

Revised Draft, 11 January 2013

Background Paper for PEMPAL Budgeting Community of Practice

“Specific Programs and Approaches to Performance Assessment in Ireland – with particular reference to Public Administration and Social Policy’

Tom Ferris

Tirana, February 25-28, 2013

Overview¹

The Irish economy was hit by a severe crisis in 2008, following over a decade of strong growth. An unsustainable expansion of bank credit had fuelled a housing market bubble and an inordinate level of domestic spending. With the burst of the housing bubble, the Irish banking system suffered financial losses of historical proportions. The then Irish government took the decision to rescue the banking sector by guaranteeing almost all their liabilities and recapitalising the banks with public funds. Although this worked for a while, there was not a full realization of the scale of problem. The accumulation of large banking losses put severe pressure on the fiscal position. By the autumn of 2010, the financial markets had concluded that the sustainability of sovereign debt was jeopardized. The government was forced to call on financial assistance from the IMF, EU and ECB (The Troika) in support of an economic adjustment programme, commonly referred to in Ireland as the “bail-out”. Financial pledges of €85 billion were made to provide breathing space for Ireland to improve its situation. In response, the government had to start taking significant steps to restore order to the public finances, by correcting the excessive deficit, putting the debt-to-GDP ratio on a downward trajectory, and introducing much more robust controls on public expenditure. A large gap between the State’s revenues and expenditures still exists, one which must be further closed in 2013 and over the medium-term. While economic recovery will contribute, part of the gap is structural in nature and requires the consolidation and structural reform processes to continue into the future – see recent forecasts from the Department of Finance² below (taken from the official website <http://budget.gov.ie/budgets/2013/2013.aspx>)

Main Macroeconomic and Fiscal Variables Forecasts 2012-2015

| | 2012 | 2013 | 2014 | 2015 |
|--|-------------|-------------|-------------|-------------|
| <i>Macroeconomic Forecasts (% change, unless otherwise stated)</i> | | | | |
| Real GNP | 1.4 | 0.9 | 1.7 | 2.1 |
| Real GDP | 0.9 | 1.5 | 2.5 | 2.9 |
| HICP | 2.1 | 1.7 | 1.8 | 2.0 |
| Employment | -1.2 | 0.0 | 0.9 | 1.3 |
| Unemployment (% of labour force) | 14.8 | 14.5 | 13.9 | 13.0 |
| <i>Fiscal Forecasts (% of GDP, unless otherwise stated)</i> | | | | |
| General Government Balance | -8.3 | -7.5 | -5.0 | -2.9 |
| General Government Debt | 118 | 121 | 120 | 117 |
| Exchequer Borrowing Requirement (€ billion) | 15.6* | 15.3 | 11.2 | 7.5 |

Source: Department of Finance

Notes:

**Excludes the 2012 IBRC Promissory Note payment which was settled with a Government bond.*

¹ This Background paper has been prepared by Tom Ferris from official Irish data sources, but should not be used as an official interpretation of such data.

² “Department” is the term used in Ireland instead of “Ministry”

In the Comprehensive Expenditure Report 2012-14, December 2011, the Irish Government announced a set of reforms to the budgetary architecture aimed at enhancing public expenditure management in Ireland. The core rationale for the reforms was the move to a more open and transparent process, whereby public funds are allocated to areas where they can be used – and seen to be used – to good effect, with improved outcomes for citizens and for society. These reforms involve changes to the traditional roles of all those involved in the budgetary process – policy-makers, line and central Departments, Government and the Oireachtas (the Parliament) – and allow for clearer accountability and engagement by the public in relation to what is achieved.

A core objective of the reformed budgetary architecture in Ireland is to shift the focus of Government budgetary planning to the resources actually available, and away from the traditional ‘bottom up’ processes whereby total expenditure for a year only became apparent once all of the demands had been catered for. In line with this new approach, the Medium Term Fiscal Statement 2013-2015 (MTFS) was published in November 2012 and this provides an update on the consolidation strategy over the three-year period ahead, taking account of the Department of Finance’s latest economic and fiscal forecasts. The 2013 Budget and Estimates of Expenditure are framed within this overall fiscal framework. Developments at EU level on economic governance will also have a bearing upon Ireland’s fiscal planning framework, as has the programme of financial assistance from the IMF, EU and ECB (The Troika).

