

**APPEARANCE BY CRISTINA HERRERO BEFORE FINANCE COMMITTEE OF
CONGRESS. 25/02/2020**

Mr Chairman, Honourable Members of Parliament, on February 18th, the Council of Ministers took the decision to propose me as the candidate to hold the position of President of the Independent Authority for Fiscal Responsibility. Accordingly, in accordance with Article 24 of Organic Law 6/2013, I appear before this Committee for the purpose of examining my suitability for the position.

Allow me, after briefly **reviewing my professional experience**, to take a moment to discuss **AIREF and its first six years of operation**, and finally, focus more closely on **my project for the institution** in the coming years.

I am an economist and a member of the Higher Body of State Controllers and Auditors and of the Higher Body of Tax Inspectors. I have spent my entire career in the public sector, specifically in areas closely related to public finances. I began my professional journey at the **General Intervention Board of the State Administration**, where I

gained an in-depth understanding of national accounts. I served as the coordinator of the General Government accounts and was responsible for relations with the International Monetary Fund within the framework of the agreement on Special Data Dissemination Standards. Subsequently, as Deputy Director of the **General Secretariat of Regional and Local Financing**, I had the opportunity to further understand the regional and local reality. In particular, I was involved in the supervision and monitoring of the application of budgetary stability and financial sustainability principles in this area, as well as fiscal conditionality linked to extraordinary financing mechanisms.

Since 2014, I have run the **Budget Analysis Division at AIReF**, and have thus been familiar with the institution since the outset, the obstacles it has had to face and also its growing importance within the framework of fiscal governance. Over these years, we have worked tirelessly to shape AIReF into the prestige institution it has now proudly become.

Honourable Members, **my commitment to public service** and my **competence** in performing the roles that have been assigned to me are the credentials I offer as a guarantee of the commitment and rigour I will maintain at the helm of AIReF, should you place your trust in me.

Allow me to spend a few moments **reflecting on the first six years of AIReF's activity**.

As you are well aware, the creation of AIREF stemmed from the **impetus of the European Union**, which, following the international economic and financial crisis, acknowledged the need for a far-reaching reform of its fiscal governance. Specifically, there was a commitment to the national appropriation of European fiscal discipline and the promotion of comprehensive national fiscal frameworks with stringent requirements for budgetary statistics, macroeconomic forecasts, medium-term budgetary frameworks and national fiscal rules, among others. These requirements included the creation of Independent Fiscal Institutions commissioned with ensuring that the monitoring of compliance with these fiscal rules is based on reliable analyses carried out independently from governments. These initiatives were embodied in Directive 85/2011 on national fiscal frameworks and later in the approval of the Fiscal Compact and Regulation 473/2013 applicable to euro area countries. In Spain, this European impetus led to the reform of our fiscal framework, and, insofar as it concerns us here, to the creation of the Independent Authority for Fiscal Responsibility through Organic Law 6/2013.

AIREF became fully operational in 2014, with a broad mandate that required it to oversee the sustainability of public finances in all tiers of government, this is exceptional compared with other European fiscal institutions.

At the outset, AIReF's activity primarily focused on supervision. Once the initial obstacles of accessing the necessary information for its analyses were overcome and constructive dialogue with the different public authorities was established, AIReF gradually gained the trust of society and of the public authorities themselves, thanks to the rigour of its work and the expertise of its team.

As you already know, AIReF's supervisory activity extends throughout the budgetary cycle, starting with the **endorsement of macroeconomic forecasts** that underpin fiscal projections, and continuing with the **evaluation of all phases of the budgetary cycle** to ultimately ensure credible budgetary forecasts and compliance with the fiscal rules established. All of this is complemented by a **sustainability analysis with a medium-term focus** that allows the short-term perspective that guides the setting and monitoring of fiscal objectives to be overcome.

