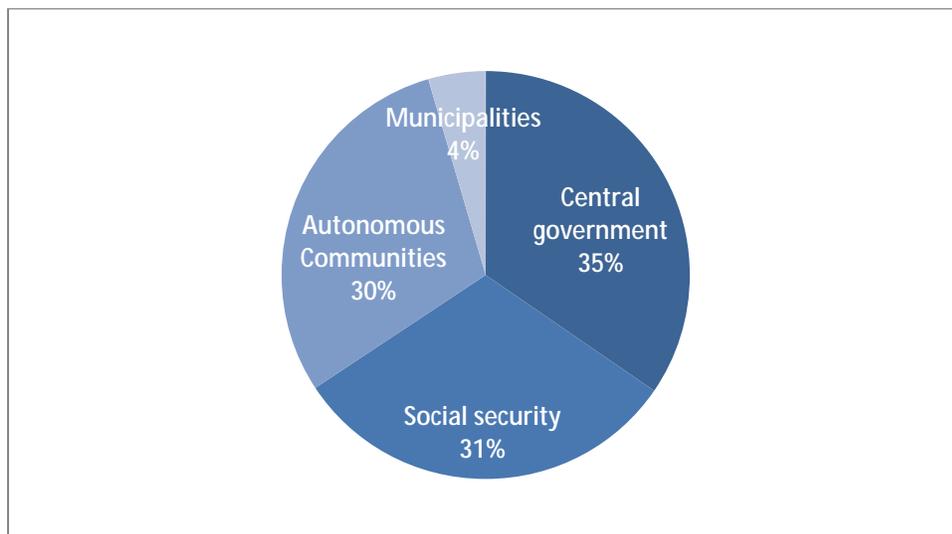
Source: von Trapp, Lienert and Wehner, 2016

2.2.2. AIReF revenues and expenditure

33. AIReF's funding system is unique amongst its OECD peers in that the bulk of its annual budget comes from supervision fees established in its Organic Law. The rationale for this is twofold. First, it gives all the administrations in the government sector co-responsibility in maintaining AIReF and secondly, it is intended to guarantee AIReF's financial independence.

34. These fees are collected from the different public administrations including the state, the social security system, autonomous communities and local communities. They are calculated as a percentage of each administration's budget and the rate can only be amended in the Central Government Budget Law. The proportion of the supervision fee raised from each category of administration is shown in Figure 2.2, below. The amount collected as a fee in 2016 was around €3.9 million, or 84% of AIReF's expenditures.

Figure 2.2. Revenue from the AIReF supervision fee by administration, 2016



Source: AIReF, 2017a

35. AIReF can also obtain revenues from additional studies requested by public administrations (similar to the practice in the Netherlands), although it has only accepted two studies of this nature to date and such studies may imply questions in terms of human resources. Finally, funds from the general state

budget could be allocated to AIREF if the revenues obtained through fees and from studies are below the total budget approved by the parliament. AIREF also has its own assets, independent from the general state administration.

36. AIREF's revenues and expenditure by year are shown in Tables 2.2 and 2.3. AIREF's 2014 budget was only partially implemented as the majority of the staff did not join the institution until September that year. The unspent monies from 2014 have been used to fund AIREF expenditures in 2015, 2016 and 2017. However, AIREF estimates that this buffer will be exhausted in 2018. It is anticipated that from 2019 AIREF will not have enough funds to deliver its mandate, unless: (i) it receives a transfer from the Central Government, or (ii) the supervision fee is increased by the General State Budget Law.

Table 2.2. AIREF revenues 2014-2016 (Euros)

| Revenues | 2014 | 2015 | 2016 |
|---------------------------------|------------------|------------------|------------------|
| Supervision fee | 3,790,601 | 3,827,802 | 3,937,971 |
| Current transfers ¹³ | 249,999 | 0 | 0 |
| Asset income | 5,714 | 8,596 | 5,094 |
| Total revenues | 4,046,314 | 3,836,398 | 3,943,065 |

Source: AIREF

Table 2.3. AIREF expenditures 2014-2016 (Euros)¹⁴

| Expenditures | 2014 | 2015 | 2016 |
|---------------------------|------------------|------------------|------------------|
| Personnel expenses | 1,108,080 | 2,795,180 | 2,993,720 |
| Operating expenses | 354,340 | 981,540 | 879,260 |
| Paid work experience | | 76.32 | 117,850 |
| Investments | 101,030 | 853,740 | 244,970 |
| Total expenditures | 1,553,826 | 4,706,488 | 4,235,825 |

Source: AIREF 2015a, 2016 and 2017a

37. Around two-thirds of AIREF expenditure goes to personnel costs. AIREF is subject to certain government wide controls on staffing and staff costs. This has sometimes been a point of tension as AIREF has a small staff and very specialised staffing needs. It is notable that AIREF has underspent its budget each year. This has largely been as a result of government restrictions. For example, in 2015 the underspend was due to resolutions issued on productivity by the Secretary of State on Budgets and Expenditure that limited the possibility for AIREF to implement its budget.¹⁵ As such there are some additional limits in practice on AIREF's control of its budget.

¹³ Provided for AIREF's start up.

¹⁴ The premises that AIREF currently occupies were allocated to it by an Order of the Ministry of Finance & Public Administrations of 6 October 2014.

¹⁵ Although the General State Budget Act for 2015 foresaw an amount of €1.076.210 for productivity, AIREF was authorised to spend only €27.160.

2.3. Human resources

38. AIREF has a total of 35 permanent staff, broadly categorised as senior management, analysts, legal/HR and secretarial staff.¹⁶ Staff are organised in the President's office and three divisions: the Budgetary Analysis Division, the Economic Analysis Division and the Legal Affairs Division.

39. Despite being a new and relatively small organisation, AIREF has a reputation among stakeholders for attracting the best and the brightest from the civil service. Staff typically have graduate degrees and bring to the table extensive experience in MINHAFP (including the General Secretariat for Autonomous and Local Financing), IGAE, the Ministry of Economy, Industry and Competitiveness, Treasury, the Bank of Spain (initial secondments), the National Statistics Institute, the Institute of Fiscal Studies, Ministry of Employment and Social Security, the European Central Bank and the EU Economic Policy Committee.

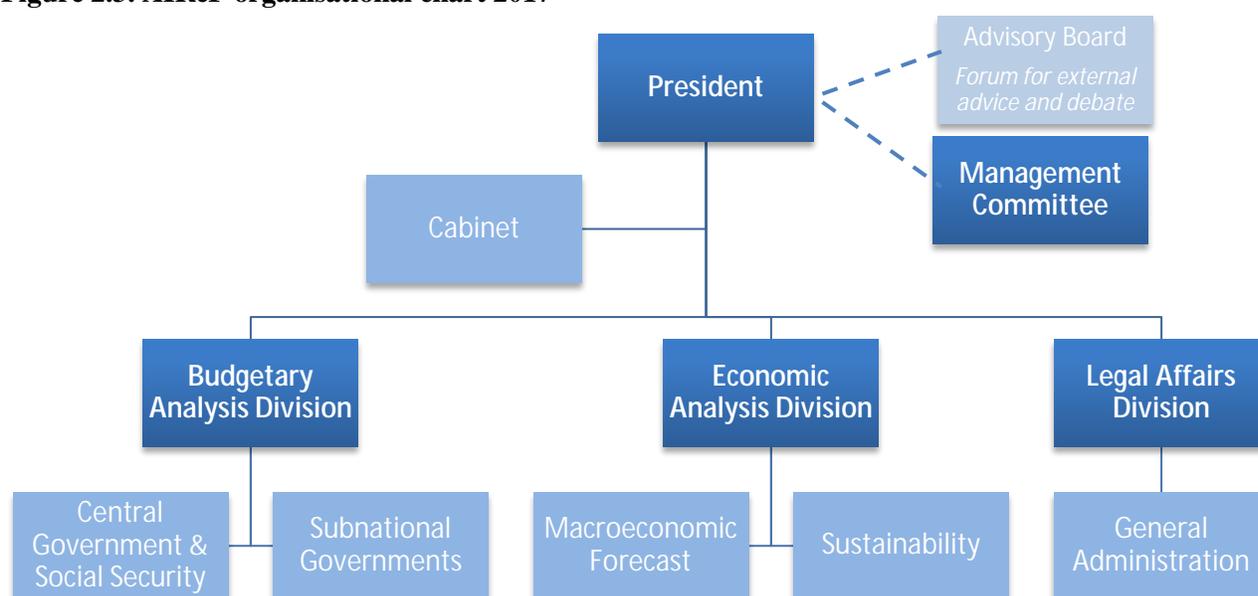
40. AIREF should be commended for its gender balance with almost half of senior management positions filled by women, including a Division Director, Deputy Division Director, and the President's Chief of Staff. A combined 60% of analysts in the Budget Analysis and Economic Analysis Divisions are also women.

41. While at first glance AIREF compares well to its peers¹⁷ in terms of absolute staff numbers (see Figure 2.3), its current staffing levels are just over half of its original goal of around 65 staff. Indeed an International Monetary Fund (IMF) analysis at AIREF's inception concluded that it would need between 50-100 staff, largely due to the breadth of AIREF's subnational mandate which implies higher staffing needs than many of its European peers with similar functions at the national level only. Currently the Budgetary Analysis Division devotes about 70% of its time to subnational work; the Economic Analysis Division about 50%.

¹⁶ During its set-up phase, five officials from the Bank of Spain were also seconded to AIREF for one year.

¹⁷ Peers with much higher staff levels tend to have a costing mandate, "the most resource intensive and time consuming remit requiring a larger staff base" (IMF, 2013).

Figure 2.3. AIReF organisational chart 2017



Source: AIReF

42. Moreover, only about 60% of AIReF staff are fully engaged in the core analytical work of the Economic and Budgetary Analysis Divisions and there is a clear demand for additional analysts to carry out AIReF’s core mandate. For a very limited number of projects, AIReF has had to use external consultants. AIReF draws on additional administrative support by contracting out services such as communications (4 staff) and IT (2 staff). As such these contractors are not part of AIReF’s wage and salaries expenses (chapter one of AIReF’s budget) and are not subject to the hiring limitations discussed earlier. AIReF also has an internship programme with around 10 interns hired via MoUs with major universities.

Table 2.4. Permanent AIReF staff by type¹⁸

| Type | Number | Notes |
|--|--------|---|
| Senior Management | 5 | President, President’s Chief of Staff, Division Directors |
| Deputy Division Directors; Analysts in Economic & Budgetary Analysis Divisions | 4;15 | |
| Legal/Human Resources/Procurement | 5 | Including 1 Deputy Manager |
| Analysts in President’s Cabinet | 2 | 1 analyst is specialised in international and institutional relations |
| Administrative | 5 | |

Source: OECD analysis of staffing information available on AIReF’s website.

¹⁸ This table does not include interns, external consultants, and staff contracted to provide communications and IT services.

43. The OECD Principles state that “the leadership of the IFI should have full freedom to hire and dismiss staff in accordance with applicable labour laws” (Principle 2.5), as a further protection of independence. While AIREF’s President has the power to hire and dismiss staff below the level of Division Director, as noted earlier, in practice MINHAFP maintains some control over staffing, including around the number and type of positions and overall staff costs included in Chapter One of AIREF’s budget. Because of regulations on hiring of civil servants, to adjust its headcount, AIREF must submit a proposal for modification of its List of Posts to MINHAFP. It did this in 2016, but approval was not given and the related budget proposal for additional staff was denied. This put AIREF in a difficult position as, in the view of its management, it does not have sufficient staff to deliver the commitments in its 2015-2020 Strategic Plan or to produce much in the way of opinions and other self-initiated work.

44. As noted above, AIREF has found ways to expand its staff resources slightly without increasing its headcount through contractors and selective use of consultants under Chapter 2 (outsourcing) of its budget. The use of international consultancy firms presents some potential reputational risks that AIREF must manage carefully. .

45. There are, however, positive developments on the horizon on the staffing front. Given AIREF’s new role in spending review, MINHAFP agreed the modification of the List of Posts in 2017 allowing for AIREF to hire seven new staff by end 2017 and another seven in 2018. AIREF anticipates being able to retain this additional headcount permanently, an important increase in analysts.

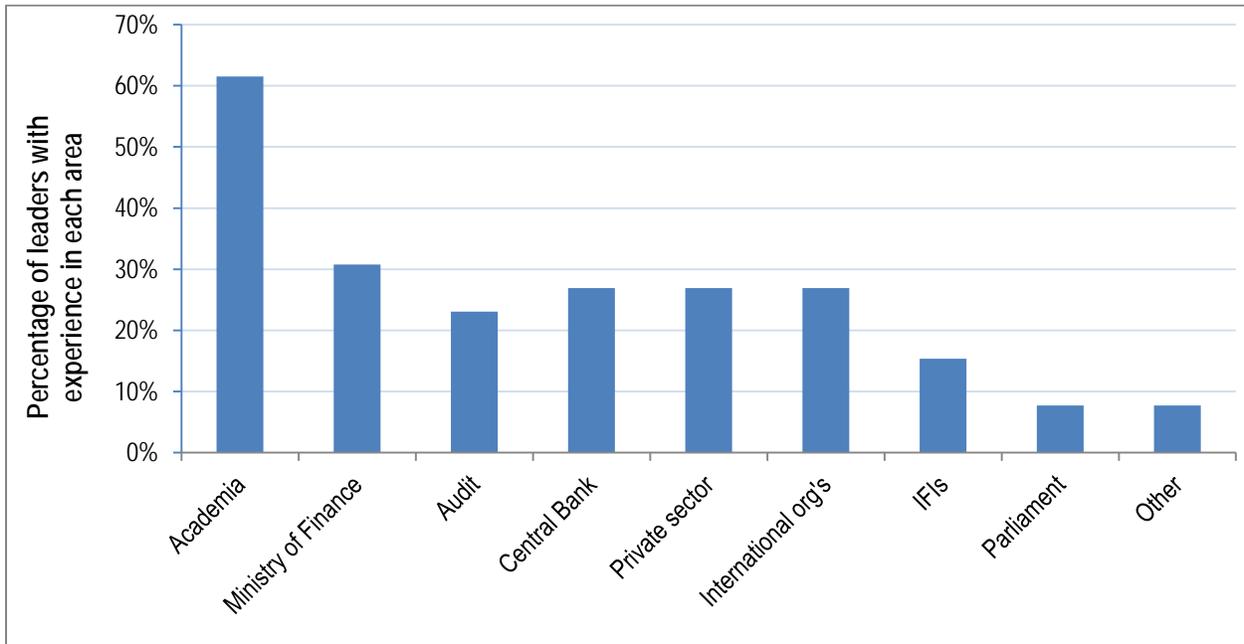
2.3.1. Senior leadership

46. AIREF is headed by a President who has overall responsibility for AIREF’s management decisions and represents AIREF publicly. Candidates must be professionals of recognised standing and with a minimum experience of ten years in budgeting and economics. In line with the OECD Principles, the term is delinked from the typical four-year electoral cycle. Also in line with the OECD Principles, the process and criteria for dismissal of the President are clearly defined.¹⁹ AIREF’s first President, José Luis Escrivá, brought more than 30 years of experience in budgetary, economic and financial analysis in both the public and private sector in Spain and internationally. His career spans positions in the Bank of Spain, the European Monetary Institute, the European Central Bank, the Bank for International Settlements (BIS), and BBVA (Banco Bilbao Vizcaya Argentaria). In interviews with the review team, stakeholders uniformly praised the leadership of AIREF’s first President who they viewed as a highly technically competent and independent actor.

47. The President is assisted by a Management Committee composed of the three division Directors and, at the request of the President, the Chief of Staff. Division Directors are appointed and removed by the Council of Ministers on the proposal of the AIREF’s President. A minimum of ten years of experience is also required to become a division Director.

¹⁹ Criteria include incompatibility, incapacity to perform his/her functions, conviction for an intentional offence or a gross breach of his/her obligations. The process is as follows, the Minister of Finance and Public Administrations carries out an investigation during which members of AIREF’s management committee and relevant committees in Congress must be consulted. The removal must be authorised by the Council of Ministers.

Figure 2.4. Background of senior leadership across OECD IFIs



Source: OECD, 2017b

2.3.2. AIREF Advisory Board

48. AIREF's President and management committee also benefit from the input of a range of experts on their work programme and institutional arrangements. AIREF's organic law establishes that the President may be advised on the performance of their functions by recognised national or international experts, professionals with expertise in subject areas within its competences. In March 2015, in line with best practice among peer IFIs – such as those in Korea, the Netherlands, the United Kingdom (UK) and the US – AIREF established an Advisory Board comprised of academics and former high level civil servants. Members are appointed by AIREF's President for a three-year renewable term.²⁰ The current Advisory Board has 11 non-paid members with experience working in academia, MINHAFP, the Ministry of Economy, the National Statistics Institute, the Bank of Spain and the financial sector.

49. The Advisory Board was originally conceived as divided into two panels: The Economic Analysis Panel and the Budgetary and Institutional Analysis Panel. However, at an Advisory Board meeting in February 2017 a decision was taken to modify the resolution establishing the Advisory Board to eliminate the reference to the two panels and to expand the number of experts that can be part of the council from 8-10 to 10-15. The Advisory Board meets several times a year, or as needed in case of special issues arising.

50. In the case of AIREF, the Advisory Board may be particularly useful in assessing and monitoring risks to AIREF. A case in point is the Advisory Board's debate on the costs and benefits of AIREF's expanding workload with the new addition of a spending review task.

²⁰ Both Spanish nationals and non-nationals are eligible for appointment, but they must be acknowledged experts in their fields in Spain or internationally with at least ten years of experience in budgetary, economic and financial analysis.

Box 2.2. The US Congressional Budget Office’s Panel of Economic Advisors

Throughout the four-decade history of the US Congressional Budget Office (CBO), the agency has maintained a panel of economic advisors consisting of widely recognized experts with a broad range of economics, financial, and budget-related backgrounds. Many have positions in academia, but representatives from the business world and private-sector economics forecasting firms have also been included. Generally, CBO’s panel of advisors comprises 20 to 25 members that serve two-year terms, but members have sometimes been reappointed for multiple terms.

The panel typically meets with senior CBO staff at the agency’s offices in Washington, DC, twice a year for reviews of preliminary CBO economic projections. Panel members sometimes present results of their own recent research, and they provide critical outside feedback to CBO. Those semi-annual meetings serve as an important source of input to CBO’s official economic projections that underlie the agency’s *Budget and Economic Outlook* reports to the US Congress.

CBO staff also occasionally consult with its economic advisors at other points during the year. Overall, the expert opinions and feedback provided by the panel throughout the year – primarily through the collaborative discussions held during the semi-annual full-day meetings of the panel with CBO staff – serve to greatly enhance the quality of CBO’s analysis of the US economy.

Box 2.3. The Slovak Council for Budget Responsibility’s (CBR) Advisory Panel

In line with OECD recommendations for fiscal councils and good practice in longstanding councils such as the US CBO and the Netherlands CPB, the CBR appointed a five-member Advisory Panel of internationally-renowned experts (including former heads of other IFIs) in macroeconomics and public finance to oversee and advise on the CBR’s procedures and methodologies. The Panel is scheduled to meet once per year and to consult electronically throughout the year. The expertise and outside perspective of the advisors helps guarantee the high-quality output of the CBR’s work.

2.4. Access to information

2.4.1. Legislative underpinnings

51. There will always be an asymmetry of information between a government and an IFI, even one that is well resourced. As noted in Principle 6.1 of the OECD Principles, “This creates a special duty to guarantee in legislation – and if necessary to reaffirm through protocols or memoranda of understanding – that the IFI has full access to all relevant information in a timely manner, including methodology and assumptions underlying the budget and other fiscal proposals.”

52. AIReF’s access to information rights are enshrined in Article 4 of its organic law which states that (emphasis added):

“1. The Independent Authority for Fiscal Responsibility shall perform its duties through the issuance of reports, opinions and studies in accordance with the terms of this Organic Law.

2. For this purpose, economic-financial information concerning the Public Administrations shall be made available to the Authority. In order to ensure efficiency and avoid duplication of efforts in the submission of information, all information will be preferably accessed through the Ministry of Finance and Public Administration, notwithstanding any

additional requests for information submitted directly to the relevant Public Administrations, in particular, whenever the information obtained through the Ministry may be deemed insufficient, incomplete or if any clarifications were required. [...]