It is important to recognize the importance of the Government’s Public Service Reform Plan in helping to restore order to the public finances. The Plan was launched in November 2011, and already its implementation is changing the Irish Public Service in terms of the way in which it is organised, the way in which people are managed, and the way in which expenditure is managed. Public Service Numbers are now 28,000 lower (at 292,000 approx) than their peak (of 320,000 approx) at end 2008. The Exchequer pay bill has been reduced by 17.7% between 2009 and 2012, from €17.5bn (Gross) to €14.4bn (net of the Pension Related Deduction). Over the period 2009 to 2015, the Exchequer pay bill is expected to reduce by €3.8bn, or €3.3bn net of expected increases in public service pensions costs.

This Background Paper next summarises the main initiatives and developments that have been taking place in recent years. For easy of reading, the material is presented in three parts:-

- Part A: External Drivers
- Part B: New Domestic Initiatives
- Part C: On-going Domestic Processes

Part A: External Drivers

A.1 EU Influences and Fiscal Responsibility Act 2012

In March 2011, the Department of Finance published a discussion document entitled ‘Reforming Ireland’s Budgetary Framework’. This was heavily influenced by developments at European level. These developments included reform of the Strategic and Growth Pact³ and other processes of EU economic governance through the adoption of the so-called “six-pack” of measures and the Treaty on Stability, Coordination and Governance (the “Fiscal Compact”). Following the endorsement of the Fiscal Compact by the Irish people in the referendum held on 31 May 2012, the Fiscal Responsibility Bill 2012 (FRB) was

³ The Stability and Growth Pact (SGP) is the EU’s rule-based framework for the coordination of national fiscal policies in the economic and monetary union (EMU).

published on 18 July 2012. It has now been passed by Parliament and signed into law in November 2012. The introduction of the Act was part of a wider agenda of budgetary reform, benchmarked under the Programme for Government, March 2011 and the EU/IMF Programme of Financial Support. The legislation has taken into account subsequent developments at a European level including the implementation of the Fiscal Compact Treaty.

The Fiscal Responsibility Act (FRA) gives legal effect to the Irish Fiscal Advisory Council; it is now a statutory body. The Council had previously operated on an interim basis. In January 2012 the Council published its report on 'Strengthening Ireland's Fiscal Institutions' which outlined its views on the design of a fiscal council.

The purpose of the FRA provides for the implementation of Articles 3 and 4 of the Fiscal Compact in domestic Irish law. The FRA imposes a duty on the Government to ensure that the budgetary rule and the debt rule, which are provided for in the FRA, are complied with. The budgetary rule requires that the budgetary position of General Government must be either:

- in balance or in surplus and that this will be satisfied if the annual structural balance is at the medium-term budgetary objective (MTO); or
- the annual structural balance of General Government is complying with the adjustment path toward the MTO as set in accordance with the SGP; unless
- a failure to achieve the MTO or remain on the adjustment path towards it is permitted if exceptional circumstances, as defined under the SGP, apply.

If there is a failure to comply with the budgetary rule and the deviation from the MTO or the adjustment path is more than 0.5% of GDP and exceptional circumstances do not apply, then the Government will be required to implement a correction mechanism. The provisions of this correction mechanism have been drafted in light of Common Principles adopted by the European Commission.

The FRA also provides for the implementation of the debt rule in line with the requirements of the SGP. The debt rule requires that General Government debt in excess of 60% of GDP must be reduced by one twentieth of the excess over this limit each year. In Ireland's case, the debt rule will apply in full three years after it has exited its current excessive deficit procedure (EDP) in 2015.

Further information, on the evolution of the FRA, is provided in an article, entitled the "*Need for greater Fiscal Responsibility*", by Tom Ferris⁴, that is being circulated to those attending the BCoP conference in Tirana in February 2013.