In addition, the reports prepared by AIReF include **recommendations** addressed to public authorities and are subject to the **principle of “comply or explain”**. This principle, new to the public sector, has gradually become ingrained in administrative culture. Accordingly, almost all supervised authorities now convey to AIReF their intention to comply with the recommendation, indicating the resources and schedule for their implementation, or, in the case of deviation, explaining the reason for such deviation. AIReF periodically publishes

follow-ups on these recommendations in pursuit of the principle of transparency, which I will repeatedly stress throughout my presentation.

I would like to highlight that over the years of AIReF's existence, a significant **evaluation function** has been added to its supervisory role, which stemmed from the Government's commission to evaluate public spending - the 'Spending Review' - committed to in the Stability Programme Update 2017-2020.

The clear synergies between the oversight of public authorities and the evaluation of their spending have allowed us to develop a new activity that has now become one of the cornerstones of AIReF. This commission, along with those subsequently requested by some Autonomous Regions, has required the strengthening of the institution's technical and human capital and a swift response in terms of developing new work systems based on multidisciplinary teams, collaboration with the private sector, and with academics and experts of renowned prestige.

Moreover, access to a vast volume of administrative data and surveys has allowed us to understand that the information generated by public authorities is not geared towards evaluation but is almost exclusively focused on legality and procedural control. On the one hand, this poses a barrier to accessing data and, on the other hand, results in a deficit in

the quality of information available for conducting rigorous evaluations that can assist in designing or redesigning public policies.

Honourable Members, all these activities that AIReF has developed over the last six years have been based on the **three guiding principles of the institution: independence, transparency and accountability**. Allow me to briefly address each of them, which I will return to later when I present my future project for AIReF, which I can already inform you will clearly focus on strengthening these three principles.

The **independence and functional autonomy** of AIReF are enshrined in the law through various guarantees, such as the appointment of its President, with the endorsement of Parliament, from among individuals of renowned prestige under a non-renewable six-year mandate. Our independence is also guaranteed by the provision of our own financial resources, through a supervision fee, which provides us with greater autonomy in our management. AIReF also has a team of multidisciplinary professionals, the majority of whom are civil servants, with very sound track records and a strong commitment to public service.

Transparency has always been at the core of our activity. As can be verified on our website, AIReF publishes all its reports, studies, opinions and working documents. In addition, it also publishes a significant portion of the **methodologies** used in their preparation, which allows

its evaluations to be understood, and thus agreed or disagreed with. A series of **interactive tools** are also available that enable AIReF's evaluations under different scenarios to be analysed and provide access to economic and financial information on the different public authorities in a useful and straightforward manner.

On another note, the commitment to transparency has led AIReF to voluntarily publish relevant information on its website that other institutions do not publish, such as the minutes of its Steering Committee and annual recruitment plans, among others.

However, the independence and transparency of the institution cannot be understood without adequate **accountability**. In this regard, allow me to remind you that AIReF, in addition to being subject to oversight by Parliament, the General State Comptroller and the Court of Auditors, has voluntarily submitted to additional scrutiny. On the one hand, through an Advisory Board made up of individuals of national and international renown, and on the other hand, through external evaluations, such as the one conducted midway through its term by the OECD. Furthermore, AIReF has appeared before the relevant parliamentary committees whenever requested. While regulations require at least two appearances before both parliamentary chambers, there have been years in which the number of appearances has been much higher, for example, as many as seven occasions in 2018.

As you can observe, **the first six years of AIReF's activity have been a significant challenge**, as they involved building an institution from scratch. Like any starting project, we had to tackle various obstacles along the way. However, the truth is that the overall assessment is positive, and today we can assert that AIReF has become a prestigious institution. While it originated under the impetus of the EU, it has managed to carve out a place at a national level and gain the trust of public authorities and the general public.

However, I believe that the **challenge that lies ahead** is, if possible, even greater, and that my mission over the next six years is to **consolidate** this still very young institution. To consolidate and strengthen it as a benchmark of rigour, transparency and independence, but above all, as an **institution that is useful for society**.