3. The subjects within the scope of this Law shall provide all economic-financial information required by the Independent Authority for Fiscal Responsibility as may be necessary for the performance of its duties and within the deadlines established by the latter for such purpose.[...] ”

53. While the organic law provides strong legal underpinning, subsequent legislation, the Royal Decree 215/2014 and Ministerial Order HEP/1287/2015, effectively set limits on AIREF’s access. Under AIREF’s organic law there is a stated preference for information requests to be channelled through MINHAFP, but also recognition that AIREF may approach any relevant public administration for information to deliver on its mandate. The additional regulations are more restrictive, requiring AIREF to channel all requests first through a new Economic-Financial Information Centre in the Ministry and allowing for refusal of information considered as auxiliary, or supporting information, such as that contained in notes, drafts, opinions, summaries, communications, and internal reports or between administrative bodies or entities. Some of these provisions, such as what constitutes “auxiliary” or “supporting” information, have been perceived by stakeholders as unclear or open to interpretation.²¹ In this regard, the Council for Transparency and Good Governance released some additional criteria for assessing whether information could be considered auxiliary or supporting, including whether it: contains personal opinions of the author that are not representative of the position of the organisation or entity; preliminary texts or drafts before a final decision has been taken; preparatory information for an activity by the organisation or entity; internal communications not part of procedural steps; and non-mandatory reports that were not used in decision-making.

2.4.2. Access to information in practice

54. The Ministry’s Economic-Financial Information Centre provides a centralised point of contact for AIREF on information and a potentially useful clearinghouse for much of the information that AIREF needs on an annual basis. The relationship between AIREF and the Centre is generally described as positive by both sides. At times however, the centralisation process appears to imply additional steps that lead to unnecessary delays and inefficiencies. This has been the case, for example, for certain information from the regions leading AIREF to now ask regions for information directly (see Chapter 4).

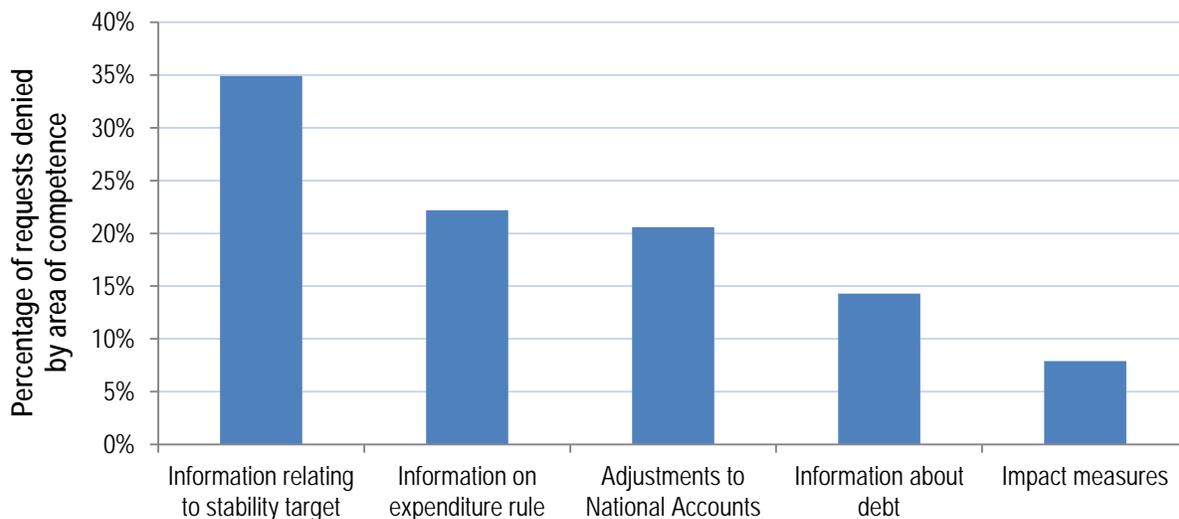
55. In practice, AIREF reports recurrent difficulties accessing the information it needs to deliver its mandate, with information requests frequently denied on the basis that the information is auxiliary, not available, or not legally required to be produced. AIREF also experiences issues in terms of timeliness. At the same time, central government stakeholders report that AIREF’s requests have at times created a significant burden in terms of additional workload and that there are a number of cases where the

²¹ It is interesting to note that similar challenges have arisen in relation to Article 18 of the 2013 Transparency Law which includes an identical clause that allows access to information requests to be denied if they “[r]efer to auxiliary or supporting information, such as the content of notes, drafts, opinion papers, summaries, internal communications and reports, or exchanged between administrative bodies or entities.” This has also led to legal challenges, such as the recent case over a request by Access Info Europe, for access to Spanish government documents related to participation in the Open Government Partnership (OGP). Their request was rejected by the Ministry of the Presidency as the documents were deemed internal documents of an “auxiliary” nature. The dispute was brought to Spain’s Transparency Council which ruled in favour of disclosure. The Ministry then challenged this ruling in court but it was upheld by Spain’s High Court which argued that there could be no exclusion for documents that are necessary to understanding how a decision is being or has been taken. See High Court decision here: <http://www.poderjudicial.es/search/contenidos.action?action=contentpdf&databasematch=AN&reference=8120208&links=28079230072017100364&optimize=20170817&publicinterface=true>

information requested is simply unavailable or cannot be provided in the timeframe requested. Conflicts around timing are unfortunately exacerbated by the timetable for AIReF reports in AIReF’s legislation which in certain cases requires AIReF to produce assessments before the necessary information is available. An important example is provided by the Stability Programme Update (see Box 2.5).

56. A comparison of data from AIReF and MINHAFP on access to information shows a fundamental difference in interpretation of whether requests for information are being met. Since July 2015 AIReF has tracked responses to its requests to the Economic-Financial Information Centre. AIReF’s 2016 Annual Report indicates that 69% of its requests were refused or that the information provided did not correspond to the request and that 75% of the requests that were refused were deemed by MINHAFP as falling outside the competence of AIReF, as being auxiliary, or unavailable (AIReF Annual Report, 2016). Moreover there appears to be a difference of opinion on what information is considered necessary for AIReF to fulfil its mandate. In the remaining 25% of refused requests, AIReF report that MINHAFP responded by referring AIReF to public information that lacked the depth of detail requested, provided only a partial response, or provided information that was irrelevant to the analysis being conducted.

Figure 2.5. Information requests denied by area of competence, as assessed by AIReF

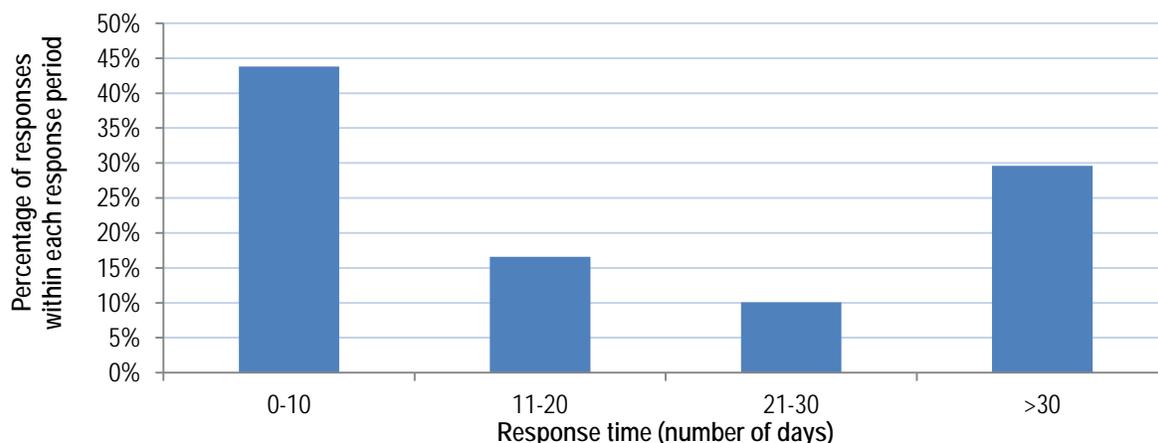


Source: AIReF, 2017a

57. The Economic-Financial Information Centre also tracks information requests made by AIReF and publishes the results on its website. It reports that as of October 2017, the government had received 171 information requests from AIReF and has answered 99%. It should be noted however that “answers” include cases where information requests were denied or information was unavailable. While the Centre seeks to provide information within 15 days, the average response period is 24 days and the range of response times varies.²²

²² Interestingly, the Economic-Financial Information Centre reports that in 85% of cases, the information provided to AIReF is not publically available.

Figure 2.6. Response period for AIReF information requests, as assessed by MINHAFP



Source: MINHAFP 2017

Box 2.4. Access to information and challenges around national accounts data

A critical information challenge that AIReF has faced in fulfilling its mandate has been around access to information on the conversion of budgetary information into national accounts data, including on the methodologies behind these conversions and any changes to these methodologies. This information is necessary for AIReF to understand how revenues and expenditures are accounted for and the assessment of how likely it is that the central and subnational governments will comply with fiscal rules.

This access to information challenge is partly related to the functioning of the Technical Committee on National Accounts. In addition to creating AIReF, the Organic Law 6/2013 established the Technical Committee on National Accounts which brings together representatives from the three institutions that contribute to Spain's national accounting process: IGAE, the Bank of Spain, and the National Statistics Institute (INE). The Organic Law formalised an already existing informal working group between these three institutions, a move welcomed by Eurostat as "considerably important for the improvement of the quality of the compilation process of the government accounts."²³ Eurostat had previously recommended greater coordination between the three bodies, a stronger role for INE and improvements to the data collection and reporting system.²⁴

The organic law calls for the Committee to draw up and approve internal rules of procedure to be published in the Official State Gazette and Eurostat requested the rules of procedure in its report on its most recent Excessive Deficit Procedure dialogue visit to Spain. To date however, the Committee has been unable to agree its rules of procedure. The legislation also provides for the Committee to submit reports issued during the performance of its functions to AIReF but the Committee typically does not publish its decisions, except in cases where the Committee consults with Eurostat, and does not automatically send them to AIReF.²⁵ In essence, while the Committee has been formalised, its workings

²³ See <http://ec.europa.eu/eurostat/documents/1015035/6940197/Final-findings-EDP-dialogue-visit-ES-09-10-July-2015-REV.pdf/2f3d28e2-2081-4cab-a590-ba9fb0c797a9>

²⁴ See <http://ec.europa.eu/eurostat/documents/1015035/3991227/Techn-UDV-SPAIN-May-June-2012.pdf/183dcaa1-d58b-4148-a3ec-819969ccf15a>

²⁵ See <http://ec.europa.eu/eurostat/web/government-finance-statistics/methodology/advice-to-member-states>

remain informal with no rules of procedure and no clear platform to publish decisions – the Committee does not have its own website. There is also ongoing debate around the leadership and the role of the Committee, whether it is a consultative or decision-making body. For example, IGAE is mandated to decide on the classification of units but so, according to the new legislation, is the Committee.

AIReF's strategic plan and annual action plans from 2015 onwards call for increased cooperation with the Committee, a task that would be facilitated if it established its rules of procedure. Currently, lack of transparency on the Committee's decisions and difficulties obtaining information have led to an unfortunate erosion of trust between AIReF and the Committee.

Source: OECD

Box 2.5. Access to information and the Stability Programme Update: contrasting examples from the Netherlands and Ireland

Euro area countries are obliged to outline how they intend to reach their medium-term budgetary objectives (MTOs) in annually produced Stability Programmes. The Stability Programme Update must be submitted to the European Commission preferably by mid-April but no later than end of April in accordance with the requirements under the European Semester. AIReF, in common with a number of other OECD IFIs, is legally mandated to report on macroeconomic scenario and fiscal stance presented in the Stability Programme and it is required in legislation to do this prior to 15 April each year. However, the Government of Spain does not submit a draft Stability Programme Update to AIReF and the Parliament (as is the case in many other EU countries) and typically publishes its final Stability Programme Update at the end of April, after AIReF's deadline. This creates practical concerns as AIReF does not have the full information needed to fulfil its legislative obligations according to its legislative calendar.

A contrasting example can be found in the **Netherlands**. The Advisory Division of the Dutch Council of State is designated as the body charged with the independent supervision of compliance with the fiscal rules that have been agreed upon in Europe. Since the time available for the Division's assessments will always be limited, the Minister of Finance and the Advisory Division of the Council of State have agreed a set of working agreements, to assist in a proper and timely process. The Advisory Division receives a draft version of the Stability Programme Update around April 1. To ensure the quality and accuracy of ensuring establish assessment, the Ministry of Finance will have the opportunity to comment before an assessment of the Advisory Division is finalised. Normally, there will be two meetings on the draft assessment: a staff level meeting followed by a meeting of the Minister of Finance with the Advisory Division. The Advisory Division will display in the final assessment the government observations on its draft assessment and its response to those observations. The draft Stability Programme Update and its assessment by the Advisory Division of the Dutch Council of State are also sent to parliament, typically in mid-April. As a result, the view of the Council of State plays a role in the public debate and in parliamentary debate on the stability programme.

In **Ireland**, since 2014, the Irish Fiscal Advisory Council (IFAC) has endorsed a draft Stability Programme Update near the start of April. Successive governments have moved progressively over recent years from sending the annual stability programme to the parliament at the same time as it is sent to the European Commission (EC), towards an earlier submission of the document in draft form, with the expectation that the relevant parliamentary committee can consider and propose amendments prior to its finalisation. In 2017 a draft version was endorsed by IFAC on 4 April and sent to parliament on 11 April. This progressive development is in line with the recommendation of the OECD *Review of Parliamentary*

Engagement in Budgeting: Ireland (Downes and Nicol, 2015) that “such a process would signal that the input of the [parliament] is welcomed and expected from the very outset of the budget cycle.”

Source: CPB and OECD

2.4.3. Changes on the horizon

58. In May 2016, AIREF took the hard decision to file a legal challenge against the central government.²⁶ The legal challenge sought to repeal or amend the provisions in Royal Decree 215/2014 and Ministerial Order HEP/1287/2015 (in particular, Articles 2, 5 and 12) as violating the access to information provisions in its Organic Law 6/2013. In response to this legal challenge, Ministerial Order HEP/1287/2015 was partially repealed by Ministerial Order HFP/232/2017 of March 14. At the same time, the European Commission has continued to recommend that the remaining regulations limiting AIREF’s access to information be changed.²⁷

59. At the time of the writing of this review, MINHAFP was in the process of adapting the Royal Decree to remove the exceptions to AIREF’s access to information after consultation with AIREF.²⁸ MINHAFP has proposed removing the clauses relating to auxiliary or supporting information and to remove the regulation that AIREF must first request information through the MINHAFP Economic-Financial Information Centre. In response, AIREF expressed a preference to preserve the practice of accessing information via the Economic-Financial Information Centre provided they are allowed to make requests to administrations directly as well, because it sees benefit in having an interlocutor in government that is accountable for AIREF’s access to information. AIREF also proposed a modification to enable AIREF to request reports issued by the Technical Committee on National Accounts and a modification that obliges the Ministry of Employment and Social Security to provide AIREF with the assumptions and tools used in the calculation of the revaluation rate for pensions.

60. The final amendments made by MINHAFP to the Royal Decree will be put before the Council of State and the Council of Ministers for approval very shortly. This is a welcome step that should provide a foundation upon which a more mutually agreeable process for information requests and responses can be built.

61. While it is natural for there to be some growing pains around access to information early on, at this stage AIREF’s needs, particularly around its legally mandated reports, should be more or less predictable. Experience from across the OECD suggests a MoU on access to information between an IFI and the government can provide the basis for a more collaborative access to information relationship.

²⁶ To put this in perspective, there is only one other recent example of an OECD IFI seeking legal recourse on access to information. In Canada, disagreements over the Parliamentary Budget Officer’s right of access to information on savings measures in the 2012 budget led the PBO to file an application with the Federal Court of Canada seeking a judgment clarifying his mandate. While the PBO’s reference to the Federal Court of Canada was dismissed on a technicality, the judge’s obiter dictum upheld both the right of the PBO to seek, from the government, the details regarding the CAD 5.2 billion in spending cuts from the 2012 budget and the right to take the government to court for the refusal to release such requested information.

²⁷ In February 2017, the European Commission published a report on the transposition of the fiscal compact in member states which assessed the access to information that AIREF had to fulfil its mandate and recommended that these exceptions should be removed (European Commission, 2017). A 2016 European Commission report had also highlighted issues around access to information noting that, ‘AIREF’s right of access to information has been weakened, relative to the provisions of AIREF’s organic law, following the approval in July 2015 of a ministerial decision on this matter.’ (European Commission, 2016).

²⁸ These proposals were also put to public consultation online in September 2017.

There are many examples of functioning MoUs within the OECD IFI community, indeed around 50% of OECD IFIs have chosen to develop an MoU (see Figure 2.7.). A MoU can help to manage expectations of both the IFI and government departments by establishing mutually agreeable processes for information requests, including indicative and realistic timeframes for responses, steps to take when requests are not complied with, and provisions regarding the treatment of confidential data. It is important to note that IFIs do not only need good access to information to do their job - good access to information may also help IFI to operate more efficiently and with fewer resources, an important consideration given the resource limitations most IFIs face. This was highlighted in the second independent evaluation of the Australian PBO (Anderson and Watt, 2017).

62. There have been attempts made between AIReF and MINHAPF to develop a MoU but so far they have been unable to come to agree on a final document. In light of the recent positive developments discussed above, AIReF has proposed that a high-level working group is established with the purpose of agreeing a MoU on access to information.

63. EU IFIs, also rely on information from the European Commission. Information on methodological developments agreed by the Working Groups of the European Commission's Economic Policy Committee (EPC), the Output Gap Working Group and the Working Group on Ageing Populations and Sustainability, is particularly important as it informs the methods which need to be applied by AIReF in its work relating to the Stability and Growth Pact. While there has been some progress, developments in the Working Groups are not always effectively communicated to EU IFIs. The Network of EU IFIs has raised access to information issues with the EC and has even proposed a MoU to codify the information flow between the EC and EU IFIs.

Box 2.6. The potential usefulness of a Memorandum of Understanding: the case of Australia

Australia provides a useful case study of an IFI which does not have access to information formally underpinned in legislation and instead works mainly through a non-legally binding MoU between the Parliamentary Budget Officer and the Heads of Treasury, Finance and over 20 other agencies. The MoU was signed within three months of the establishment of the PBO, setting expectations early on. The MoU describes the roles and responsibilities of the parties, the process for requesting and providing information, avenues of communication and dispute resolution.

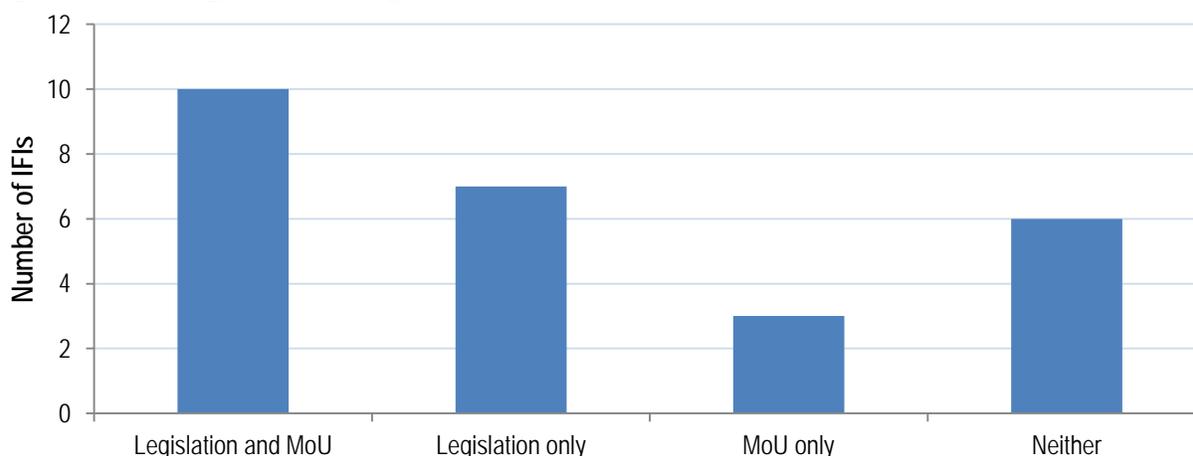
The results of this access to information framework have been positively assessed in two independent evaluations of the Australian PBO (Australian National Audit Office (ANAO), 2014 and Anderson and Watt, 2017). While the first evaluation noted issues with timeliness of information provided, concerns also echoed by the Joint Committee on Public Accounts and Audit, the most recent evaluation notes that:

"[the] Memorandum of Understanding covering the provision of information is working well, reflecting the co-operative, non-adversarial nature of the relationship between the PBO and Government Departments and Agencies. There have been very few instances where the accuracy of PBO costings has been affected by the lack of access to information. Moreover, information provided is timely, with nearly 95% of requested information received on time in 2015-16."