A.2 EU/IMF Programme of Financial Support

It must be recognized that many of the reforms, that have been (and are being) introduced are driven by the EU/IMF Programme of Financial Support of Ireland (commonly known as the "Bail-out") agreed by the previous Irish Government on 28 November 2010. This provides Ireland with €85 billion. The Irish State's own contribution is €17.5 billion, through a combination of funds from the National Pensions Reserve Fund (NPRF) and Exchequer cash balances, with the external support element therefore amounting to €67.5 billion. The external assistance available comprises of the following :-

⁴ "*Scrutiny of Statements of Strategy*", Public Affairs Ireland (PAI) Journal, Issue No. 87, October 2012.

- €22.5 billion from the European Financial Stabilisation Mechanism (EFSM);
- €22.5 billion made up of €17.7 billion from the European Financial Stability Facility (EFSF) and bilateral loans from the UK (€3.8 billion), Sweden (€0.6 billion) and Denmark (€0.4 billion), and
- €22.5 billion from the IMF.

The provision of funding under the Programme is conditional on compliance with the conditions and reporting requirements set out in the Programme documents. For monitoring purposes, the actions are being monitored under five categories :-

i) *Permanent Conditions*: These are continuing conditions relating to monitoring of public finances, monitoring financial markets for opportunities to return to them and a commitment to consult with the European Commission, the ECB and the IMF on the adoption of policies that are not consistent with this Memorandum.

ii). *Fiscal Consolidation*: Mainly implemented by the Department of Finance and the Department of Public Expenditure and Reform in Budgets 2011 to 2013. However, the expenditure actions in these Budgets - including expenditure levels/ceilings and numbers ceilings - have direct impact on all Departments.

iii). *Financial Sector Reforms*: These concern supervision, recapitalisation and deleveraging of the banking sector and are implemented by the Department of Finance and the Central Bank.

iv). *Structural Reforms*: These aim to improve the competitiveness of the economy through reforming the labour market, reform of unemployment benefits, pensions and enhanced competition in sectors such as health, the legal sector, the retail sector and by reforming the personal debt regime.

v). *Structural Fiscal Reforms*: The key element of this will be a fiscal responsibility law providing for an independent budget advisory council and legislation on a medium-term expenditure framework to provide for binding multi-annual ceilings on expenditure.

To date, Ireland is meeting its Programme commitments. **Table 1** below shows the number of conditions met, and those identified for subsequent quarters (as of November

Table 1: Action Required Under the EU/IMF Programme

| Category Description | Actions Required/ Completed Q4 2010- Q2 2012 | Actions Required/ Completed Q3 2012 | Total Actions Completed to Date | Actions Required Q4 2012 | Actions Required (Q1 2013 – Q4 2013) | Total Actions Required Q4 2010 – Q4 2013 |
|--|--|-------------------------------------|---------------------------------|--------------------------|--------------------------------------|--|
| Permanent Conditions – Apply for the Duration of the Programme | (6-10) | (11) | (11) | | | |
| Fiscal Consolidation | 12 | | 12 | 5 | | 17 |
| Financial Sector Reform | 83 | 18 | 101 | 16 | 47 | 164 |
| Structural Reform | 31 | 11 | 42 | 8 | 10 | 60 |
| Structural Fiscal Reform | 6 | 4 | 10 | 0 | 1 | 11 |
| Total* | 132 | 33 | 165 | 29 | 58 | 252 |

Source: Department of Finance

Notes:

Permanent conditions are ongoing and are not included in quarterly completion totals.

* There is an element of overlap and repetition in some of the tasks enumerated.

Part B: New Domestic Initiatives

B.1 Medium Term Expenditure Framework

Consistent with the Irish Government's overall fiscal plans, the new Medium Term Expenditure Framework (MTEF) provides greater clarity and certainty about the allocations available to each Department over the coming three-year period. It sets out the Government's medium-term fiscal strategy, the main aim of which is to restore order to the public finances by correcting the excessive deficit and putting the debt-to-GDP ratio on a downward trajectory. This is a necessary condition for a resumption of sustainable economic and employment growth. This approach also allows for structural, medium-term planning and prioritisation within each area, with full public input and parliamentary oversight.