I would now like to outline the **main strands of my project for AIReF**. In the first section, I will address the supervisory and evaluative work of the institution. I will then reflect on how to make AIReF a more useful institution for society. Lastly, I will provide details on how I believe we can achieve our goals, always within the framework of the three guiding principles of AIReF: independence, transparency and accountability.

First, allow me to share my vision of AIReF and the model of the Independent Fiscal Institution that I intend us to be.

I will begin by discussing fiscal supervision.

Fiscal supervision is AIReF's primary function, with the Law on Budgetary Stability being the key reference under which AIReF must carry on its activities. **I will thus ensure its compliance** by fulfilling its reporting obligations. In these reports, we will identify the risks of deviation from the targets set, make recommendations and, if necessary, request the activation of measures to address the risks identified.

However, I believe that the exercise of this supervisory work also requires a critical spirit as regards the fiscal framework, as its credibility is essential in order to achieve effectiveness. Without losing sight of the numerical quantitative limits, it is clear that fiscal rules have shown their limitations. In fact, they are subject to debate at a European level, where, as you are aware, they have been applied with elements of flexibility and discretion that have not contributed in any way to the credibility of the fiscal framework. The Spanish rules-based system has not been immune to these weaknesses and is subject to the same dilemmas, although in our case, these are more acute and complex due to our decentralised structure.

It would be irresponsible not to acknowledge this reality, and accordingly, AIReF has issued frequent recommendations on the fiscal framework. These recommendations affect both the design and

interpretation of targets and rules, as well as the implementation of corrective measures provided for in the Law on Budgetary Stability. **This is also a key element of my mandate.**

In the exercise of this supervisory activity, I aim to focus on three aspects: **a more medium-term orientation, a clear strengthening of early warning mechanisms, and, with a more structural vision, enhance sustainability in a longer-term horizon.**

- **First, framing supervision within a medium-term orientation** in line with multi-year budgetary programming, which I understand is necessary by the public authorities to strengthen the countercyclical function of fiscal policy and reduce uncertainty in the allocation of revenue in the medium term.

With this medium-term perspective, **I truly believe that AIReF could make additional contributions to those it has made to date, helping with fiscal planning at earlier stages of the budgetary cycle.** These contributions would mainly involve preparing medium-term macro-budgetary scenarios at constant policies and conducting sustainability analyses in the medium and long term. Furthermore, in the longer term, the model I would like to evolve towards is one where fiscal institutions can assess key economic measures, attributing elements of objectivity and transparency to fiscal policy and facilitating understanding of its implications in the medium

term.

- **Second, strengthen the early warning function.** I believe this is one of the great virtues of fiscal institutions. It sets them apart from the Courts of Auditors or the General State Comptroller, which focus on *ex post* control. The powers of fiscal institutions are of a markedly preventive nature, allowing them to identify issues in advance, helping assess the opportunity to adopt certain measures at a specific time, thus avoiding the implementation of pro-cyclical fiscal policies. Accordingly, one of my goals will be to **monitor all public authorities as continuously as possible**. This is not an easy challenge as we have many reports and many public authorities to supervise, however, I believe we should enhance the **monthly monitoring** of compliance with fiscal targets, this is something we have already implemented. We also need to make progress on monitoring Local Governments, where the high number of entities and their heterogeneity, combined with less frequently available information, makes a detailed analysis impossible, as in the case of the State, the Social Security Funds and the Autonomous Regions. In this area, we are working on the development of **sustainability indicators that allow the early warning and monitoring of their evolution in Local Governments that present risks in this matter**.
- **Lastly, AIREF must perform a more in-depth analysis of the**

sustainability of public finances with a vision that includes the long term. Likewise, some of its publications such as the Debt Monitor and the Opinion on the Sustainability of the Social Security System, during my term of office, AIReF will develop the analysis of forecasts for public finances, publishing an opinion on long-term fiscal and macroeconomic forecasts that also identifies the main fiscal risks at different horizons.