This marks a clear improvement in terms of timeliness, as compared to 68% in 2014-15.

Source: OECD

Figure 2.7. Arrangements through which access to information is secured in OECD IFIs



Source: OECD, 2017b

2.5. Independence

64. In addition to financial and human resources and access to information, an IFI must be able to demonstrate its independence (or freedom from political interference). An assessment of AIREF's legislation shows that it generally meets the standards related to independence in the OECD Principles. Moreover, in a first attempt to build an index of IFI independence, AIREF scores in line with the average for OECD IFIs (von Trapp and Nicol, forthcoming). It is important to note however that *de jure* independence does not always translate into *de facto* independence and that legislation cannot capture the relationship culture of the IFI, government and other public institutions.

65. AIREF stands out as one of the few bodies in Spain's institutional landscape recognised by stakeholders as being truly independent. This is largely attributed to AIREF's leadership, its demonstrable commitment to openness and transparency, and its willingness to challenge the administration through its analysis. However, stakeholders have raised AIREF's budget process and difficulties accessing information as potential levers to diminish independence and efficacy. In this context stakeholders also expressed concerns about the first leadership transition, although they recognise that a culture of independence, set from the top, already imbues AIREF's staff. In order for AIREF to maintain and grow the credibility and perception of independence it has gained, it must continue to be open about its data, methodologies and approaches, while ensuring the AIREF's leadership is ready, willing and capable of responding to interference in, or misinterpretations of, its work by government.

2.6. Conclusions and recommendations

66. Access to information has been a key challenge for AIREF, although there appears to be positive developments on the horizon with MINHAFP is taking steps to address AIREF's concerns. The addition of new staff in 2017 and 2018 should allow AIREF to deliver on its mandate and further strengthen and develop its analytical activities but AIREF's resources are not yet commensurate with their mandate and the supervision fee system does not meet AIREF's current budgetary needs. The process in place around the elaboration of AIREF's budget also puts some limits on AIREF's independence, both real and perceived.

- **AIREF and MINHAFP and/or relevant administrations should work collaboratively to develop a MoU on access to information**, establishing what information AIREF needs to fulfil

its mandate and mutually agreeable and collaborative processes for information requests, including indicative and realistic timeframes for responses, steps to take when requests are not or cannot be complied with, and provisions regarding the treatment of confidential data. This is in line with OECD Principle 6.1.

- **Where there are issues around timing of access to information, consideration should be given to allowing AIREF advance sight of data or documents on a confidential basis.** The strategy of giving the IFI advance sight of data on a confidential basis has been used successfully by peer IFIs and their government counterparts and would have the potential benefit of strengthening AIREF's analysis and the timeliness of its work.
- **A multiannual funding commitment should be considered for AIREF, covering the period of the medium term expenditure framework,** to further enhance its independence and provide additional protection from political pressures, or perceptions by stakeholders that AIREF could be subject to political pressures. This would have the added benefit of improving the predictability of funding for AIREF. In the longer term, it may be useful to review the budget process for AIREF in light of OECD Principle 4.1 which also states that the appropriations for IFIs should be published and treated in the same manner as the budgets of other independent bodies.
- **In light of AIREF's already extremely broad mandate, and the new demands being placed on AIREF, there should be a reassessment of whether the resources allocated to AIREF are commensurate with its mandate,** as outlined in OECD Principle 4.1. Such an assessment should include a review of the sufficiency of the supervision fee system in meeting AIREF's budgetary needs.
- **AIREF should avoid taking on additional tasks unless they are given commensurate resources to undertake these new tasks with in-house staff.** More generally, AIREF should use outside contractors sparingly. For a limited number of projects AIREF has had to rely on consultants. Doing so creates potential risks around consistency, transparency, independence, and communication of the results, especially for a young organisation. In the longer term, it may also impact AIREF's ability to generate and sustain internal professional capacity.
- **In the longer term, the calendar for AIREF reports should be revisited in light of information constraints.** One practical solution would be to indicate a time period for analysis upon the receipt of the necessary information rather than specific calendar dates. Changes to the calendar would reopen AIREF's Organic Law to amendment and so may not be practicable in the near term but should be considered when an appropriate political and legislative juncture arises.

CHAPTER 3. METHODOLOGY AND OUTPUTS

3.1. Introduction

67. AIREF provides independent assessment and monitoring for all stages of the budgetary process and performs its duties for every level of the public sector. As such it produces a remarkable range of products each year. The breadth of AIREF's analytical activity and reporting indicates a balanced and impressive work-flow.

68. Overall, the review finds that AIREF's methodologies and core products both satisfy its legislative mandate and compare well against international standards. AIREF delivers high quality, professionally prepared reports, reflecting thorough research and data collection and well-reasoned analysis. Stakeholders describe AIREF's reports as well-written with a generally clear and accessible portrayal of information and conclusions.

69. AIREF's core publications stem directly from the reporting authority spelled out in its organic law (Art. 14-22) which states that AIREF shall prepare reports on:

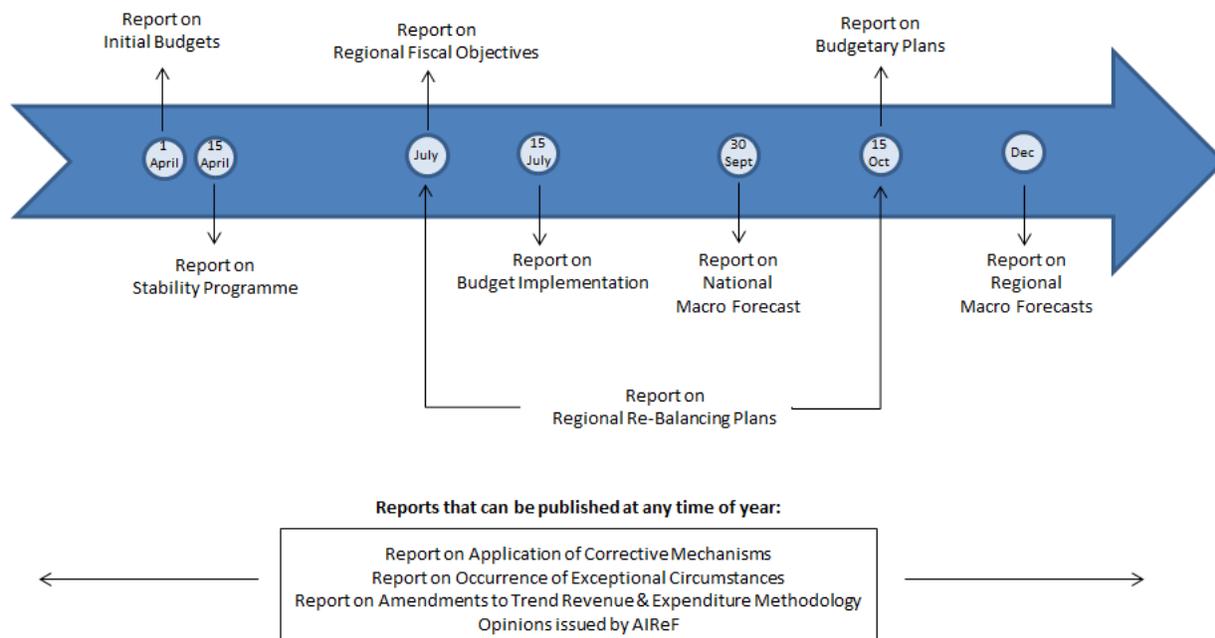
- the macroeconomic forecasts;
- the methodology to calculate trend patterns of income and expenditure;
- the draft stability programme;
- analysis of budget implementation, public debt, and the debt-ceiling rule;
- determination of individual objectives for Spain's autonomous regions;
- economic-financial and rebalancing plans for the central administration and the autonomous regions;
- on projects and main aspects of the budgets of public administrations;
- on the application of the correction mechanisms foreseen in Organic Law 2/2012 of 27 April on Budgetary Stability and Financial Stability and on the occurrence of the exceptional circumstances referred to in Article 11.3 of this same law.

70. AIREF's remit further provides for AIREF to issue opinions at its own initiative on topics relating to budgetary implementation, long-term sustainability of public finances, and other issues. To date, mainly due to limitations on its resources, AIREF has prioritised its statutory reports and prepared fewer self-initiated opinions than it originally anticipated. Nevertheless, it has made important contributions to the public debate through its opinions, for example in relation to its mandatory opinion on the pension revaluation index. AIREF also produces working papers²⁹, methodological notes, a quarterly debt sustainability monitor, monthly reports on budget execution and other products (including some online data tools and quick updates to GDP estimates (and a new line of non-technical "economic focus" reports aimed at a broad public audience) that augment the publication of their statutory reports.

²⁹ For example it has produced working papers on economic modelling methodology, long-term sustainability of government finances, and understanding financial sustainability.

Finally AIReF publishes information notes which show the status of public administrations' responses to and compliance with AIReF's recommendations.

Figure 3.1. AIReF reports throughout the year



Source: OECD, adapted from AIReF (2017b)

71. Given the range of AIReF's products it is not feasible to offer a detailed examination of each in turn. Rather this chapter presents a technical assessment of a range of methodologies used by AIReF in its analysis, followed by an exploration of several issues related to AIReF products (and IFI products more generally), including balancing near versus long-term analysis, presenting uncertainty, and transparency. Throughout, the chapter provides comparisons against international practice.

3.2. Technical assessment of AIReF methodologies

72. Any assessment of an IFI's outputs should consider their scientific and methodological soundness, keeping in mind that sound methodologies not only lead to better products but also contribute to stakeholder confidence in these products. AIReF uses a broad suite of tools to produce its mandated, commissioned and facultative reports. Choosing a model involves trade-offs that are not only difficult to balance, but often at opposition to one another. Analysts at IFIs must make difficult decisions to prioritise certain criteria over others when choosing an appropriate tool for the job. For this reason, it is difficult to offer a final pronouncement on whether a tool is the *most* appropriate for the analysis. Instead, the OECD has considered the results of the six assessment criteria and offered a subjective opinion on whether each methodology may be considered suitable for delivering AIReF's mandate. The assessment also considers whether they meet standards practiced by other independent fiscal institutions. The six criteria are as follows³⁰:

³⁰ A more detailed description of the criteria is available upon request.

1. **Theoretical justification.** Does the academic literature support this model for this analysis?
2. **Accuracy.** Is it likely to give accurate results for this type of analysis?³¹
3. **Communication.** Can the methodology and results be easily and convincingly communicated to stakeholders, such as parliamentarians and the public?
4. **Transparency.** Are assumptions clear? Does it use free and open data? Has it been published in a manner that lets the public recreate its results?
5. **Resources and continuity.** Does it require many analysts with specialised skillsets to maintain?
6. **International use.** Does it compare favourably to approaches used at other research institutions (peer IFIs and research divisions in finance departments and central banks) and approaches recommended by authoritative reference manuals?

3.2.1. Results of the technical assessment

73. The technical assessment concluded that each of AIREF's methodological approaches are appropriate for its analysis. Further, the review team found that AIREF's research meets – and generally exceeds – standards practiced by other IFIs (see summary in Table 3.1 below). AIREF has an impressive array of tools that cover a broad spectrum of leading-edge techniques from the academic literature. Their accomplishments in economic and fiscal policy analysis in Spain – and their contribution to the academic literature more broadly – cannot be overstated. In cases where their techniques were found to be not widely employed at other IFIs, it was because the other IFIs did not have the required technical expertise, or devote fewer resources to the analysis.

74. Each of AIREF's approaches has a firm **theoretical justification** in the economic and forecasting literature and would hold up to academic peer review. In most cases, their models are supported by well-developed working papers that detail extensive supporting literature and provide a strong evidence base for use.

75. Statistical time-series techniques are chosen where appropriate (for example, dynamic factor analysis and vector autoregression (VAR) models are used for short- and medium-term macroeconomic forecasts where traditional reduced-form modelling is criticised for imposing too rigid a structure on contemporaneous relationships and relationships across time) and structural models are used to match the model to the underlying process where it is well known, such as for forecasting tax revenues, social welfare spending, and long-run education and health spending.

76. The review does not include an ex-post performance audit of AIREF's forecast or analytical **accuracy**; however, the forecasting literature suggests that AIREF's techniques are likely to deliver accurate results and AIREF's working papers demonstrate that every effort was made to select models based on rigorous performance evaluation. Further, AIREF's use of several different approaches (suite modelling) provides a check and a challenge function that is likely to limit extreme outliers and leverage each model's strength for different time horizons and circumstances.

77. For example, to review and endorse the government's macroeconomic outlook, AIREF prepares its independent outlook using dynamic factor modelling for nowcasting (most suitable for current-period

³¹ Although an assessment of *ex-post* model performance is beyond the scope of the review, this criterion draws on academic research to assess whether the chosen tool is *likely* to be more accurate compared to other options. The review team also considered AIREF's own model selection performance tests where available in published research papers and information provided on background.

forecasts or one to two periods ahead using high-frequency monitoring data), VAR models for short-term forecasting (most suitable for forecasts up to eight quarters), and reduced-form macroeconomic models based on potential output and output gap relationships for the longer run outlook (where strong assumptions about economic relationships and equilibrium concepts may prove advantageous). All results are held in check within a national accounts framework and by a suite of satellite models, including Markov-Switching recession probability assessments. AIREF also challenges their results using extensive sensitivity and uncertainty analysis, and tests an array of alternative scenarios.

78. Accuracy in fiscal forecasting and policy analysis typically benefits from domain knowledge of tax law and the tax base, whether it is of a particularly industry (excise duties), or of broader behaviour such as corporate losses and carry-forwards (corporate income tax). In this area, AIREF is taking positive steps to develop a fiscal impact scoring database that will complement its earlier work that leaned heavily on time-series statistical techniques.

79. Often the best justification for a formal model is not accurate prediction (which can be impossible given the frequently shifting policy environment), but the framework it provides for generating discussion and debate. In this spirit, the many different approaches AIREF uses to produce its forecasts are likely to foster productive discussions and challenge meetings. That said, the level of sophistication in AIREF's models may at times hinder the challenge process: if models are complex to the point that only its authors understand the results, it could limit productive debate. Simple approaches, with more eyes and voices involved in the process can act as a check on any bias (natural and expected) that an individual analyst may carry.

80. On **communication**, the same qualities that make AIREF's approaches industry-leading could hinder the accessibility of its research and prove challenging to present to parliamentarians and other non-expert stakeholders convincingly. That is, there may exist a trade-off between sophisticated analysis and parliament's willingness to embrace it. For example, if we take economic planning assumptions, simple approaches that tell an intuitive story may be more effective than trying to walk parliamentarians through the inner workings of a VAR model, the estimated coefficients of which may not have an interpretation that is meaningful and convincing to a non-specialist. If, however, the government itself uses simple monitoring and reduced-form models for its outlook, then AIREF's dynamic factor and VAR models are the most appropriate independent benchmark against which to compare them.

81. On **transparency**, AIREF's extensive publication of working papers exceeds the practice of many other IFIs. IFIs generally intend to document and publish all methodology approaches, but time and resource constraints can often mean that this crucial aspect of analysis gets set aside. AIREF's publication practices should be commended.

82. AIREF applies subjective adjustment to its models sparingly, and in many cases not at all. Where judgment is required to integrate different methodologies for different time horizons, AIREF generally uses structured procedures rather than subjective smoothing, in-line with best practice principles.

Table 3.1. AIReF’s methodological approaches are appropriate

| Model | Description | Result |
|---|--|--------------------|
| MIPred | Dynamic factor nowcast model; monthly frequency; first two quarters of macro forecast | Appropriate |
| Macroeconomic BVARX | Bayesian VAR; quarterly; short- to medium-term macro forecast | Appropriate |
| Satellite structural macro models | Structural econometric and error-correction model (ECM); quarterly; GDP components, macro challenge | Appropriate |
| Potential GDP and Output Gap projection | Structural time series model; unobserved components, Kalman filter; macro forecast | Appropriate |
| Markov Switching-AR recession model | Non-linear univariate time series model; nowcast recession probability, macro challenge | Appropriate |
| Satellite structural fiscal models | ECM & ARIMA model; revenues and expenses: PIT, CIT, VAT, excise, social benefits, etc. | Appropriate |
| Interest rate modelling | Discrete state space model, yield curve, term structure; fiscal outlook and stability programme | Appropriate |
| Demographic projections | Cohort model, Monte Carlo, VAR; fertility, survival and immigration; long-run macro, fiscal sustainability | Appropriate |
| Simplified national accounts integrated model | Accounting identities, ECM, OLS, VAR; sectoral GDP forecast, macro challenge | Appropriate |
| METCAP monitoring and flash estimate | Dynamic factor nowcast, interpolation, extrapolation and balancing; Regional GDP profiles | Appropriate |
| Probabilistic scenario analysis of debt projections | Sensitivity testing, likelihood forecasts, fan charts; debt sustainability, stability | Appropriate |
| Public debt projections by subsectors | Identities, yield curve, term structure, deterministic macro-fiscal projections; debt monitoring | Appropriate |
| Short-term macroeconomic and fiscal risk indicators | Principal components, fuzzy clustering analysis; regional analysis, macro prudential analysis | Appropriate |
| Datalab | Data visualisation platform; 1,500 economic & fiscal variables; monitoring, transparency, public tools | Appropriate |
| Index for pension revaluation (IRP) model | VAR model; quarterly, confidence/likelihood estimates; social security | Appropriate |
| Cohort pension model | Cohort macro simulation model, yearly IRP Yearly values for 2017-2100; Social Security | Appropriate |
| Macro-fiscal sensibility simulator (in construction) | ECM, LSM, accounting equations, averages, sensitivity analysis, macro forecast/challenge | Appropriate |
| Health care expenditure model | Structural, demographic cohort, population aging, survey data, regression analysis, fiscal and debt | Appropriate |
| Education care expenditure model | Structural, demographic cohort, population aging, survey data, regression analysis, fiscal and debt | Appropriate |

83. For model code and workbooks, AIReF’s current transparency framework is “open, with gatekeeping.” For example, code and workbooks will be distributed to an external researcher upon request, but are not necessarily proactively published for public consumption (though many are). There are several arguments for this approach:

- The extra step allows the IFI to explain the model’s limitations and caveats, hopefully preventing inappropriate use and official endorsement claims.

- Gatekeeping can be used to restrict the model’s licensing agreement. Because an IFI’s models have been developed with public resources, the IFI may wish to restrict access from for-profit enterprises such as investment banks.
- Proactive transparency assumes that model code will be received in a constructive academic spirit. This is not always the case, especially in work that may be highly politicised (for example, a coding error—even if inconsequential—may be used to call the office’s reputation into question).

84. While AIReF should carefully weigh these arguments, transparency could nevertheless be improved in many cases by proactively publishing code and working files. Transparency is valuable on its own merits, but can also provide other benefits such as error checking and collaborative model improvement that lead to better outputs.³²

85. On **resources and business continuity**, AIReF has been able to recruit highly competent specialists to contribute to the model development for the office. To maintain these leading-edge tools, AIReF will need to maintain a strategy to address talent-retention and recruitment, and have strict training and handover protocols.

86. In **international comparisons**, AIReF uses approaches that are similar or in some areas more sophisticated than those used in IFIs surveyed in Canada, the UK, the Netherlands, and the US. For example, in Canada’s Parliamentary Budget Office (PBO) and the UK’s Office for Budget Responsibility (OBR), macroeconomic monitoring and nowcasting of current quarters and the very near term is done in an ad-hoc manner using sectoral growth rates and surveys, leading indicator models, and growth decompositions of factor incomes. These often include a significant component of ‘eyeball smoothing’ and comparisons with external private sector forecasts. Data-driven results are often overridden by analyst judgment in challenge meetings.

87. AIReF, in comparison, relies primarily on dynamic factor analysis for nowcasting and near-term forecasting. Although this approach was not shared by the other institutions in the comparison, the way it incorporates a wide range of high-frequency data in a compact way and limits the degree to which judgment and bias enter the forecasting process is likely to be a valuable addition to the toolbox. At least one other comparison institution had experimented with dynamic factor analysis with positive results, but did not continue with it owing to a lack of resources for model maintenance.

88. AIReF’s Bayesian VAR (BVAR) approach that complements the dynamic factor analysis has precedence at the CPB in the Netherlands, where a BVAR informs the immediate and near-term economic outlook, in combination with a structural macroeconomic model and expert judgment.