The Comprehensive Expenditure Report 2012-14 (CER), December 2011, introduced the 2013 Ministerial expenditure ceilings on an administrative basis and these form the foundation upon which the detailed 2013 expenditure allocations have been decided by the Government. In September 2012, the Government published the Ministers & Secretaries (Amendment) Bill 2012 which, if enacted, will put these multiannual ceilings on a statutory footing, ensuring that this reform measure becomes a permanent structural feature of Ireland's budgetary framework. The statutory provisions of the Bill will be supplemented with a Circular from the Department of Public Expenditure & Reform which will set down the detailed operational rules for the expenditure ceilings, including the carry-over of current expenditure savings from one year into the next.

A separate Government Publication – "Expenditure Report 2013", December 2012 - provides an update on the ceilings for 2013 and 2014 that were set out in 2011 taking account of pressures and adjustments. As announced in the CER, the Government has decided that a fresh comprehensive review of expenditure exercise should be conducted periodically to reset the multi-year expenditure ceilings in line with emerging Government priorities and that it should be informed by new evaluations of which expenditure programmes are delivering value-for-money. It is anticipated that the next review process will commence during the course of 2013, to lay the foundations for new three-year multi-annual ceilings.

B.2 Public Spending Code

In the 2011 CER, the Government introduced a new Value-for-Money Code to ensure that public funds are used effectively, efficiently and are subject to ongoing rigorous scrutiny. Over the course of 2012, the code was developed further into the Public Spending Code (see www.publicspendingcode.per.gov.ie) following detailed consultation with Departments and with the newly-established Public Service Evaluation Network. In particular, a new module of the Code has been prepared outlining the detailed appraisal requirements which apply to current expenditure. This will ensure that both current and capital expenditure are subject to rigorous VFM appraisal in advance of public moneys being spent. In addition, the calculation of staffing overhead costs – a key variable in appraisals of public spending proposals – has been reviewed by the Central Expenditure Evaluation Unit, taking account of actual data regarding variable overheads across the civil service and imputed pension costs arising from actuarial review.

The 2011 CER also announced a streamlining of the processes for analytical review of expenditure, including changes to Value-for-Money & Policy Reviews (VFMPRs). In 2012, eight comprehensive VFMPRs were completed and, in July, the Irish Government agreed a list of a further 17 topics to be reviewed by Government Departments in the 2012-13 programme. The Value for Money Policy Reviews completed in 2012 were the following:

- Department of Agriculture, Food and the Marine – Animal Welfare, Recording and Breeding Scheme for Suckler Herds

- Department of Agriculture, Food and the Marine – Fisheries Decommissioning Schemes 2005-2008
- Department of Transport, Tourism & Sport – Marine Survey Office
- Department of Environment, Community & Local Government – Rental Accommodation Scheme
- Department of Environment, Community & Local Government – CLAR / RAPID Leveraged Expenditure Approach
- Department of Health – Disability Services
- Department of Defence – Reserve Defence Force
- Office of the Revenue Commissioners – Solicitor Enforcement Programme (*the Steering Committee for this Review was chaired by Tom Ferris*)

In addition, Focused Policy Assessments (FPAs) were introduced in 2012 as a new evaluation tool. These are focused evaluations designed to answer specific issues of policy configuration and delivery, and they are designed to allow for the analytical momentum of the Comprehensive Review of Expenditure to be maintained and enhanced. The Expenditure Report gives an outline of the FPA work programme that is currently underway alongside other analytical outputs from the new Irish Government Economic & Evaluation Service (IGEES), which is described in the next section of this Background Paper. The following are examples of the analytical work that is being undertaken :-

- Reducing Public Expenditure on Legal Services
- Climate Change – Expenditure Impacts; and
- Demographic Projections and Education Expenditure 2015-2030.