In addition to supervision, I believe that the **evaluation of public policies** should be incorporated as a permanent function of AIReF with the aim of improving the efficiency of public spending and also of fiscal supervision. In fact, it allows the effective application of Article 7 of the Law on Budgetary Stability on the principle of efficiency in the allocation and use of public resources. From my perspective, evaluation has its own nature, however, it is also a fundamental aspect of fiscal supervision. They are by no means unrelated activities and generate exceedingly relevant synergies.

Evaluation contributes to ensuring that decisions taken by different tiers of government move away from the usual short-termism and contribute to the sustainability of public finances.

How to achieve this:

- helping public authorities identify areas for improvement through a strategic vision that positively impacts both the policy evaluated and also the public accounts;
- avoiding the recurrent adoption of quick-fix measures such as "non-availability agreements" during periods of budgetary constraints, which proportionally affect all expenditure items, regardless of their strategic consideration or priority.

In this regard, I believe that the progress of the studies conducted by AIREF to date, although still relatively low, has already proven to be a useful tool for all public authorities, for AIREF itself, and above all for society as a whole.

- **It is useful for all public authorities** as we make constructive proposals that take into account the general interest. We have a growing demand from both the Central Government and the Territorial Administrations. Our findings and lines of action are being positively assessed by the public authorities that have commissioned them, as this facilitates their management, ultimately resulting in an improvement in the quality of public services provided to citizens.

- **It is useful for AIReF as it assists us in our fiscal supervision work.**

The studies undertaken allow us to gain a better understanding of the budgetary reality of each public authority and refine our recommendations further;

- And above all, **it is useful for society as a whole**, given that evaluation enhances transparency and, by extension, an evidence-based debate and a deeper understanding of the costs and achievements of public policies.

Accordingly, it will be a decisive commitment of my mandate to enhance the evaluation of public policies, which will require some changes to our Statute to accommodate these functions and provide AIReF with a structure and organisation that allows evaluation to become a permanent function. To achieve this, I will propose a change to the Organic Statute to develop a **project that, in my view, would revolve around the following pillars: usefulness of evaluations, evaluations proposed by AIReF and dissemination of knowledge acquired.**

- **First, I want to ensure the usefulness of the evaluation** and assign as much importance to implementation as to the evaluation itself. Accordingly, a significant part of the activity should be devoted to **monitoring the evaluations already conducted**. This will require us to establish new channels with those evaluated to promote routes

and strategies for compliance that support them and help design best practices. Everything we have discussed is of no use if our evaluations end up in a drawer.

- **Second, conduct evaluations on our own initiative.** This is something that the United Nations Human Rights Council's rapporteur recently recommended. From our activity, we identify areas where it is necessary to dedicate more time and resources. Therefore, without prejudice to the studies commissioned that public authorities may propose, AIREF, on its own initiative, should approve and publish an annual evaluation plan that includes public policies in which the various tiers of government are involved to a greater or lesser extent.
- **Third, place the evaluation knowledge acquired at the service of society.** In these early years of evaluation at our institution, we have tried to achieve a reasonable balance in the use of the latest experimental and quasi-experimental quantitative evaluation techniques with qualitative techniques. Nevertheless, we have to continue strengthening our technical and human team in a multidisciplinary way in order to adapt the methodology to the object of analysis in the most suitable way, avoiding potential analytical biases. We do not aim to discover great methodologies, however, AIREF is pioneering in the application of different

evaluation methodologies in different policies and areas, with an eminently practical vision. **That is our added value, the practical vision of evaluations.** We eagerly want to share this knowledge through the development of methodological documents, training courses, participation in national and international conferences, and interactive tools that are useful for everyone.