89. For the medium-term macroeconomic outlook, Canada’s PBO and UK’s OBR use a reduced-form Keynesian model of aggregate demand for demand-side GDP, and a simple production function for supply side GDP, including a filtering methodology to project potential output. Medium-run factor incomes are often prepared by holding labour and capital shares constant or using simple trend projections. In the Netherlands, the CPB uses a simple production function for the supply side in

³² If AIReF moves toward an even more proactive transparency model with respect to model code, its use of software with prohibitive license fees could constrain a truly open operating model. The movement toward free and open-source software seems inevitable for IFIs, and steps such as ensuring AIReF’s MATLAB models run on the open-source Gnu Octave alternative could in many cases be made with only minor adjustments.

combination with a detailed satellite model for the NAWRU and a structural econometric model for aggregate demand.

90. The US CBO employs a broad range of macro models, including standard general-equilibrium models that reflect Keynesian responses to governmental stimulus and contractionary fiscal policy, as well as a set of micro or sector models for interactions between key economic factors such as labour supply, productivity, cost of labour, housing market starts, prices of key goods such as health care, food, and energy. CBO's macro-based and micro-based modelling are coordinated through a semi-annual update of the economic forecast, informed by expert judgment from a panel of economic advisors.

91. AIReF's medium-term forecasts are prepared in a broadly similar manner, using satellite structural macroeconomic equations in a national accounting framework and filters for projecting the output gap. However, AIReF also includes in its model suite purely statistical approaches, such as Bayesian BVAR models, that complement its framework with purely data-driven approaches that have been shown to offer advantages in prediction. AIReF also uses more sophisticated VAR techniques to project factor income decompositions that will ultimately form the tax bases for forecasting revenues.

92. For the fiscal outlook, the other IFIs use satellite structural models, simple growth accounting identities, and microsimulation models based on tax-returns and survey data to project public revenues over the medium- and long-run. Specifically, forecasting progressive income taxes typically involves estimating an elasticity of revenue with respect to the tax base, where the tax base is taken from the factor income side of the macroeconomic outlook, with adjustments to better match taxable income. Elasticities are estimated using various econometric or microsimulation techniques. Other taxes may apply simple historical average effective tax rates to the base. Smaller taxes of less fiscal importance often use a growth relationship with respect to GDP, which may or may not have an econometrically determined coefficient (that is, some are simply held constant as a share of GDP). Error-correction models for revenue projections are rare (in Canada they are not used, in the UK they are used in limited cases such as in a demand equation for kilometres travelled to forecast road fuels excise duties). In some circumstances, analysts attempt to specify the tax base exactly and apply the statutory tax rate, using a variety of microsimulation approaches or surveys.

93. For government spending, a number of different techniques are common at comparable fiscal institutions. For social programme spending such as health and education, old-age security, and unemployment insurance, an effort is usually made to structurally capture the demographics and income characteristics of programme recipients. For other departmental spending, techniques range in sophistication. In Canada, the PBO typically assumes the government's budgeted departmental spending will be realised, or uses simple population-plus-inflation relationships.

94. In the US, the CBO prepares a detailed "bottom-up" spending outlook that combines current-law projections of spending for each of the roughly 1,000 programmes that make up US federal spending. The CBO employs a variety of models to develop those component-by-component estimates, including simple extrapolations of recent spending, Excel- and SAS-based accounting models that reflect both recent trends and forward-looking assumptions about future population and cost component growth, and data-intensive microsimulation models of likely behavioural responses to prices of services in market sectors such as health care insurance.

95. AIReF's fiscal outlook uses similar approaches to the other IFIs surveyed, albeit relying more heavily on high-level error-correction models. AIReF also uses VARs more frequently in their baseline trend analysis and alternative scenario analyses, whereas other budget offices lean more toward simple averages and historical trends.

3.3. Key issues for AIREF reports

3.3.1. Near-term focus versus longer-term estimates

96. Consistent with AIREF's mandate to report on the government's likely compliance with budget stability targets in the current year and upcoming budget year, the majority of AIREF's output appears to be focused on near-term analyses – that is, on estimates related to the current year and the immediate next year. For example, its work over the past 12 months or so has focused largely on the expected outcomes for 2017.

97. In general, AIREF's near-term focus is understandable and reasonably practical due to its mandate. In some cases though, near-term focus is the result of staff having to devote a significant amount of time to obtain and check data, thus creating a trade-off in terms of time that could be used to bring a medium and longer-term focus into AIREF's work. For example, AIREF reports that near-term focus in the work of its Budgetary Analysis Division is partly the result of access to information issues and time spent trying to replicate translation of budgetary information into national accounting terms.

98. In AIREF's 2015-2020 Strategic Plan, AIREF has recognised the need to broaden its scope somewhat by undertaking studies that include the evaluation of budgetary trends beyond just the upcoming year. It should also be noted that while AIREF analyses are for the most part focused on the short term, there is an effort made to communicate on medium and longer-term issues when reports are presented.

99. There are some signs of progress in the right direction. In particular, medium-term analyses are included in reports that have medium-term objectives. For example AIREF's work has included estimates for budgetary outcomes that cover the next three years in a July 2017 report on budget stability and debt targets for the autonomous regions covering the period of 2018 through 2020. . Where AIREF has been most successful in incorporating a medium-term perspective is in its Stability Programme Update reports. AIREF's most-recent Stability Programme Update report in May 2017³³ presents information for the current year and the next three years (through 2020). AIREF also began to analyse contingent liabilities, a medium term issue, but has thus far been unable to complete the project due to lack of resources (though the AIREF staff hope to complete it in future).

100. A few reports have also presented estimates extending much further into the future, as AIREF has begun to consider the long-term sustainability of Spain's Social Security system and the effects of various other policies on other expenditures. Discussions with AIREF staff indicate that there is some attention being paid to the development of methodologies and modelling results for the longer term. AIREF is also attempting to look more closely at pensions, recently setting up an internal working group on the topic.

101. In line with good practice in peer IFIs, it would be prudent for AIREF to work towards broadening some of its analyses to more regularly include trend-based estimates that extend out just a few more years. In that way, policymakers, parliamentarians, the press, and other stakeholders could see what current budgetary results imply for at least the next few years. And in a few cases, a much-longer-term outlook is warranted, such as for debt sustainability and for pension revaluation. Along these lines, AIREF

³³ AIREF report on the Kingdom of Spain's 2017-2020 Stability Programme Update, May 2017. <http://www.iref.es/documents/10181/574349/2017+08+24+Report+APE+2017-2020/4f92cca1-73b9-4b03-9ac2-36ce78ebe985>

plans to begin annual publication in 2018 of a Fiscal Risk Report, focusing on long-term sustainability issues.

102. By way of comparison to AIREF's budget analysis focus over these first few years of its operations, the US CBO completes a variety of budget analysis activities that in some cases reflect a focus on the near term, with other activities focused on mid-term or long-term projection horizons. For example, CBO's Budget Analysis Division publishes a *Monthly Budget Review* to provide the US Congress with a "real-time" update of spending, revenues, and deficits or surpluses, but the bulk of the division's work focuses on current-law projections and cost estimates of legislation that cover a period of 10 years.

Box 3.1. Budget Analysis Division work by the US Congressional Budget Office

CBO's Budget Analysis Division conducts some work that is similar to the budget analysis work conducted by AIREF. For example, both the CBO and AIREF pay close attention to the status of governmental spending and revenues on a month-to-month basis, and both document the recent government cash flows and near-term expectations. In its monitoring of monthly expenditures and collections, CBO closely follows the recording of those activities by the US Department of the Treasury, as well as supporting information from individual government agencies that are responsible for carrying out the programmes. While CBO does not have direct responsibility as AIREF does for monitoring cash flows of regional governments (such as for the various 50 states), the agency does try to follow developments at the state level, particularly when such actions interact with federal government programmes.

In addition, both CBO and AIREF focus intently on expected budget outcomes for the current fiscal year and in some instances on the immediate, or upcoming, "budget year" — namely, the year after the current year, for which much of the government's focus in budget policy making will generally be aimed. As such, CBO's Budget Analysis Division pays close attention to estimates of total spending, total revenues, and the expected deficit (or surplus) for the current year and the budget year. CBO's semi-annual *Budget and Economic Outlook* reports reflect considerable emphasis on those near-term projections.

However, as CBO staff develop estimates for the current and budget years, they routinely prepare current-law "baseline projections" for all government programmes (roughly 1,000 different spending accounts) that extend out for a period of 10 years. Those detailed baseline projections are completed either two or three times a year. The initial set of 10-year projections are completed in December or January, and the agency summarises them in a *Budget and Economic Outlook* report that is generally published in late January. Depending on the Congressional schedule, the CBO usually prepares an update of those 10-year projections in the spring (often published in March). And finally, the agency generally prepares a summertime update of such projections (most-often published in August).

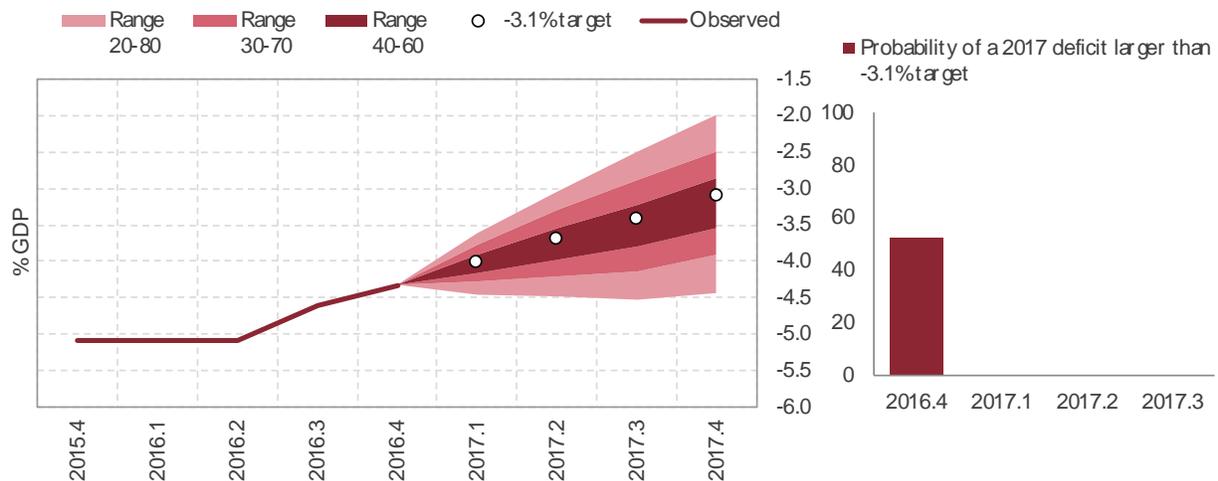
The analysis of legislation done by the CBO includes multiyear estimates of budgetary costs or savings for various proposals, with estimates done relative to the baseline completed earlier in the year. That means using a consistent neutral benchmark for consideration of potential effects of competing legislative proposals. For most cases, the US budget system focuses on 10 years of projections. In some cases, the focus is limited to 5 or fewer years; while in others, there is interest in reviewing the potential effects for the long term: looking out for 20 or more years.

3.3.2. Treatment of uncertainty

103. Projections of economic activity, as well as of budgetary results, are inherently uncertain. In some cases, rapidly changing markets and government responses to a country’s needs could change the magnitude and even the direction of recent economic and budget trends significantly. As such, any “point estimate” of a key parameter such as GDP growth or the nationwide budget deficit is subject to such uncertainty and to the reality that the actual results will deviate noticeably from even the best, unbiased estimate.

104. AIREF has done an excellent job in its published work to highlight the uncertainty surrounding economic forecasts and compliance with budget targets. For example, AIREF regularly employs the use of probability “fan charts” that show a central point estimate for a forecast along with an increasingly widening “fan” that encompass the confidence intervals for possible results that are within a range encompassing 20% of the possible outcomes, 40% of possible outcomes, and so on. Such fan charts, based on historical deviations over the past couple of decades, show how the results might be considerably higher or lower than the best point estimate of a future outcome. An example from the April 2017 report on budget stability follows:

Figure 3.2. AIREF use of fan charts



Source: AIREF (2017c)

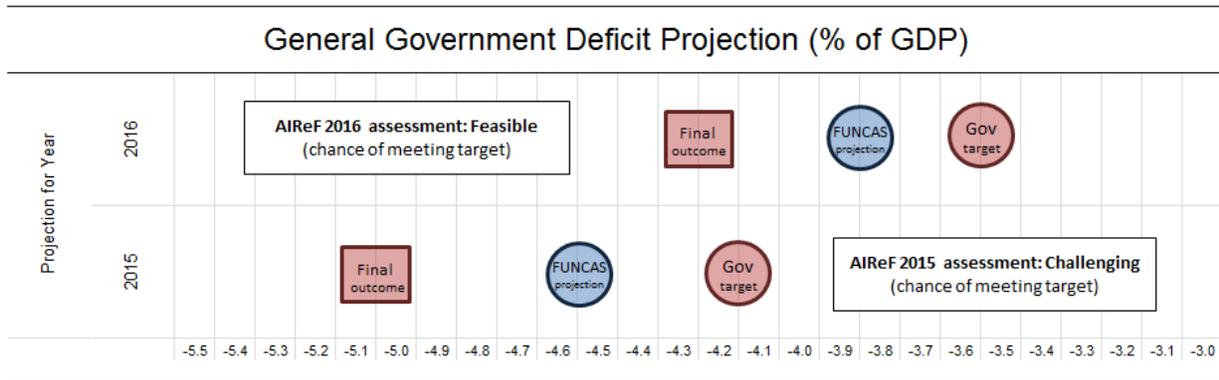
105. The value of probability ranges (as presented in fan charts or other graphic devices) is considerable for near-term estimates, such as those that AIREF produces to look out for the next year or so. However, such probabilistic estimates of the range of potential outcomes are less useful when projections are extended beyond just the next few years because the range of potential outcomes often becomes exceptionally large in mid-term and longer-term projections.

106. Many AIREF reports published in the past few years have employed a variety of graphics to portray economic and budget outcomes that fall within ranges deemed “likely”, “feasible”, “unlikely”, or “very unlikely.” AIREF has done a very good job of exhibiting and explaining its results alongside such graphic output that make it clear to readers how a particular outcome target may be “feasible” to achieve but that just a modest deviation from the targeted outcome could also occur. By combining probability-based graphics with clear language about the uncertainty of potential outcomes, AIREF reports have

presented a well-nuanced picture of near-term trends. A concrete example can be found in its report endorsing (as “likely”) the 2016 forecasts of the autonomous regions.³⁴ The report includes upper and lower limits for each region (for GDP and employment) to show the confidence intervals for roughly two-thirds of the possible outcomes, as estimated by AIREF. That treatment of uncertainty is a useful way of putting submitted forecasts from the regions in perspective.

107. AIREF provides comparisons of the consensus forecast to those made by other organisations, (including the EC, the IMF, the OECD, as well as the Bank of Spain and FUNCAS, a private think tank dedicated to economic and social research) for projections of Spain’s GDP and specific economic variables such as consumption, employment, capital formation, and exports and imports.

Figure 3.3. Comparing deficit forecasts, 2015 and 2016 - AIREF has a reputation for being prudent in its assessments



Source: OECD, adapted from FUNCAS

108. Another aspect of dealing effectively with uncertainty in projections is the periodic review of past forecasting errors. AIREF has reported on some self-analysis of past estimates and on its attempts to determine whether there have been any significant biases underlying past forecasts by the government or by AIREF. Such reviews of past performance can be instructive, and it would be useful for AIREF to undertake more of this type of historical review, especially after another year or two of operations when it will have more data to use in its “look-back” reviews. In sum, AIREF’s careful and transparent analysis of past forecasts, combined with its comparison of alternative forecasts made by various international organisations, is in line with good practice. That broad and thorough analysis provides a useful context for AIREF’s reporting and inspires confidence in its judgments of the Spanish Government’s most recent forecasts.

³⁴ Report dated 3 December 2016.

Box 3.2. US Congressional Budget Office evaluation of its economic forecasting record

The CBO generally completes a multiyear forecast for performance of the US economy twice a year and published as part of CBO's semi-annual Budget and Economic Outlook reports. The CBO economic forecast underlies the agency's budgetary projections and is thus critical to development of CBO's estimates for government spending, revenues, and resulting deficits (or surpluses).

CBO periodically evaluates the quality of its economic forecasts by comparing them with the economy's actual performance and with forecasts by the government and the Blue Chip consensus – an average of about 50 private-sector forecasts. Such comparisons help to show the extent to which various factors have caused CBO to miss patterns and turning points in the economy (CBO, 2017). The agency's most recent self-evaluation of its economic forecasting record was published in October 2017³⁵ and similar detailed reviews have been completed roughly every two years. Those reviews help CBO determine when and how to change the way it forecasts key economic variables such as productivity growth and interest rates. The reviews also help the agency update its assessment of the uncertainty in new forecasts.

CBO's evaluations focus on its two-year and five-year economic forecasts. The agency computes mean errors in the forecast of key variables including GDP growth, inflation, interest rates, and growth of wages and salaries. In its most-recent evaluation, CBO determined that most of its mean errors for key variables in its two-year forecasts completed over the 1981-2014 period fell within a range of -0.1 to +0.5 percentage points of the actual results, and the accuracy of CBO's forecasts turned out to be similar to results for Administration and Blue Chip forecasts.

3.3.3. Transparency

109. AIReF has made considerable efforts to make its work as transparent as possible. While AIReF is generally in line with many of its peers in terms of the use of visual tools within its reports, in some cases, the body of its reports is relatively “*text-heavy*” and could benefit from more graphics and tabular (numerical) information. Stakeholders (particularly political stakeholders and those without a technical background) highlighted this as an area they would like to see developed further. One positive example where an AIReF product has evolved is the monthly monitoring of budget execution which has moved from being relatively text heavy to a short (2 pager) comprised of key charts, figures and bullet points.³⁶

110. AIReF's publications generally include a mixture of summary information and detailed explanations, combined with at least a reasonable minimum documentation of the methodologies employed. While AIReF seeks to explain its work and how it has arrived at its various conclusions and recommendations, some of that methodological discussion is not as expansive and helpful as it might be for full transparency. For example, its budget-related work is presented in a high-level way, without showing much of the detailed analysis that underlies it. AIReF could further enhance its transparency by presenting more detail about the bottom-up analyses that it conducts, letting readers of its publications see how the overall estimates are drawn from that detailed analysis.

³⁵ Congressional Budget Office, *CBO's Forecasting Record: 2017 Update*, October 2017
<https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/53090-economicforecastaccuracy.pdf>

³⁶ See for example:
<http://www.airef.es/documents/10181/653478/A.+Seguimiento+mensual+mayo+2017+General+Government/e223bf4f-57da-4a8a-9651-4cbbef041e26>

111. In some cases, AIREF has published working papers and other documents that provide excellent technical explanations of its modelling for macroeconomic forecasting and associated analyses. AIREF has also published a procedural handbook for the work of its Budget Analysis Division, which explains the calendar of the division's work and a general description of that work related to assessment of compliance with fiscal rules and other work associated with budget stability.

112. AIREF has also issued a series of extensive annual reports. For example, the 2016 Annual Report lays out in detail AIREF's publications, follow-up reports and opinions issued during the year. Clearly summarising and documenting all of AIREF's work in this way is an excellent representation of AIREF's transparency.

113. As noted on the website, "AIREF works under a commitment to be fully transparent in its actions and activities, offering a schedule for its publications." AIREF's comprehensive website provides clear descriptions of AIREF's work and an easy-to-follow catalogue of its publications, as well as supplementary information to its publications. A good practice example is the webpage for its recent opinion on the pension revaluation index which includes a press release, a PPT presentation with key messages, and a methodological annex.

114. AIREF's transparency is underpinned by its outreach. For example, AIREF regularly engages the economics-reporting press by hosting press conferences and AIREF experts are available to answer any technical questions that members of the press might have about a new report. AIREF's President has become a regular feature at committee hearings presenting AIREF's major findings and opinions related to the macroeconomic outlook, budget stability, and compliance with the debt target. AIREF also organises and participates in seminars where it shares its work in Spain and internationally.

3.3.4. Comparing AIREF against established peers

115. With AIREF only in operation about three years, it is still early days to make a full assessment of its published work in comparison to peer IFIs. Nonetheless, it is reasonable to conclude that AIREF's work thus far compares quite favourably with the published work of more-established peer IFIs in OECD countries, particularly in light of its limited resources (see Table 3.2) below for a summary evaluation of several AIREF reports in this context).

116. Despite differences in mandate and resources it is possible, for example, to draw some parallels between AIREF's work and the work of the US CBO, the Netherlands CPB, the UK OBR³⁷ and other more-established IFIs:

- AIREF's work in evaluating macroeconomic forecasts stands up well in comparison to similar work done by CBO, CPB, OBR, and others. For example, AIREF's use of VAR (vector of autoregression) modelling is a well-accepted state-of-the-art technique in empirical macroeconomics.
- AIREF's presentation of uncertainty in projections using probability-based "fan charts" is similar to such presentations that have been made over the past decade by the CBO, the CPB and the OBR.

³⁷ The US CBO currently has around 235 staff. The UK OBR has had a "core staff" of only around 20 employees, but has been able to supplement that core staff with direct assistance provided by staff from several parts of the UK's central government. A 2014 review of the OBR noted that the use of such government staff supplementing its core staff for report production totalled about 125 full-time equivalent staff over the course of a year.

117. In its publications, AIREF has done a good job of clearly presenting its judgments based on impartial analysis, similar to the work of CBO, CPB, OBR, and others. However, AIREF reports have sometimes been relatively constrained in their scope, as compared to some of their international peers' work. For example, many of AIREF's recent reports have provided a good top-down summary of the reasonableness of macroeconomic forecasts and likelihood of achievement of budget targets, but have not included much detail in terms of the many components of the economic forecasts or the bottom-up composition of government spending. In particular, such reports have not included a lot of numbers-rich tables that are considerably more common in the reports of AIREF's international peers.

118. It may be the case that AIREF's heavy workload combined with a requirement for quick turnaround in the completion of its reports and its modest staff resources make it difficult to provide as much detail (including more detailed tables and graphics) as might be desired. But it would be a worthy goal for AIREF to bolster its future work by providing additional details in its reports to show more of the bottom-up analysis.

119. As one comparison of AIREF's work to that of an international peer, consider OBR's recent (March 2017) report on the UK's economic and fiscal outlook which shows key components of the GDP forecast and government budget projections, including both graphics and tables that present the estimates going out for five years.³⁸

³⁸ UK OBR, Economic and Fiscal Outlook, March 2017, <http://cdn.budgetresponsibility.org.uk/March2017EFO-231.pdf>

Table 3.2. Evaluation summary – three key reports

| <i>Report type</i> | Macroeconomic Forecasts | General Government Sector – Draft Budgets & Main Budget Lines | Stability Program Update |
|---|---|---|--|
| <i>Legislative mandate</i> | Required by Chapter II, Article 14, of AIREF’s Organic Law | Required by Chapter II, Article 20, of AIREF’s Organic Law | Required by Chapter II, Article 16, of AIREF’s Organic Law |
| <i>How well do these reports fulfil the legislative mandate?</i> | AIREF has published more than a dozen reports on the Government’s economic forecasts over three years. Those reports are fully responsive to the mandate of reviewing and endorsing or disagreeing with such forecasts, and they reflect in-depth analysis. | With ten reports on draft budgets and main budget lines, AIREF meets its legislative requirements. While these reports are somewhat limited in scope, they do a good job of reporting on whether the general government or regions are “likely” or “unlikely” to meet budget targets. | AIREF has published five reports on the Stability Programme updates in 2015-2017. While fulfilling its mandate, AIREF has not been able to complete the required report by April 15 because it could not obtain necessary information or obtain it in time. |
| <i>How do methodology and content compare to international standards?</i> | AIREF’s macroeconomic modelling compares favourably with common international standards. AIREF has compared forecasts with those of the European Commission, the IMF, the Bank of Spain, and others; and has used state-of-the-art probability measures of uncertainty. | These reports present analysis of the fiscal rules pertaining to stability, debt, and expenditures. The material compares generally well with similar information for other countries, and the information about the coming “budget year” is thorough and clear. | These reports present an assessment of the economic forecast leading to endorsement or not. Moreover, the reports monitor compliance with (European) fiscal rules. AIREF reports are very thorough and more detailed than many similar reports of peer IFIs. |
| <i>How do methods and content compare to those of peer institutions?</i> | The methods used compare well to those of peers, including the UK OBR and the US CBO. AIREF has chosen not to publish its own independent economic forecasts as many of its peers do. | Overall, the methods used compare well to AIREF’s peers; however, the focus in its work is on one-year-at-a-time budget estimates, while peers typically present estimates for several future years. | Overall, the methods used by AIREF compare well to its peers. Unlike most peers, AIREF’s reports contain analytical text boxes and comparisons of the official forecasts with other available forecasts. |

3.4. Conclusions and recommendations

120. AIREF is off to an impressive start in terms of its outputs. Generally, the assessment found that AIREF's work could be fairly viewed as good practice in terms of approach, rigour and transparency, as well as in comparison to peer IFIs.

- **AIREF should regularly include projections for a mid-term period of three to five years beyond the current year.** Shifting some of the existing focus and resources to more emphasis on the mid-term would improve the balance in AIREF's work. With some exceptions, the majority of AIREF's products over the past few years have been heavily focused on near-term estimates for the current year and the upcoming budget year and would benefit from a mid-term perspective.
- **When documenting its analysis, AIREF should include more tables with summaries of numbers and more graphics to show recent history and the near- or mid-term projections of economic and budgetary results.** Some AIREF reports tend to be "text-heavy" with minimal use of numeric tables or data visualisations. As reports are expanded to include more years of budget projections (as recommended above), it would also be helpful to include line- or bar-charts to present the multiple years of analytic results. Including recent history of budget aggregates in such graphs would further assist in presenting the context for AIREF's forward-looking projections.
- **AIREF reports should include more details on both its economic and budgetary estimates.** Most reports have presented high-level summaries of AIREF projections. It would be useful to include the key components of those summary totals that AIREF has prepared during its analysis. Such underlying details can provide helpful context for the top-line totals.
- **AIREF should continue to conduct and publish regular self-evaluations of its economic forecasts and budget projection records.** This may include an examination of the accuracy of their projections and of whether there have been any significant biases underlying past forecasts by the government or by AIREF, with attempts made to understand the underlying causes of inaccuracies. AIREF will benefit from continuing to compare past forecasts against both observed data and the projections of other forecasters.
- **AIREF should periodically review the decision to refrain from publishing its own independent macroeconomic forecast.** While AIREF has chosen to focus on its endorsement role and the uncertainty of such forecasts (as opposed to providing point estimates of its own), there may come a time over the longer term when it may be both informative and useful to the public debate for AIREF to eventually publish its own staff projections for the Spanish economy.

CHAPTER 4. SPECIAL FOCUS: AIREF'S SUBNATIONAL ROLE

4.1. Context

121. Spain is a quasi-federal country comprising 17 autonomous communities (ACs) or regions and 13,000 local entities, of which 8,000 are local corporations (LCs) or municipalities. Varying levels of fiscal autonomy³⁹ were instituted in the 1978 Constitution and Spain is now among the more decentralised countries in the OECD.⁴⁰ Subnational governments spend a large share of total public expenditure (44%), almost all of it on health and education, and raise over a quarter (27%) of total public revenues (OECD, 2017c). The bulk of the regions are dependent on grants and indirect tax revenue allocations (without freedom to choose tax rates) from the central government to supplement own tax revenues.

Figure 4.1. Public expenditure in Spain by level of government, 2015

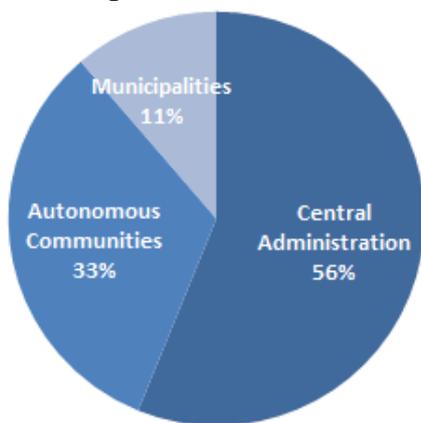
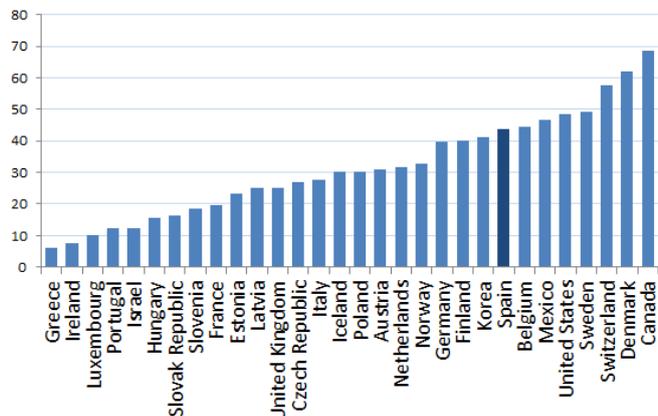


Figure 4.2. Comparison of government expenditure decentralisation across OECD, 2015



Source: OECD, 2017c

122. The Fiscal Stability Law of 2001 determined that from 2003 the budgets of all levels of the Spanish government should be at least in balance. If a sub-central government ran a deficit it had to submit an action plan to resolve the situation within 3 years. However, after the financial crisis non-compliance with these rules became widespread to the extent that no AC met its deficit target in 2011, with some missing it by a wide margin. This heightened tensions among the regions, and between the regions and the

³⁹ The Spanish Constitution establishes two systems of decentralisation; the 'Foral' system, applied to the Basque Country and Navarre, and the 'Common' system applied to the remaining fifteen autonomous communities. The ACs under the Foral system enjoy full fiscal autonomy (excluding custom tariffs and VAT) provided that their overall effective tax burden does not fall below that of the rest of Spain. Insofar as both are among Spain's wealthiest regions and their contribution to fiscal equalisation is extremely low, they benefit from a much higher level of per capita revenues with similar tax rates. The Common regime also sets the limits and the modalities under which tax revenues are shared between the autonomous communities and the central government. Fiscal equalisation is strong in the case of the Common regime, correcting differences in spending needs (as in other OECD countries, such as Australia) and not just in tax capacities.

⁴⁰ Spain is somewhat less decentralised in terms of revenue decentralisation as compared to spending. Among OECD countries, Spain has experienced the most decentralisation over the past 15 years (OECD/KIPF 2016).

central government (Reuters 2012). The crisis also demonstrated that information on budget execution was insufficient, heterogeneous across regions, and in some cases, misleading. Fiscal surveillance of the subnational governments had failed and these shortcomings affected the fiscal credibility and stability of general government in Spain (Lago-Peñas and Solé-Ollé 2015).

123. Constitutional reform on fiscal stability was passed in 2011, and major legal changes were introduced in 2012. Specifically, the 2012 Organic Law on Budgetary Stability and Financial Sustainability (LOEPSF, as it is known in Spanish) introduced a series of measures which greatly strengthened the budgetary stability framework for the regions and improved international perceptions of the overall sustainability of Spain's public accounts. The Law introduced expenditure limits, a cap on public debt and a structural deficit target for all public administrations. The aim of these new binding rules is to contain expenditure growth (Art. 12) and place a limit on nonfinancial expenditure in the budget (Art. 30). Perhaps the most significant feature is that Chapter IV of LOEPSF sets out a prevention, correction and enforcement mechanism that is similar in form to the European fiscal framework. This created a genuine subnational control framework, with potential penalties.

124. Stakeholders called for future developments of this legislation to focus on the improvement of the methodology to compute expenditures ceilings at both municipal and regional levels and their implementation; on the procedure to establish deficit and debt targets adapted to the different regional conditions, or on the computation of structural deficit targets. Stakeholders also called for the reform of both the regional and municipal financing framework. The introduction of such modifications would closer align fiscal targets with the real financial capacity of Spain's regions.

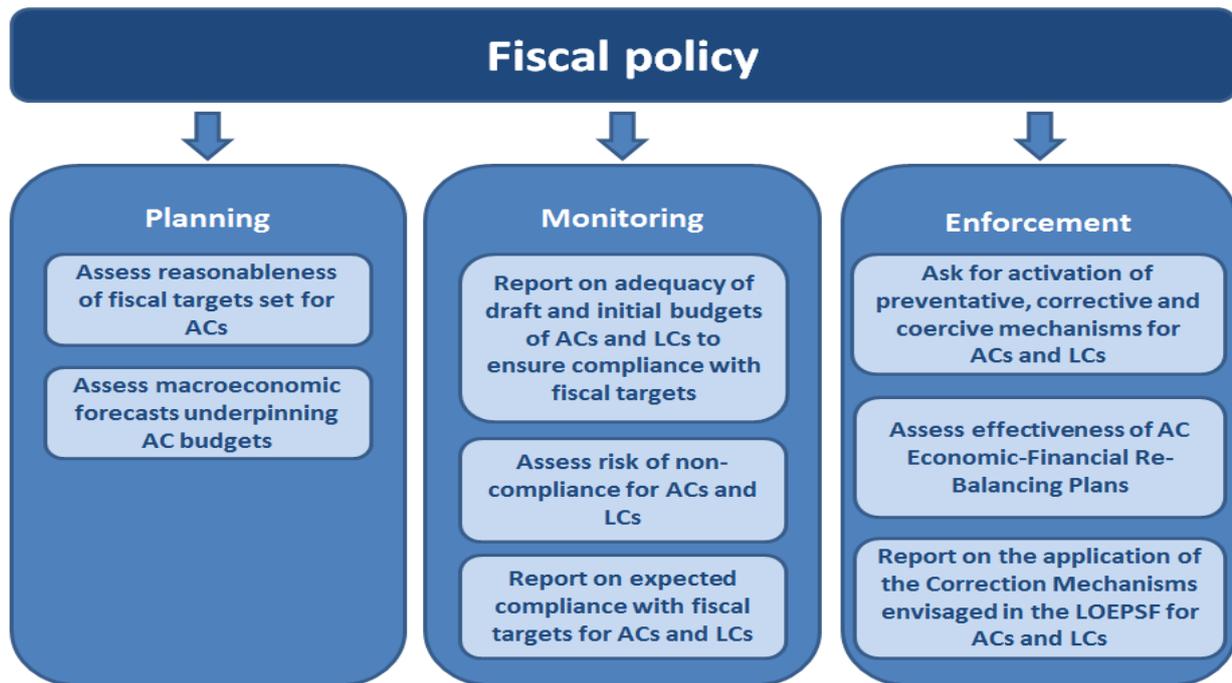
4.2. AIReF's subnational mandate

125. AIReF's mandate gives it responsibility for monitoring across the whole fiscal policy cycle of subnational governments, as shown in Figure 4.3 overleaf. AIReF's enabling legislation (Organic Law 6/2013, 14 November 2013) provides for AIReF to perform its duties for every level of the public sector and almost all of AIReF's mandated reports include a subnational dimension. It also gives the institution a specific responsibility to report on the reasonableness of the fiscal targets proposed for each AC by MINHAFP (Art. 18).

126. AIReF can also undertake work for the regions at their request. To date, AIReF has accepted two studies requested by the regions. The first study was a review of public sector restructuring in Cantabria. The second is a study for the Government of Catalonia on the budgetary impact of the early reversal of a concession relating to the building and maintenance of a regional motorway, and this is currently underway. In addition, the spending review task that has recently been assigned to AIReF will involve the evaluation of a number of expenditure programmes across Spain and its regions.

127. AIReF also has a role as an "honest broker" in national and subnational fiscal coordination. To fulfil this role, AIReF attends the meetings of, and provides analytical support to, the two subnational financing coordinating bodies (the Fiscal and Financial Political Council and the National Commission of Local Administrations). The responsibilities of these bodies are broad and have increased dramatically in recent years. These coordinating bodies may also create working groups, such as the recently established Autonomous Community Finance System Evaluation Committee. AIReF also plays a key role supporting the work of these groups, where discussions are of a more technical nature.

Figure 4.3. AIReF’s subnational role across the fiscal policy cycle



Source: OECD, adapted from Escrivá (2016)

128. AIReF’s subnational role is unique among OECD IFIs. The breadth of subnational mandate is unparalleled, even among OECD IFIs that have more prominent subnational roles such as the Fiscal Advisory Council in Austria and the High Council of Finance in Belgium (see Table 4.1).

Table 4.1. AIReF’s subnational mandate relative to other OECD IFIs

| Subnational mandate: | Spain AIReF | Austria Fiscal Advisory Council | Belgium High Council of Finance |
|--|----------------------------|--|--|
| Assess reasonableness of fiscal targets | Regions | | Regions and sum of municipalities |
| Assess macroeconomic forecasts | Regions | | |
| Report on adequacy of budgets to ensure compliance with fiscal targets | Regions and municipalities | Regions and sum of regional municipalities | |
| Assess risk of non-compliance | Regions and municipalities | Regions and municipalities – but not in detail | |
| Report on regional compliance with fiscal targets | Regions and municipalities | Regions and sum of regional municipalities | Regions and sum of municipalities |
| Assess financial rebalancing plans | Regions | | Regions and sum of municipalities |
| Ask central government to activate corrective mechanisms | Regions and municipalities | Inform the public and give recommendations | Regions |
| Report on application of the correction mechanisms | Regions and municipalities | Regions and municipalities | Regions |

Source: AIReF, Austrian Fiscal Advisory Council and Belgian High Council of Finance

4.3. Inputs

4.3.1. Staffing

129. AIREF devotes almost half of its staffing resource to the delivery of its subnational mandate, as shown in Table 4.2. All of the divisions and units in AIREF undertake some subnational tasks as part of their work, although each one organises its approach to subnational work differently. In the Budget Analysis Division there is a Subnational Governments Team specialising in the delivery of subnational products. This consists of one Deputy Director and seven analysts (more than 50% of staff in the Budget Analysis Division). Of these eight staff, five focus on products relating to the ACs, two on the LCs and one divides their time between the ACs and the LCs. In the other AIREF units, staff do not specialise according to levels of government and instead work on both national and subnational products.

130. Staff from the Budget Analysis Division and the Economics Division put significant efforts into modelling and benchmarking to ensure that their subnational analysis is consistent across the organisation and to ensure that there is transversal consistency with national indicators.

Table 4.2. AIREF staff resource allocated to subnational mandate (2017)

| Division/Unit | Total staff (FTEs) | % of time allocated to subnational work |
|------------------------|--------------------|---|
| Budget Analysis | 15 | 70% |
| Macroeconomic Analysis | 7 | 50% |
| Legal Affairs | 7 | 3% |
| President and Cabinet | 6 | 35% |
| AIREF total | 35 | 47% |

Source: AIREF

131. Although the current allocation of AIREF staff allows it to deliver its subnational mandate, there is very little flexibility for AIREF to deliver added value to its core mandate in this area. Additional resources would allow AIREF to develop more detailed and robust regional economic models and further improve the quality its subnational fiscal oversight.

4.3.2. Access to information

132. A modest amount of AIREF's staff's time is devoted to information gathering in relation to its subnational mandate. One of the reasons for this is that the quality of information AIREF receives from subnational governments varies, particularly at the LC level where there is inconsistency in how data is collected and reported. Improved transparency in relation to the data provided may encourage LCs to improve data quality. AIREF is in the process of creating a database which will present a range of fiscal information for LCs, and allow comparison across municipalities.⁴¹

⁴¹ This database draws together a range of information that can be used to monitor early warning indicators that detect risk of non-compliance with fiscal rules. The database will be launched soon, with the assistance of the Spanish Federation for Municipalities and Provinces (FEMP) who will help raise awareness of the tool.

133. Another aspect of information gathering that can take up AIREF's staff's time is reconciling National Accounts and Regional Accounts data using benchmarking methods during a certain part of the year. This problem arises because both sets of data are released at different times.

134. It was originally envisaged that AIREF would receive regional information from MINHAFP. However, in practice the information was not always provided within the timescale requested and so AIREF now directly goes to the regions. For the most part, the regional governments have been forthcoming and helpful in providing data to AIREF, although the need to provide the same information twice is reported by some stakeholders as a minor inconvenience.

4.3.3. Analytical tools

135. AIREF's tools discussed earlier – the METCAP monitoring and flash estimate model, the interactive DATA Lab, and composite indicators of relative short-term macro and fiscal risks – also allow AIREF to assess the economic and fiscal situation for each region. In addition, AIREF has developed specialised expenditure models for each region. These are based on an extensive historical database of the regions' spending activities and AIREF staff use them to help inform their expenditure analysis. They include specialised simulation and regression models for some sectors such as health and education (from the expenditure side) and the property transfer tax (from the revenue side).