Honourable Members, I trust that you share the same sentiments as I do with regard to the model that I propose. As you can appreciate, I have a vision for AIReF through which I seek to strengthen the provision of positive analysis elements. While AIReF was set up as an institution engaged in the supervision of rules and with a regulatory nature, the challenge for me is to reinforce its activity in providing inputs and evolve towards models like the CPB in the Netherlands, a benchmark model among fiscal institutions. I endeavour to turn AIReF into an institution that directly and actively participates in the budgetary process and also collaborates in forging consensuses and providing information to facilitate transparency and informed decision-making.

Independent Fiscal Institutions are institutions that arouse discomfort, and I will not pretend that AIReF does not fall under that

category. However, with my proposed model, I strive for us to be useful while fulfilling our mandate:

○ **Useful for fiscal debate**

- Strengthening positive analysis and harnessing synergies between supervision and evaluation;
- Providing a critical opinion on the fiscal framework and its implementation when deemed necessary;
- Trying not to lose sight of fiscal policy objectives that go beyond sustainability, taking on distribution and growth (stabilisation) objectives as well. To the extent possible, our evaluations will incorporate a broad perspective, integrating effects on the economy and the distribution of income.

○ **Useful for public authorities**

I envision AIReF as a meeting point for the different tiers of government. We are an institution at the service of everyone and impartial, and this places us in an advantageous position to provide, within our scope of action, objective analysis on issues that require consensus among the different public authorities.

○ **Useful for the legislator and the whole political spectrum**

- While our main relationship is with public authorities and the Government, I aspire to convert AIReF into an open and useful institution for Parliament and its representatives. We are not, nor do

we seek to be, a Parliamentary Budget Office, however, I would like all parliamentary groups to know that we work for the general interest and that AIReF can contribute, from its perspective, to Parliament's initiatives as it has done in the past.

- With this spirit, apart from this appearance or others that various political groups may request, I would like to set up meetings at AIReF with spokespersons from all groups to introduce the institution, its plans, and also, of course, to listen to their suggestions.
- **Useful for citizens and society**
- We have to make our analyses understandable for the general public. Without losing rigour, we must be able to make ourselves understood. The fiscal debate is often a distant matter for citizens, with a growing lack of interest that makes it difficult to convey the benefits of sound public finances.
- Furthermore, we must be open to ongoing dialogue with social stakeholders since, although our functions tend to mean our main dialogue is with the different public authorities, we are aware of the implications that the recommendations in our reports have on the legitimate interests of different social and economic sectors.
- I see AIReF as an institution eager to share what it has learned and its best practices, both at an academic level (sharing our methodologies) and with public authorities facing similar issues to

ours.

I am aware that what I have explained may seem like a list of good intentions. However, I believe in what I say and in the type of institution I want to evolve towards. To achieve this, I plan to develop a new Strategic Plan for my term of office until 2026. My idea is to present this around the month of September. However, I can already anticipate that this Plan will continue to underpin the activity of AIReF in the principles that have guided the way we operate: independence, transparency and accountability. They are non-negotiable, and I intend to strengthen them further.

Independence

Independence is the institution's main asset and its *raison d'être*. As I explained earlier, AIReF has a strong legal foundation that protects it from interference and outside pressure. However, independence also depends on how the institution is managed. **I want to convey my full commitment to this principle.** I think it is important to stress this, especially since AIReF is a unique institution as it is not collegiate. The personality of the person holding the Presidency is decisive **and hence, in addition to my personal commitment, I will seek to strengthen this independence through the management of human resources and by reinforcing the functional autonomy of AIReF in my term of office.**

I guarantee that the staff at AIReF will continue to be selected based on merit and I will ask the management team to appoint individuals with critical capacity to compensate for being a unipersonal institution.