136. The tools differ in their use and also in their approach. Some models are top-down in their approach, whereas others are bottom-up. In particular, this type of bottom-up analysis distinguishes AIREF's work from the work done by other institutions such as the European Commission or the IMF.

137. One of the key gaps in AIREF's regional work is the level of detail underpinning the macroeconomic projections for the regions. AIREF recognises this as an important area for development and is working to improve the availability of data, such as intra-regional trade data. AIREF has set up a working group⁴² to try and develop a homogeneous methodology to arrive at estimates for this data. Another area where AIREF staff noted difficulties in their expenditure modeling efforts for the regions was in taking into account immigration. While AIREF has been seeking assistance from academic experts across the regions in this area, it may also wish to consider looking to the work of international peers. For example, the Austrian Fiscal Advisory Council has recently undertaken an in-depth study of the long-run fiscal consequences of refugee migration. The UK OBR has also looked in detail at migration and the sustainability of the public finances as part of its Fiscal Sustainability Reports.

4.4. Outputs

138. All of AIREF's key reports contain a subnational dimension. In addition, AIREF is legally mandated to produce the following reports specifically for the ACs:

- Report on the Determination of Individual Objectives for Autonomous Regions.
- Reports on the Economic-Financial and Re-Balancing Plans for the Central Administration and Autonomous Regions.

139. Furthermore, AIREF may issue opinions on subjects within its mandate at its own initiative. So far, AIREF has issued two opinions on its own initiative: an opinion on compliance with the deficit and

⁴² The group is made up of AIREF and macro analysts and statisticians from the regional statistical institutes of all 17 regions. The National Statistics Institute was also invited to participate but declined. The group will be chaired by one of the regions and AIREF will provide secretariat support.

debt objectives (07/30/2014) and an opinion on changes in the budget process (07/22/2014). AIREF also provides technical support to the two regional financing coordinating bodies.

140. As a compliment to its core reports and opinions, AIREF makes available a selection of tools and datasets on its website such as the AIREF Data Lab, The Public Debt Monitor, Quarterly Regional GDP, and Stability Target Monitoring. AIREF staff also participate in a number of conferences arranged at the subnational level.

4.4.1. Communications of subnational outputs

141. AIREF communicates its regional outputs at both the national and subnational level, although communication efforts are more focussed for some region-specific reports. Reports are regularly accessed on AIREF's website and cited in both the national and subnational press.

142. Despite evidence of growing reach, some stakeholders expressed their view that AIREF could do more to enhance its visibility at the subnational level. In particular, stakeholders have called for AIREF to reach out to regional press and academics more frequently, and for the AIREF President to appear before regional parliaments. Although some OECD IFIs do engage with regional parliaments, this tends to be where the number of regions is relatively small, for example, in the UK where the OBR which regularly provides evidence to the Scottish Parliament and the National Assembly for Wales (UK OBR, 2017). It would not be feasible for the AIREF President to regularly appear before all regional parliaments, but it may be worth engaging with a limited number of regional parliaments each year where there are acute fiscal problems and where there is a strong interest in AIREF's work.

143. Stakeholders experienced in public finance felt that in general AIREF reports were accessible and easy to understand, however there was some suggestion that AIREF could make documents more accessible for non-technical readers. This would assist regional budget officials to communicate with a wider audience about the importance of complying with fiscal rules.

4.5. Contributions

4.5.1. Public debate and transparency

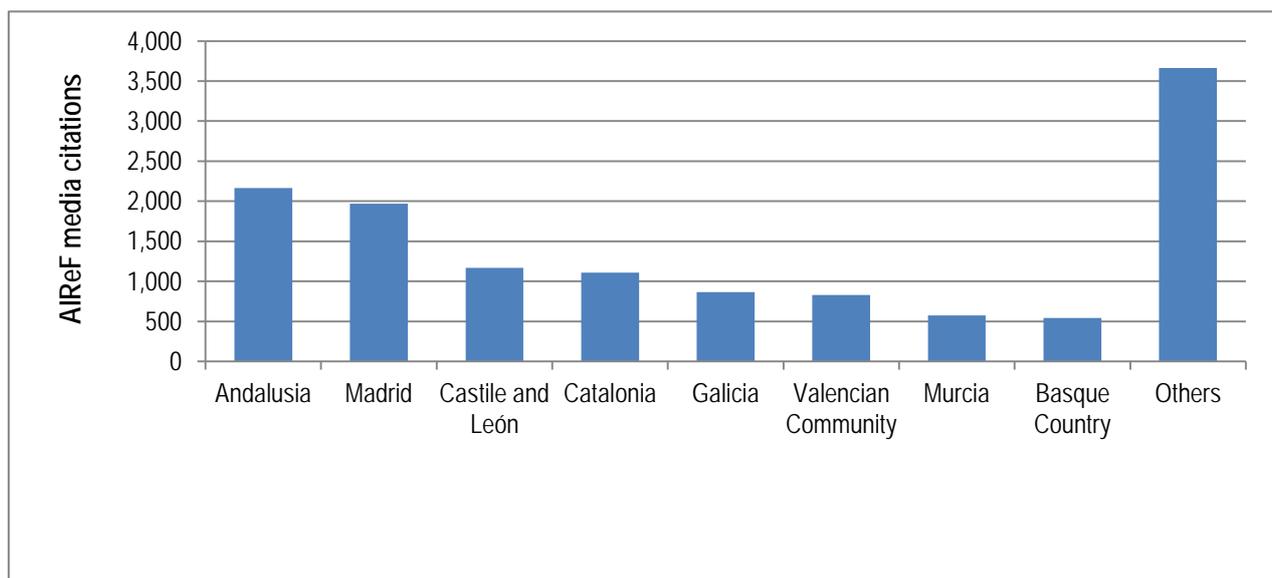
144. Media citations provide first evidence on whether AIREF has a place in the public debate. Selected analysis of media citations relating to reports that AIREF have published in 2017 suggest that reports focussed exclusively on the subnational level receive fewer press mentions than those which have a national component.⁴³ Nevertheless, in general AIREF reports receive impressive press and online media coverage for such a young institution. In line with what could be expected, media interest is most significant in those regions which have the largest populations and public budgets (see Figure 4.4).⁴⁴

145. Analysis of web traffic for AIREF's subnational reports indicates that media interest in AIREF's regional reports varies by type of report and by year. It can be observed that there are spikes in the level of interest for specific reports in certain years. This is likely to be as a result of a specific aspect of the report catching the attention of the media and generating public debate (see Table 4.3).

⁴³ The number of citations for the Report on the Establishment of Individual Objectives of Budgetary Stability and Public Debt 2018-2020 for the Autonomous Regions (published July 2017) relative to other AIREF reports published in 2017 found that both the number of written press citations (63) and the number of digital press mentions (137) were below the average of the sample (99 and 249 respectively) (AIREF, 2017).

⁴⁴ AIREF has been disseminating reports with a subnational angle to the regional media.

Figure 4.4. AIREF media citations by region (November 2015 to November 2017)



Source: AIREF

Table 4.3. Number of unique webpage visits for a sample of AIREF subnational reports (2014 to November 2017)

| Report/Year | 2014 | 2015 | 2016 | 2017 |
|--|------|------|------|--------------------------|
| Report on macroeconomic forecasts in the autonomous regions budgets | 376 | 553 | n/a | 533 (Jan) 1,851 (Oct) |
| Report on the main budget lines of the autonomous regions | 503 | 938 | n/a | 699 (Feb) 555 (Oct) |
| Report on the setting of individual budget stability and regional government debt targets for the autonomous regions | n/a | 635 | 289 | 528 |

Source: AIREF

146. AIREF has contributed to subnational fiscal transparency by making its reports and methodologies public and delivering a suite of economic and fiscal information that was previously unavailable for all regions, for example, quarterly GDP estimates and fiscal sustainability analysis.

147. In addition, many of AIREF's recommendations for subnational governments are aimed at improving fiscal transparency. Subnational governments have complied with a number of AIREF recommendations to publish improved fiscal data, representing important steps forward in this area. For example, in 2015, AIREF recommended that ACs include a detailed breakdown for the calculation of the expenditure rule, as well as information on the methodology used. All of the ACs that responded to the recommendations committed to including that information in their draft budgets from 2016 onwards, as well as information on the debt target. The inclusion of this information allows AIREF to take a more informed view on compliance with the expenditure rule (AIREF, 2015b).

148. In spite of these large advances in fiscal transparency, stakeholders expressed frustrations that there is still not a common understanding of the expenditure rule amongst the regions, AIREF, MINHAF and other key stakeholders. AIREF organised a seminar on this topic in June 2016, bringing key regional

stakeholders together, and has been influential in setting up two new working groups which met for the first time in September 2017 and aim to develop a common understanding.⁴⁵

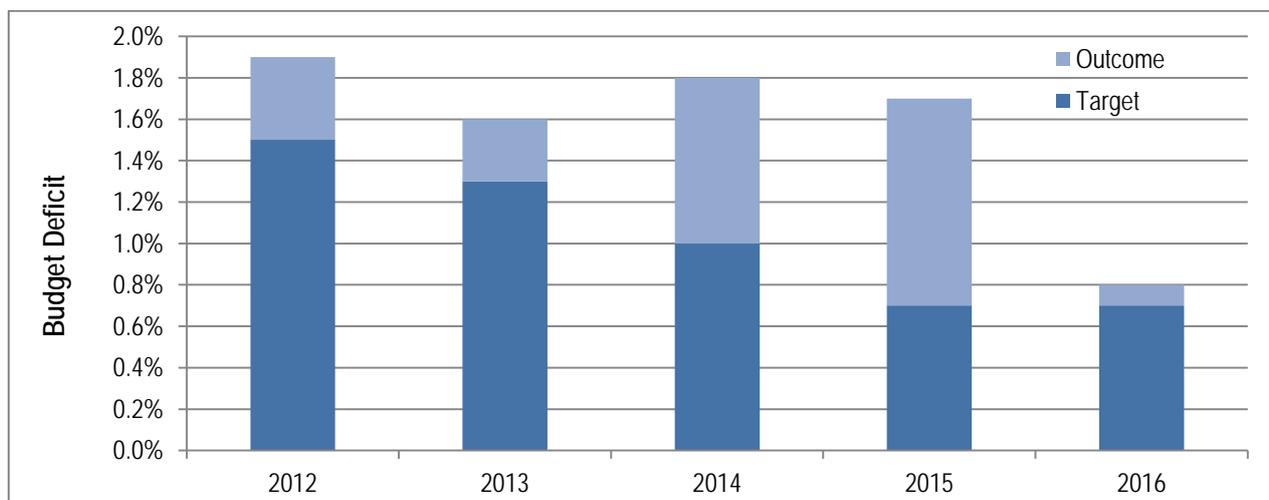
4.5.2. Improved fiscal management at the subnational level

149. Many subnational observers report that the work undertaken by AIREF in monitoring the whole budget cycle has improved fiscal management at the regional level. In particular, AIREF’s contributions to *ex ante* control is seen as effective in encouraging regional governments to produce robust Economic and Financial Plans that ensure compliance with fiscal rules. AIREF is also noted to add considerable value in the budget execution phase, where regional governments now have earlier awareness of slippage in relation to fiscal targets.

150. Stakeholders also report that AIREF has acted as a champion of good fiscal management. By publishing comparative information on the regions, for example, in relation to compliance with expenditure rule and deficit targets, stakeholders are able to identify where good practices exist and persuade their superiors to support decisions and innovations that will help improve their region’s fiscal position relative to others. There were a number of calls for AIREF to do more subnational benchmarking.

151. Regional compliance with the fiscal rules is very much improved relative to AIREF’s first year of operation in 2014 (see Figure 4.5 below). However, it is difficult to disaggregate AIREF’s contribution from factors such as the improving economic circumstances across Spain which have boosted government revenues.

Figure 4.5. Compliance with deficit target by the Spanish regions 2012-2016



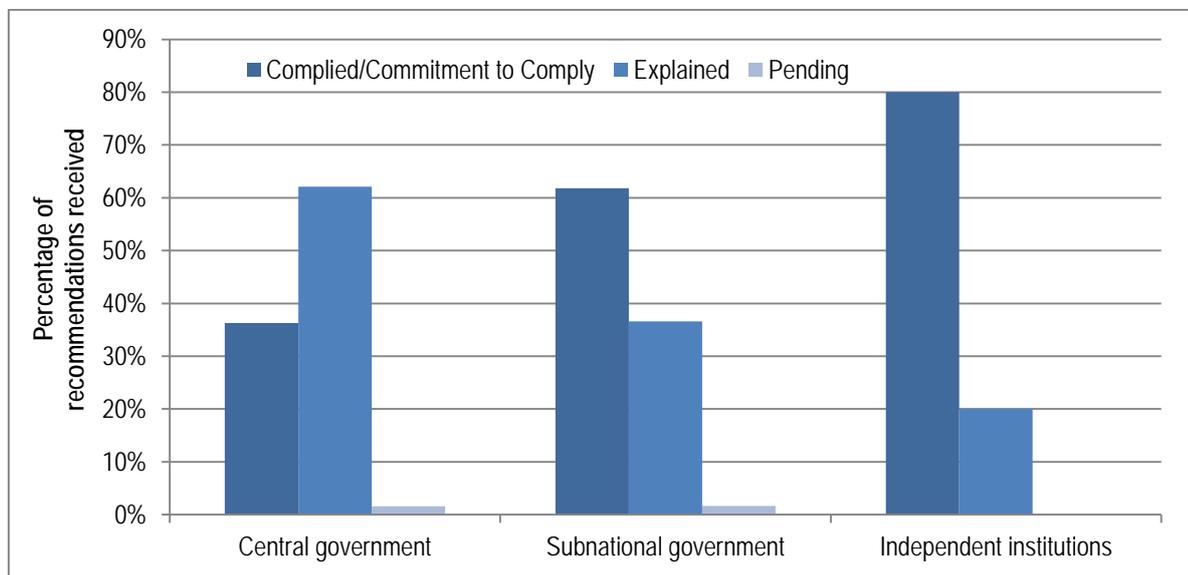
Source: AIREF

152. AIREF’s recommendations provide a concrete measurement of influence and subnational governments have a relatively good record at complying with these recommendations relative to central

⁴⁵ One working group is for ACs and the other is for LCs. Members include MINHAFF, AIREF and subnational finance ministries.

government (see Figure 4.6). This is despite the fact that AIREF has no “stick” to force compliance as compared to MINHAFP which provides funding⁴⁶.

Figure 4.6. Responses to AIREF recommendations by administration type (2015 – Q2 2017)



Source: AIREF

153. By contrast, in the opinion of some observers, AIREF could be doing more to improve fiscal management at the LC level. There is a view that AIREF’s analysis focusses on large municipalities, but that more in-depth analysis of smaller municipalities, who often deal with a unique set of fiscal challenges, is warranted. AIREF has broadened the scope of its municipality analysis over time, initially reporting on the six municipalities with the largest budgets and now reporting on the 16 that have a population of more than 250,000. In addition, in its last two reports, AIREF has looked at municipalities that have debt sustainability problems regardless of their population or the size of their budget. The new municipality database it is soon to publish will also help with early detection of non-compliance with fiscal rules across municipalities. With increased resources, it may be that AIREF could further extend the coverage of their work at the municipal level. MINHAFP could facilitate this work through standardising the provision of information on small municipalities to AIREF. AIREF could also liaise with regional federations of municipalities to overcome the challenges in obtaining relevant information from these municipalities.

4.5.3. National/subnational fiscal discussions

154. AIREF is a source of independent information for negotiations at the Fiscal and Financial Political Council in Spain, where central government has a strong position in comparison with the regions⁴⁷. Regional stakeholders welcome the close dialogue that they have with AIREF, viewing them as a

⁴⁶ However, compliance rates vary across the regions with Cantabria, Andalusia, Aragón, Castile and León and the Valencian Community displaying a compliance rate that is above the average for subnational governments. On the other hand, regions such as Madrid, Navarre and Catalonia are all more likely to “explain” than “comply” with AIREF recommendations.

⁴⁷ On the Fiscal and Financial Political Council, the central government holds 50% of the voting rights and the regions hold 50%. Therefore, the central government need only persuade one region to vote with it to obtain a majority.

non-partisan and independent institution that safeguards a consistent monitoring of the fiscal framework and ensures equal treatment in national/subnational fiscal discussions.

155. Regional governments report using AIREF's work when discussing regional financing at the national level. However, it is concerning that AIREF's reports for Fiscal and Financial Political Council appear to be under-utilised in Council discussions because they do not receive them far enough in advance. Although the short timescale available to produce these reports is recognised, AIREF should look at ways in which material could be provided earlier so that it can inform decision making.

156. A number of stakeholders have also welcomed AIREF's leading thinking on the system of regional financing and the fiscal sustainability framework presented through AIREF working papers. For example, AIREF has looked at the horizontal distribution of fiscal targets and presented arguments for the central government to replace the common deficit targets that it sets for ACs with differentiated deficit targets in order for them all to be able to achieve a balanced budget in 2018 (AIREF 2015c). AIREF has also looked at the vertical distribution of targets and presented the case for a reallocation of subnational transfers in recognition of the vertical fiscal imbalance that exists in LCs (which tend to run surpluses) and ACs (which tend to run deficits) (AIREF, 2017d). This work has enriched the debate on subnational fiscal transparency and AIREF could usefully continue self-initiated research in this area.

157. While some stakeholders called for AIREF to increase its work as the honest broker of national and subnational fiscal discussions, for example, through providing technical support to the Commission on Regional Finances in Spain, others feel that there is a risk that AIREF becomes over-stretched and over-exposed, as it increasingly becomes the go-to organisation in public debates⁴⁸. AIREF should show caution expanding its work with regional stakeholders without a sufficient increase in resources.

4.6. Conclusions and recommendations

158. AIREF delivers a broad subnational mandate that is unparalleled in terms of its scope among peer IFIs. In the short time it has been operating, it has established itself as an independent institution with a reputation for producing rigorous and competent analysis of fiscal issues at the subnational level. Subnational stakeholders report a constructive relationship with AIREF and view AIREF as an honest broker in national/subnational fiscal coordination. While there is evidence that the establishment of AIREF has helped to improve fiscal management and transparency, AIREF's work at the subnational level has been constrained by issues around access to information and lack of resources.

- **AIREF should continue to develop its already well-received work on benchmarking regions and municipalities.** Given the number of municipalities, a focus on the most fiscally stressed municipalities would be particularly useful.
- Where resources allow, **AIREF should broaden communication and engagement efforts at the subnational level.** There is demand for AIREF to increase its engagement with non-governmental stakeholders at the regional level, including with regional parliaments, the press, and academics.
- **In the longer term, AIREF should focus on improving the quality and deepening the reach of existing regional and local analysis,** developing more detailed and robust regional economic models and broadening the coverage of its work to include smaller municipalities. In addition, to further enrich the debate on subnational fiscal sustainability, AIREF should continue to develop its

⁴⁸ Stakeholders reported that other institutions, such as the Bank of Spain, have suffered as a consequence of over-exposure in the past.

self-initiated analysis on the vertical distribution of fiscal targets across different levels of government as a complement to its mandatory report on the horizontal distribution of targets. In future, should AIREF's mandate be revisited, stakeholders may wish to consider whether analysis on the vertical distribution should become a mandatory part of AIREF's work. Again, such engagement has resource implications which must be taken into consideration.

CHAPTER 5. IMPACT

5.1. Introduction

159. As a largely new set of institutions, IFIs are under considerable pressure to demonstrate their value and good performance⁴⁹. Their youth, small absolute number, and considerable heterogeneity complicate any empirical assessment. To date, only a handful of IFIs have undergone an evaluation and only the Netherlands CPB has put in place a systematic evaluation process over an extended period of time. Moreover, as several observers have noted, it is difficult to disentangle the influence of IFIs from other elements in national fiscal frameworks (Jankovics and Sherwood, 2017) and the individual country context in which they operate, such as whether governments have traditionally shown a preference or strong commitment to sound public finances (Kopits, 2011, Calmfors, 2015). Finally, IFIs influence on fiscal policy is difficult to measure as it is indirect, although the comply-or-explain principle as applied by some European IFIs can give more teeth to their recommendations. IFIs' main channel of influence is the public debate, typically through media or discussions in parliament. As such, a key measure of impact is whether IFI analysis is at the forefront of any timely debate on fiscal policy.

160. With those concerns in mind, this Chapter attempts to examine available evidence of AIREF's impact through two main categories:

- the public and parliamentary debate, with an eye to stakeholders' perceived confidence in AIREF's work and use of AIREF's products and
- comply-or-explain recommendations. It concludes with a brief discussion of improvements to fiscal management and transparency, two areas of highest importance for AIREF.

5.2. Influence on the public debate

161. Through informing the public of their work, IFIs can help build informed constituencies that may then exercise timely pressure on the government to behave transparently and responsibly in fiscal matters. AIREF's Strategic Plan 2015-2020 states that one of its five strategic objectives is to help Spanish society to perceive the benefits of financial sustainability. As noted in Chapter 2, AIREF has invested in communications with a team of four staff, although these staff are external contractors. This places AIREF ahead of many of its peers, most of whom do not have dedicated communications staff. As part of its efforts AIREF has also developed a communications plan, in its second iteration as of July 2017. AIREF's communications plans focus on higher level goals with few measurable indicators, although there are some more quantitative goals in the second plan that may be able to be assessed in future. This potential weakness in terms of demonstrating impact is somewhat mitigated by the fact that the communications team generates data by tracking media penetration of AIREF reports and producing ad-hoc reports for certain publications or events that also look at digital press, TV and radio coverage, web traffic and social media (e.g. Twitter).

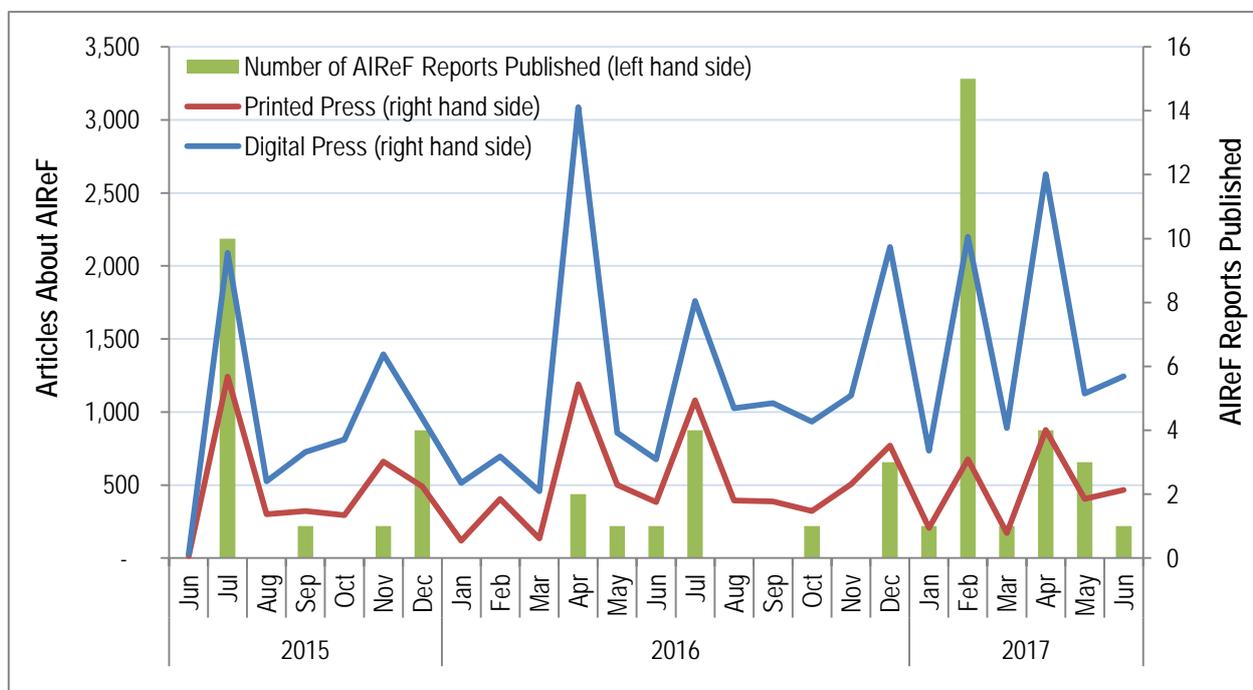
⁴⁹ OECD IFIs are typically young institutions with around 70% established for less than ten years and close to 40% established for five years or less.

5.2.1. Traditional media

162. AIREF is covered by all major newspapers at the national and regional level. In general, media stakeholders, mainly specialised press, expressed that AIREF’s reports are well communicated and easy to understand. Journalists credit AIREF’s President and analysts for their accessibility and willingness to take the time to explain AIREF’s work and to ensure that it is well-understood. Journalists trust the information that AIREF provides and perceive it to be independent and of high quality. They also report that they frequently quote AIREF in their questions to the government interlocutors.

163. Figure 5.1 illustrates that AIREF receives regular press coverage (both digital and print), with the number of media mentions tending to spike around the release of its reports, particularly in April and July when AIREF releases its report on expected compliance of public administrations with fiscal targets. This demonstrates that AIREF has been successful in focussing attention on their core work. An effective communication strategy aims at minimising the noise-to-signal ratio to increase the chance of key messages penetrating the public debate.

Figure 5.1. Press articles about AIREF 2015-2017



Source: AIREF, includes regional and national press

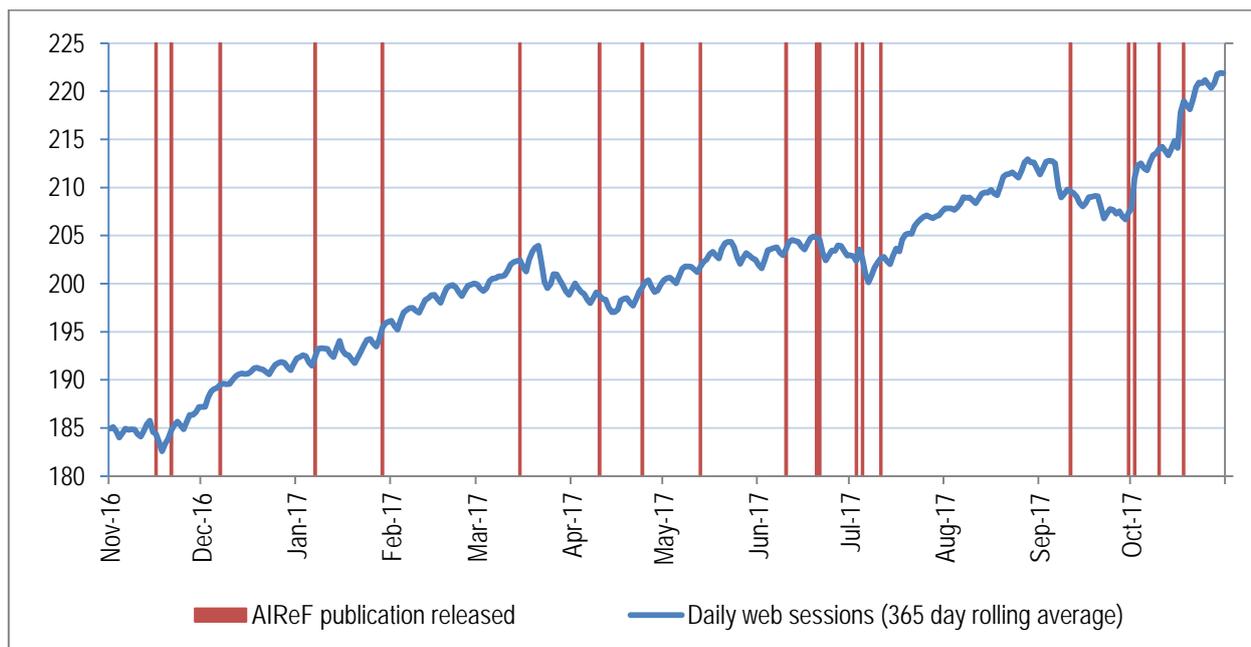
164. While the AIREF President does not do radio or television appearances at present, this is under consideration as a way to reach the broader public. Other OECD IFIs such as the UK OBR, the Slovak CBR, the Netherlands CPB and the Canadian PBO have chosen this approach; the US CBO Director typically makes television appearances only very rarely.

5.2.2. Website and social media

165. AIREF communicates principally through its website. By mapping AIREF webpage visits against the publication of AIREF reports in the figure below, one can observe that, similar to Figure 5.1 on press articles, increased web activity tends to coincide with the release of major reports. Of all AIREF’s publications, the Report on Expected Compliance of Public Administrations with the Budgetary Stability

Objectives and the Public Debt and Expenditure Rules published in July has generated the most public interest in terms of page visits. The Report on the Initial Budgets of the Public Administrations has generated the next highest level of public interest. Interestingly however the number of page visits for these reports has not been increasing year on year. Where increased web activity is observed without the release of an AIREF report, this usually coincides with the publication of other AIREF products, such as quarterly GDP estimates for regions, the quarterly Public Debt Monitor or the launch of the Data Lab (an interactive data platform presenting fiscal information for regions).

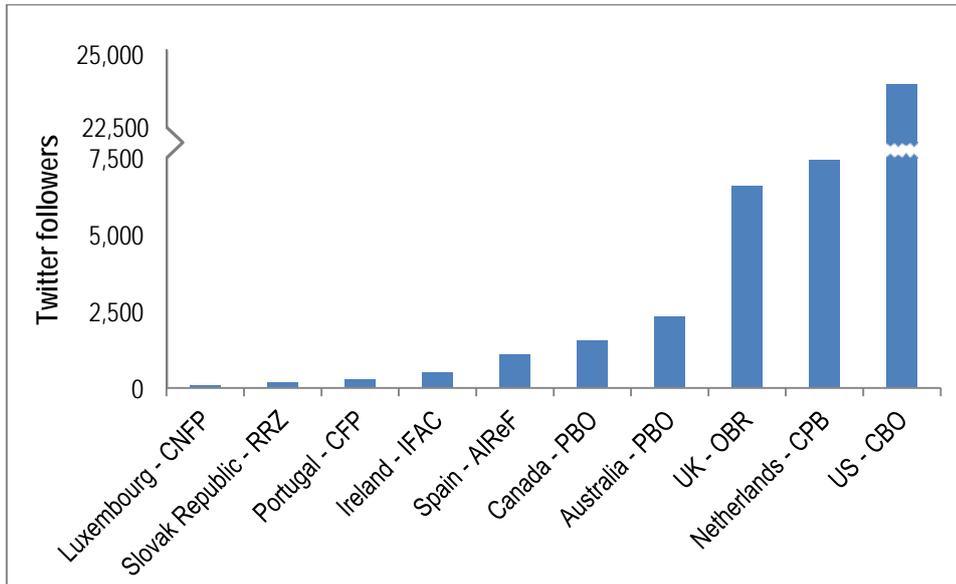
Figure 5.2. AIREF web sessions and report release dates November 2016 – November 2017



Source: AIREF

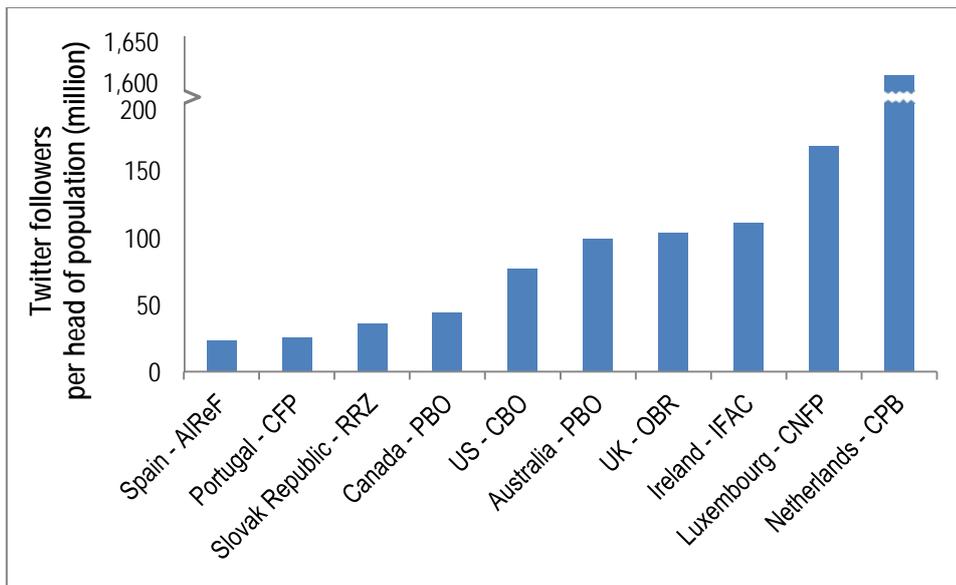
166. One of AIREF’s communication objectives has been to create a social media community (AIREF Communication Plan 2015-2016). Its principle vehicle for this is has been its Twitter account, which it put in place from the outset. As of November 2017 AIREF has tweeted 450 times and the account has around 1,100 followers. It is beyond the scope of this review to undertake a detailed analysis of Twitter related strategies across IFIs and the importance of Twitter to their communications. Nevertheless, it is possible to get some comparative sense of the relative reach of Twitter accounts held by a range of OECD IFIs. AIREF does not stand out in terms of absolute followers and scores below peers in terms of followers per head of population. If Twitter is to remain an important tool for AIREF, some additional thought will need to be given to how its use can be enhanced in future.

Figure 5.3. Total Twitter followers (November 2017)⁵⁰



Source: OECD

Figure 5.4. Twitter followers by population (November 2017)⁵¹



Source: OECD

⁵⁰ Total for Luxembourg is 74, Slovak Republic 195, Portugal 261, Ireland 512, US 24,400.

⁵¹ Total for Netherlands is 1,612.

Box 5.1. Twitter and the UK Office for Budget Responsibility

The UK OBR has operated a Twitter account since October 2011 and now has over 7,000 followers. Over the past six years it has posted almost 300 tweets, with over a third of these including photos or videos. In terms of content, the OBR generally tries to tweet the most interesting charts in a report, rather than paragraphs or tables – which are generally less engaging. It now tries to include an image of some sort in every tweet (even if it is only a picture of the report) as this has been shown to generate more links, retweets and likes. In recent years it has also tweeted animations to help explain its analysis, for example, showing the evolution of the OBR’s productivity forecasts. The OBR does not retweet other Twitter posts or engage in Twitter debates with other users, to avoid any perception of bias.

In general, the OBR operates a conservative Twitter strategy, only tweeting to notify the public when outputs are being published and to communicate the highlights of flagship reports. This type of communications strategy aims at minimising the noise-to-signal ratio in the OBR’s Twitter feed. Twitter activity peaks around the time of major budget events (such as the Budget and the Autumn Statement) when 5 or 6 tweets are issued to highlight the OBR’s substantive commentary.

OBR tweets receive most attention when they are retweeted by widely-read journalists, academics or think tanks that have a larger following than the OBR itself. In some instances, these users also tweet charts or paragraphs directly from OBR reports, and these can receive more attention than the official OBR tweets for the same reports.

Source: UK OBR

167. AIREF also has a Facebook and LinkedIn account. While AIREF’s social network presence on these platforms has grown over time, numbers remain relatively low and raise questions as to their current usefulness as communications tools.

Table 5.1 AIREF’s social network presence 2015-2017

| Social network metric | 2015 | 2016 | 2017 (as of November) |
|-----------------------|------|------|-----------------------|
| Facebook followers | 39 | 53 | 69 |
| LinkedIn followers | 83 | 134 | 201 |
| Twitter followers | 263 | 702 | 1,068 |

Source: AIREF

168. AIREF also has almost 400 subscribers to its Newsletter. Some IFIs also use a blog as a communication tool. For example, the US CBO Director and senior staff members occasionally post blogs about new reports or to provide technical explanations or background information on “hot topics”. There are usually around five to ten such blog posts per month.

5.2.3. Parliamentary debate

169. By informing the parliamentary debate, IFIs can bolster the legislature’s ability to perform its oversight function and to hold government to account throughout the budget process. AIREF has been successful in building a constituency within the Spanish parliament. Hearings with AIREF’s President are now a regular feature of the parliamentary budget calendar and AIREF analysis is regularly mentioned by parliamentarians and parliamentary staff. Parliamentary stakeholders report that AIREF has enriched the parliamentary debate on fiscal issues and that AIREF’s products are viewed as independent, accurate and

useful across the political spectrum. As AIReF’s analysis is available to all political parties, it has gone some way towards levelling the playing field.

170. One measure of AIReF’s impact in the parliamentary debate is the growing demand for AIReF’s President to appear before parliamentary committees. The President has appeared before the Budget Committee of the Congress (three times), the Finance and Public Administrations Committee of the Congress and the Budget Committee of the Senate (two times each) and the Economy and Toledo Pact⁵² Committees of the Congress (1 time each). Most recently, in November 2017 the President appeared before the Employment and Social Security Committee indicating parliamentary interest and a potential for even broader committee engagement.⁵³

Table 5.2 Parliamentary hearings attended by AIReF’s President are increasing (2014 - November 2017)

| Year | Number of appearances before Congressional Committees | Number of appearances before Senate Committees | Total appearances at Spanish Parliament |
|-------------|--|---|--|
| 2014 | 0 | 0 | 0 |
| 2015 | 1 | 1 | 2 |
| 2016 | 2 | 0 | 2 |
| 2017 | 5 | 1 | 6 |

Source: Spanish Parliament

171. It is possible to get a sense of how frequently parliamentarians use AIReF’s analysis in the parliamentary debate through tracking parliamentary mentions. Each year, the number of AIReF parliamentary mentions has increased, showing its growing influence on the parliamentary debate. Mentions by committee are in the committees AIReF most regularly appears before, which have the strongest links to the budget process. Analysis of mentions shows that AIReF’s work has been regularly quoted in parliamentary debates on revenue forecasts and the sustainability of the social security system.

⁵² This committee studies the social security system and its sustainability.

⁵³ In 2016, AIReF began to provide background briefings to both the Executive Committee and spokespersons of the Budget and Finance and Public Administration Committees. Briefings comprised a general overview of AIReF, including its position in the European context, its legal regime, its role in the budget cycle, the methods and instruments used in drafting its reports and use of the comply-or-explain principle. The meetings were well received and AIReF has been asked to expand these briefings to the Economy Committee and plans briefings for other Members in future years.

Table 5.3 Number of AIREF parliamentary mentions are increasing (2014-2017)

| Year | Mentions in Congress | | Mentions in Senate | | Mentions in Joint Committees |
|-------------------|----------------------|---------|--------------------|---------|------------------------------|
| | Committee | Plenary | Committee | Plenary | |
| 2013 | 1 | 2 | 1 | 2 | 0 |
| 2014 | 3 | - | - | - | 0 |
| 2015 | 7 | 8 | 1 | 2 | 0 |
| 2016 | 10 | 5 | - | 4 | 0 |
| 2017 (until July) | 24 | 9 | 3 | 4 | 3 |

Source: Spanish Congress 2017

Note: Each Committee meeting that AIREF is mentioned in is counted once. The count includes Committee meetings where the AIREF President gave hearings.

172. Another channel through which AIREF’s analysis is disseminated in parliament is through the work of the Public Finances and Economic Research Section (PFERS) in the Research Service of the Spanish Congress. PFERS reports using AIREF analysis in its Economic and Budget Parliamentary Newsletters, Factsheets, and Background Briefings which are disseminated on the Congress intranet (1,100 potential users of which 60% are MPs and their staff) and to subscribers to the Statistical Diffusion Service mailing list.⁵⁴ Since AIREF was established, its reports or opinions have been highlighted in 15 publications prepared by PFERS: three in 2014 and four in 2015, 2016 and 2017.

5.3. Use of the “Comply-or-Explain” Authority

173. Under AIREF’s enabling legislation AIREF can make recommendations in its mandatory reports that are subject to the comply-or-explain principle. The principle requires all public entities to either ‘comply’ with such recommendations, or provide a response that ‘explains’ the detailed reasons for not doing so. AIREF tracks implementation of its recommendations under this principle and publishes them online. This allows for additional assessment of AIREF’s effectiveness.