Furthermore, I consider it essential to reinforce the functional autonomy of AIReF as this is the best way to establish clear divisions and boundaries between our institution and those we evaluate. To achieve this, I consider it appropriate to clarify relations with the public authorities, especially regarding information, by signing **Collaboration**

Agreements. The lack of information, deficient information and information submitted beyond the deadline place us in a vulnerable position. Agreements are a common practice for international independent institutions and this was a recommendation made by the OECD in its evaluation of AIReF. As acting President, I have already proposed to the ministerial departments we interact the most with (Finance, Economic Affairs, Labour and Social Security), to consider this type of agreement. This would be in addition to the agreements we already have in place with the Tax Agency and the Bank of Spain. An agreement not only helps to delimit the volume of information required but also regulates and makes relationships and schedules more transparent. Moreover, the benefits extend beyond AIReF's own activity by strengthening transparency. There are cases (i.e. Ireland) where this has helped make the methodology of the Government forecasts public.

Transparency

In my term of office, I will continue to promote the transparency of the institution and help improve that of other public authorities with which we interact. The new features I would like introduce include:

- **Strengthening the foreseeability of our publications by creating an annual calendar;**
- **Making an effort to document the methodologies** on which our activity is based;
- **Developing useful tools that allow comparative regional and local analysis**, reinforcing the Local Government Monitor and developing an Autonomous Region Monitor;
- **Improving the informative nature of our reports and making them more accessible** through more graphic content and the creation of infographics;
- **Self-assessing our forecasting capability.** You are aware that we are under an obligation to assess whether there are biases in the macroeconomic forecasts of the public authorities. It seems reasonable to demand the same analysis of our institution, which we will also make public;
- And, of course, maximum transparency of our **institutional information.**

And finally, accountability

In a unipersonal model, accountability must adhere to the highest standards. I also **aim to assert my commitment to this principle. In practice, this will be reflected in:**

- **My full availability to appear before Parliament on as many occasions as necessary.** Paradoxically, the legislation does not provide for mandatory appearances on the occasion of the Draft Budget or Stability Programme. It simply ensures a certain number of appearances per year (at least two). Obviously, I expect to appear on the occasion of important milestones in the budgetary cycle and as often as needed.
- **In addition, in a unipersonal institution, accountability can be reinforced through external control by one-off external evaluations and a more permanent Advisory Board.** It is important to submit to the judgement and examination of third parties external to the institution. As I have mentioned, we have been subject to evaluations, even at our own initiative. In my term of office, I plan to undergo a new evaluation, with a commitment to the publication and monitoring of the recommendations. I also want to strengthen the role of the Advisory Board. I consider it particularly useful to guarantee the rigour and technical quality of our work, which becomes even more necessary as our activity increases in complexity. My idea is to have a reduced Advisory Board, of a more scientific than strategic nature and with more permanent availability

to the institution. We will have fewer regular meetings, however, set up *ad hoc* sector panels to address more specialised issues.

Our communication strategy will serve these three principles and will seek to be prudent and selective, facilitating the reception of the message to each target audience. We will continue to hold press briefings and conferences, all in the service of disseminating our analyses and conclusions. The goal is not to surprise, but to report in a timely manner and select impacts wisely. My aim will be to avoid making unnecessary noise, without this implying any restriction on AIReF's mandate as a supervisor of public finances. We are fully committed to transparency, and therefore, the main aim of our communication strategy will continue to be to increase the impact and dissemination of reports and their recommendations, along with opinions issued by the institution and studies requested by public authorities. In parallel, we will work to improve the informative nature of our analyses and make them more accessible with the aim that the results reach a wider audience than just specialists and are useful to society as a whole.

Furthermore, social media has gained significant importance as a channel for disseminating the work of the institution in recent years. AIReF is one of the Independent Fiscal Institutions with the highest number of followers on Twitter, and we will continue to work on

generating content of interest.

Allow me to conclude my appearance by reiterating my commitment to strengthening the actions of AIReF, both in the supervision of the finances of public authorities and in the evaluation of their policies, all with a clear vision: the sustainability of public finances in the medium and long term. This is a responsibility we all share, and AIReF will continue to work on it.

In conclusion, Honourable Members, should you grant your trust in me, I will strive to make AIReF an increasingly more useful institution for Spanish society as a whole.