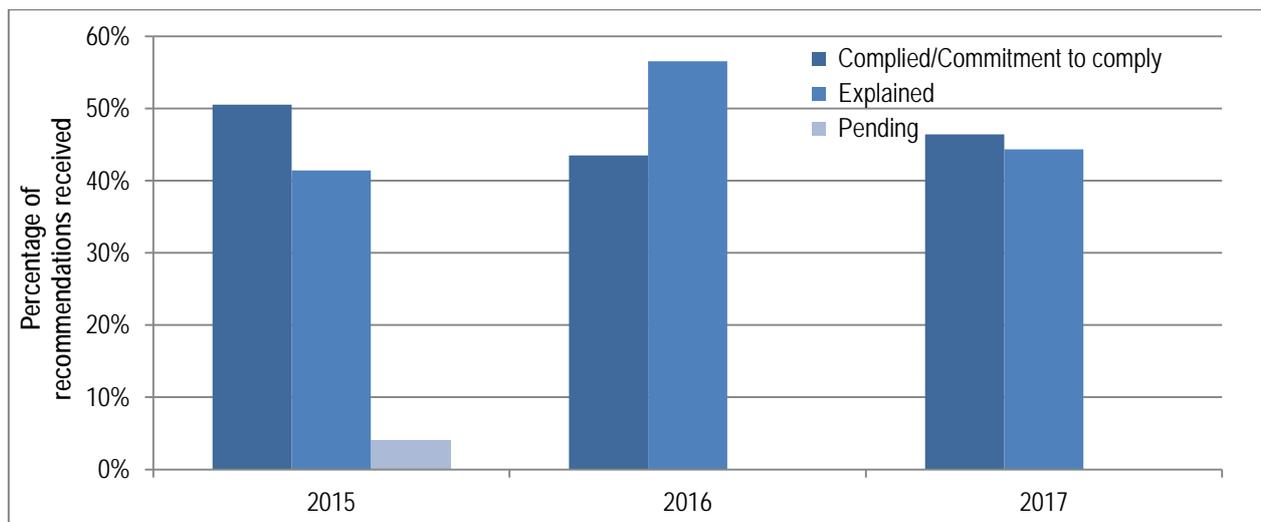
174. MINHAFP also publishes responses to AIREF recommendations on its website but other public administrations are not as diligent. The European Commission has stated that administrations should publicly explain the reasons why they have not taken on board AIREF’s recommendations, to bolster the effectiveness of the principle and ensure it complies with the common principles (European Commission 2017). MINHAFP is in the process of revising Royal Decree 215/2014 to put this recommendation into effect.

175. By AIREF’s own reckoning, initial implementation of the principle has been “somewhat disappointing” (Escrivá, 2015). AIREF has been self-critical in this regard, expressing a concern that perhaps it was issuing too many recommendations. Government stakeholders have stated that one of the key challenges in complying is the time available to react, particularly given the scope and complexity of some of AIREF’s recommendations. For example, stakeholders in the Ministry of Finance have pointed to the heterogeneity of the recommendations which range from reform of the pension system to the provision of information on certain revenue or expenditure headings in accrual basis.

176. Data shows that 47% of AIREF’s recommendations have been complied with (or there is a commitment to comply). However, so far, time series data on the responses to the recommendations shows no major improvement in the proportion of the recommendations that are complied with each year.

⁵⁴ This has 60 subscribers at present, mainly MPs of the Economic and Budget Committees and parliamentary groups.

Figure 5.5. Responses to AIREF Comply-or-explain recommendations 2015 - Q2 2017



Source: AIREF

Note: Totals for each year do not add up to 100 in instances where AIREF has not yet received an answer to its recommendations.

177. Despite its shortcomings, AIREF has already shown that the comply-or-explain principle can be used to positive effect. Box 5.2 below provides some qualitative examples to demonstrate how AIREF has used the principle to improve the quality of economic and financial information that is available to the public, to improve the functioning of the fiscal framework and to highlight key issues in relation to fiscal sustainability.

Box 5.2. AIREF comply-or-explain recommendations

Measures to improve the financial sustainability of the Social Security System

On an annual basis, AIREF issues an opinion on whether or not the figures used by the Spanish Ministry of Employment and Social Security to determine the applicable Pension Revaluation Index are realistic. Through its work in this area, AIREF has identified that there is a strong risk of deficit in the Social Security System and as a consequence each of its reports has included recommendations focussed on identifying and putting in place measures to bring about balance. These recommendations have triggered parliamentary debate on the financial sustainability of the Social Security System and have now also resulted in actions on the part of the government. Specifically, the government included a provision in the 2016 State Budget to initiate a study of the measures needed to rebalance the Social Security System. The Ministry of Employment and Social Security has also pledged compliance with the AIREF recommendations through the Toledo Pact framework.

Improved understanding of how the expenditure rule should be calculated

One of the challenges AIREF has faced in reporting on expected compliance with fiscal targets has been inconsistency among levels of government in how the expenditure rule is calculated. AIREF recommended that MINHAFP should provide clear definitions of the methodological elements necessary to plan, monitor and assess compliance with the expenditure rule in order to facilitate correct and effective application. AIREF also recommended the establishment of an expenditure rule working group to discuss expenditure rule issues in depth and establish a common understanding of important elements. In response, MINHAFP has published a manual for regions and municipalities so that each

administration can now make consistent calculations. It has also created an expenditure rule working group for the regions and municipalities – with AIREF participation.

Improved automatic prevention measures

In November 2015, AIREF made a recommendation to the regions that the general comptroller (or equivalent unit) must report regularly to the regional government on its monitoring of budget implementation, and bring to its attention the advisability of taking decisions for the early correction of deviations that might be produced. The objective of this recommendation was to try and empower the general comptroller to better perform their preventative role. These reports are now being produced by the regions, representing a significant transparency gain. To be most effective, these reports should be published, or sent to Council of Ministers or regional parliament – so far this only happens in some regions.

Transparency gains in relation to macroeconomic forecasts

AIREF endorses the government's macroeconomic forecast for each Draft Budget. To fulfil this function, AIREF requires detailed information on how the Ministry of Economy and Competitiveness generates the forecast. In this respect, AIREF recommended that the Ministry provide information alongside the forecasts on the methodologies, assumptions and parameters that underpin them. The Ministry of Economy and Competitiveness has responded positively to this recommendation, bringing about a change in transparency around the government's macroeconomic forecasts.

Source: AIREF2017

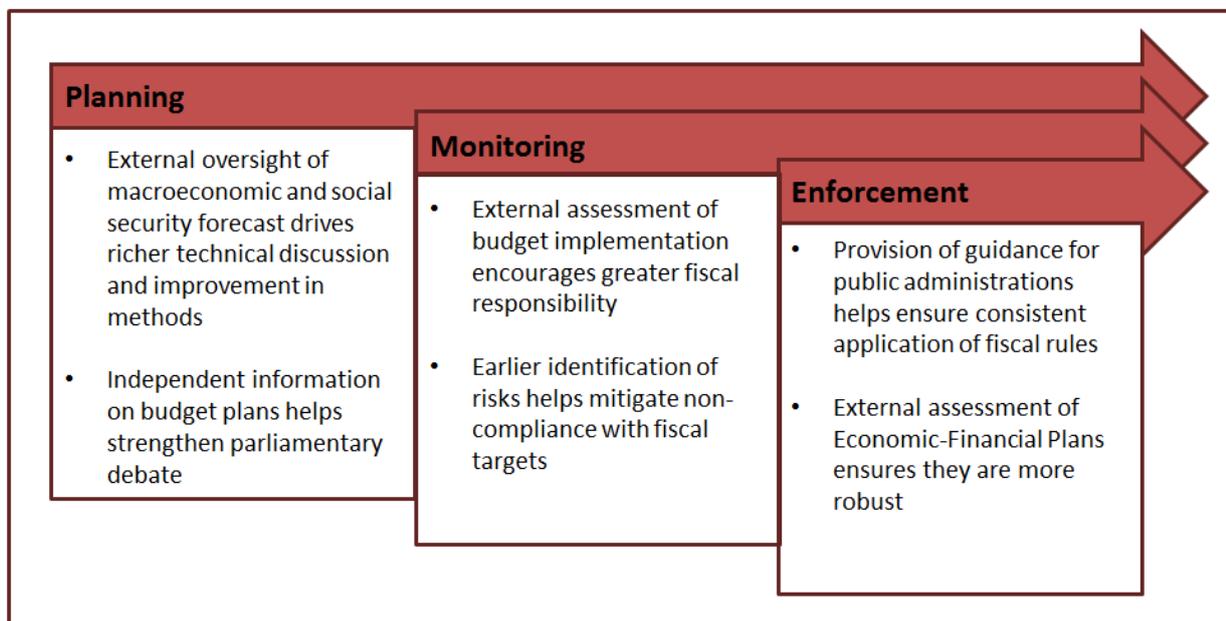
5.4. Improved fiscal management and transparency gains

178. AIREF's Strategic Plan 2015-2020 includes two strategic objectives in relation to improved fiscal management; contributing to a better orientation of fiscal policy towards budgetary sustainability and fostering the financial sustainability of public administrations.

179. Stakeholders report the work of AIREF as having made a positive contribution to improved fiscal management in Spain at all stages of the fiscal policy cycle. At the planning stage, it is widely believed that AIREF has helped generate improvements in forecast methods. Those stakeholders working on national forecasts welcomed the richer technical discussions that were now possible with the addition of AIREF in this area. Stakeholders also observed that while AIREF initially gave the opinion that revenues were over-estimated in relation to both the macroeconomic forecast and the pension revaluation index, there has since been a convergence between the government's forecasts and AIREF's opinion. This suggests that AIREF's oversight has been instrumental in making the government more prudent, although there are likely to be other factors at play such as improved economic conditions. AIREF has also improved forecasting methods at the regional level, for example, through setting up a working group up to ensure that all regions have access to robust tools to project regional GDP and employment

180. As described earlier, through AIREF monitoring budget implementation and assessing the risk of non-compliance with fiscal targets, regional stakeholders report that they now have earlier awareness of fiscal slippage and this helps them to implement their budget in a more fiscally responsible way. Stakeholders have credited AIREF guidance as helpful in developing a common understanding of fiscal rules. Regional stakeholders also reported that AIREF's oversight has encouraged them to produce more robust Economic-Financial Plans.

Figure 5.6. Improved fiscal management brought by AIReF across the fiscal policy cycle

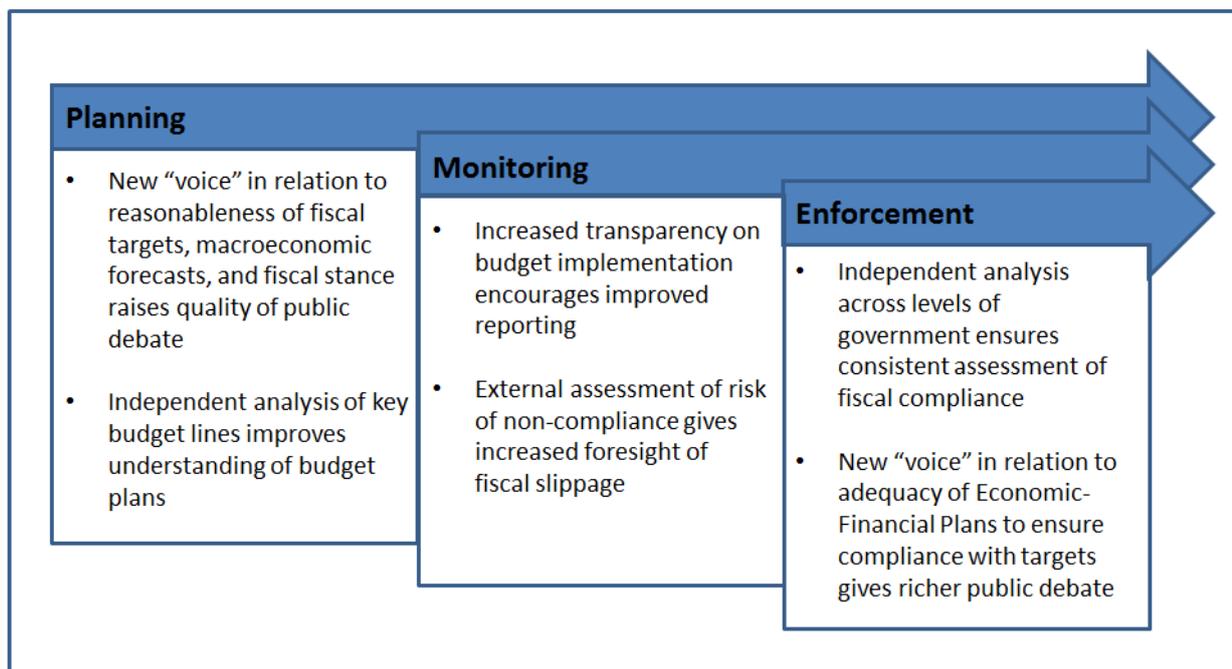


Source: OECD 2017

181. AIReF's Strategic plan 2015-2020 also sets out two strategic objectives relating to transparency: enhance transparency and budgetary practices in the management of public sector accounts and create an efficient and transparent AIReF. In relation to the first objective, stakeholders report that the suite of economic and fiscal information produced as part of AIReF's reporting cycle – that was previously unavailable – has brought transparency gains across the fiscal policy cycle. In addition to its core reports, AIReF has published a number of outputs which have brought further improvements to fiscal transparency in Spain. For example, the dedicated tableau platform on debt sustainability informs the public of the debt projections for each of the regions.⁵⁵ Another effort has been the publication of a real-time GDP growth indicator for Catalonia, to enable the public to follow the impact of recent developments in this region.

⁵⁵ https://public.tableau.com/profile/autoridad.independiente.de.responsabilidad.fiscal#!/vizhome/panel_airef_0/Anual

Figure 5.7 Transparency gains brought by AIReF across the fiscal policy cycle



Source: OECD 2017

182. AIReF is also helping to promote a new culture of transparency across public life in Spain by seeking to act as a functionally transparent institution and through its role as one of eight members of the Transparency Council’s Committee for Transparency and Good Governance. AIReF publishes all of its reports and their underlying methodologies online. In addition, the AIReF website includes detailed information on expenditures, such as the remuneration of the management committee members; the monthly implementation of the expenditure budget, as well as a detailed breakdown of any expenses amounting to more than 1,000 EUR and the fee revenue collected. There are also details of contractors and the list of contracts, management commissions and collaboration agreements signed by AIReF and any subsidies granted. AIReF recently made improvements in how it organises its web content and the range of information that it presents following recommendations from the Transparency Council.⁵⁶

5.5. Conclusions and recommendations

183. AIReF has been effective in communicating its work, although there are some ways in which it could enhance its outreach. It receives regular press coverage around the release of key reports and its analysis is increasingly used in the parliamentary debate. Stakeholders report that AIReF’s work has contributed to transparency gains and to better fiscal management in Spain across the fiscal policy cycle. In particular, AIReF has helped generate improvements in economic forecast methods, the monitoring of budget implementation and early detection of non-compliance with fiscal rules. While AIReF has had some success using the comply-or-explain principle, only around half of AIReF’s recommendations have been complied with. Forthcoming legal changes which require each institution to publish responses to

⁵⁶ As part of its role in promoting transparency in public activity, the Transparency Council evaluated how different institutions, including AIReF, complied with the Transparency, Access to Information and Good Governance Act 19/2013. This study found that there was some room for improvement in the information that AIReF provides on its own initiative and how it organises its website. Since the report, AIReF has made improvement on these fronts.

AIReF's recommendations may help improve this situation. AIReF also has a role to play in terms of its approach to this tool.

- **AIReF should pursue a strategy of increased selectivity regarding its comply-and-explain recommendations** with the aim of emphasising and focusing on its most important messages in subsequent dialogue with relevant administrations and in its public follow-up. AIReF may also wish to consider testing different approaches to ascertain their effect on compliance rates, for example, varying the time given to comply according to complexity of the recommendation.
- **AIReF should develop materials that are more accessible for non-technical stakeholders** at both the national and subnational level. This may include short summaries of the key messages of AIReF's most important reports. Accessibility would also be facilitated by continuing to develop a distinct and consistent "design language" to facilitate navigation across AIReF's reports and highlight key information both in print and online.
- Building on its already well-developed communications with print and online press, **AIReF should promote its most important reports in a targeted way through a broader range of media that have the potential to reach a wider public.** Television appearances by AIReF's President are one option with the potential to bring AIReF's work to a larger audience but should be highly selective to minimise the noise-to-signal ratio and to increase the chance of key messages penetrating the public debate.
- **AIReF should set clear and measurable communications targets regarding its communications via social media platforms.** AIReF should consider limiting the resources it dedicates to communication via social media platforms where there has been demonstrably lower response from stakeholders and focus on tools that have shown higher potential for uptake such as Twitter.
- **AIReF should expand its outreach to academics and universities.** Research faculty and students today represent an important current and future constituency for AIReF analysis.
- **AIReF should periodically undertake stakeholder satisfaction surveys for key stakeholder groups** such as parliamentarians and academics.

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ANNEX A. REVIEW TEAM AND ACKNOWLEDGEMENTS

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Review team

187. **Peter Fontaine** has 40 years of experience in public policy and public administration. For most of that time, his primary work focus has been the US federal budget. Pete spent 30 years working at the US Congressional Budget Office, where he started as an analyst covering energy programs. He later managed a CBO cost-estimating group and then served as Deputy Assistant Director and as Assistant Director for CBO's Budget Analysis Division for 15 years. In that role, Pete guided CBO's development of baseline projections and analysis of legislation considered by the Congress, including completion of about 600 cost estimates each year and managing a staff of about 80. Pete now teaches a graduate course on Public Budgeting, Revenue, and Expenditure Analysis at the George Washington University and provides consulting support on governmental budgeting and the work of independent fiscal institutions.

188. **Santiago Lago-Peñas** is a professor in the Department of Applied Economics at the University of Vigo. He is also the Director of the Governance and Economics Research Network (GEN), Associate editor of the journal *Hacienda Pública Española / Review of Public Economics*, and Director of the Galician Economic Forum. Santiago has also served as a member of the Committee of experts on Spanish fiscal federalism.

189. **Scherie Nicol** is a Policy Analyst in the Budgeting and Public Expenditure Division, Directorate for Public Governance, OECD. She began her career as an economist for the economic development agency for the Highlands and Islands of Scotland. She moved to the Scottish Parliament in 2008, providing research support to the elected members in areas relating to public finance and the economy. In this role she helped set up the Financial Scrutiny Unit and worked on the devolution of increased fiscal powers to Scotland.

190. **Wim Suyker** spent most of his career at the CPB Netherlands Bureau for Economic Policy Analysis (CPB) and the Economics Department of the Organisation for Economic Co-operation and Development (OECD) in Paris. At the OECD, he was head of the Finland-Norway desk. At the CPB, he is currently program leader for public finance and has been heavily involved in the assessment of the election manifestos and coalition agreement

191. **Lisa von Trapp** is a Senior Policy Analyst in the Budgeting and Public Expenditure Division, Directorate for Public Governance, OECD. She leads the Division's work on the role of independent fiscal institutions and parliaments in the budget process and regional work in Eastern Europe. Previously she was also in charge of the Division's work on Performance and Results and regional work in the Middle East and North Africa. Prior to joining the OECD, she served as an advisor and representative to Europe for the World Bank's Parliamentary Strengthening Programme. As a parliamentary development practitioner, Lisa has worked on governance issues with UNDP, SIDA, and Parliamentarians for Global Action.

ANNEX B. INTERVIEW LIST

192. The review team would also like to thank all those who have contributed evidence and insights to this review, in particular individuals from the following institutions and groups who met with the team during missions to the capital and two regions in July and September 2017.

Stakeholders in Madrid:

- AIREF
- AIREF Advisory Board Members
- Bank of Spain
- European Commission Permanent Representation of Spain to the EU
- Foundation of Savings Banks (FUNCAS)
- Ministry of Economy, Industry and Competitiveness
- Ministry of Employment and Social Security
- Ministry of Finance and Civil Service (MINHAFP), including:
 - Cabinet Office of the State Secretary for Budget and Expenses
 - Economic-Financial Information Service
 - General State Comptroller (IGAE)
 - Secretariat to the Fiscal and Financial Political Council
- Spanish media:
 - ABC
 - El Confidential
- Spanish Parliament
 - Congress staff
 - MPs from Congress Budget Committee
 - MPs from Citizen's Party, People's Party, Spanish Socialist Workers Party, Podemos Party, GP Socialist Party.
 - Public Finances and Economic Research Section
 - Spanish Parliament Budget Office

- Staff from Senate Budget Committee
- Standard & Poor's Global Ratings
- State Audit Office
- Technical Committee on National Accounts
- Transparency Commission

Stakeholders in Galicia

- Economy Committee at the Galician Parliament
- Galician Audit Office
- Galician Federation of Municipalities and Provinces (FEGAMP)
- Galician Government – General direction for Budget
- Galician Government - General regional comptroller
- La Voz de Galicia (Spanish daily newspaper)

Stakeholders in Valencia

- El Temps (Spanish weekly magazine)
- Valencian Audit Office
- Valencian Government - General direction for Budget
- Valencian Government - General regional comptroller
- Valencian Institute of Economic Research (IVIE)