B.3 Irish Government Economic & Evaluation Service (IGEES)

In 2012, the Government announced that an Irish Government Economic & Evaluation Service (IGEES) would be established to enhance the economic and evaluative capacity of the civil service, and to improve the analytical resources available in the design and formulation of policy. Recruitment of specialist staff, all trained to Masters degree level in economics at minimum, took place in the first half of 2012 and staff are now in situ and actively engaged on policy work. Initial recruitment has been concentrated on the three central areas – the Departments of Public Expenditure & Reform, Finance and the Taoiseach’s Department⁵ – for the purposes of initial staff training and development; staff will be seconded onwards to other Departments during the course of 2013.

An Oversight Board has been convened to consider how best the IGEES can be developed and deployed in support of evidence-based policy formulation. One key objective of the Oversight Board, which includes external academic representation, will be to ensure that IGEES staff receive appropriate in-career training and development in their specialist skills areas, and that the analytical resource is applied consistently and effectively across the civil service.

B.4 The Public Service Evaluation Network

The Public Service Evaluation Network (PSEN) was established in 2012 and comprises civil servants who are engaged in policy-related analytical work and experts in economics and related areas from the universities and the other research organisations. The purpose of the PSEN is to provide a forum for those engaged in policy analysis to share experiences and

⁵ Taoiseach is the Irish name for Prime Minister

expertise, to peer review analytical work and to facilitate the flow of information between the public service and external experts regarding evaluation, appraisal and policy analysis. In its initial year, the PSEN held a number of formal meetings that focused on a range of issues including: developing the Public Spending Code; experimental and non-experimental evaluations of policy; and the role of evidence and analysis in decision making. Presentations were provided by staff from a variety of Government Departments; the Economic & Social Research Institute (ESRI) and the Geary Institute of University College Dublin (UCD).

B.5 Performance budgeting and ‘Ireland Stat’

The shift from a purely input-focused presentation of the Estimates of Expenditure to a more performance-focused approach was brought into effect in 2012. This followed a pilot study undertaken for the 2011 estimates. Box III.c from the Comprehensive Expenditure Report 2012-14 (CER), December 2011, provides some useful lessons.

Box III.c – Performance Budgeting: Lessons from the Pilot Project

The pilot process for the 2011 Estimates highlighted a number of issues that influence the transition process to a performance budgeting framework. The key lessons to emerge from the pilot exercise are as follows:-

- Departments are engaged in a wide range of activities related to the services that they provide. A key challenge is to select a small number of specific, measurable, auditable indicators that are representative of each Strategic Programme area, and useful both to the general public and to the Dáil.
- When choosing outcome indicators, it has been found useful to adopt “context and impact indicators” to overcome the so-called “problem of attribution” (i.e. distinguishing between the direct impact of Government action, and impacts from other intervening factors). It should be remembered that the objective is to inform the public with measures of the broad ‘direction of travel’ in meeting goals, not to provide a scientific linkage between action and results in all cases.
- Finally, while the performance budgeting approach provides a clearer picture of the overall administrative costs of delivering different Strategic Programmes, some administrative costs are related to the business of the Department as a whole and have to be apportioned across the Programmes. The Government Accounting section of the Department of Public Expenditure & Reform has drawn up general guidelines to assist Departments in this exercise.

In February 2012, the Revised Estimates Volume was published in a restructured format with almost all Departments’ and Offices’ spending allocations grouped by strategic programme and accompanied by performance information - in particular, the actions taken to deliver upon specified objectives, and the measured impacts of those actions. This new approach brings a streamlining and clarity to a process that was previously spread across several documents and allows Dáil Committees, i.e, Parliamentary Committees, to better understand what public service outputs and impacts are being delivered with public funds.

The performance budgeting approach has also been extended beyond the Estimates procedures to encompass a new public-facing web platform called Ireland Stat (see www.irelandstat.gov.ie). While still at the pilot stage of its development, the Ireland Stat initiative aims to present a whole-of Government performance measurement system which will measure success in delivering on the Government’s objectives, linking high level goals with inputs, outputs and impacts. Furthermore, it will allow the public to observe how well the Government and the system of public administration, as a whole, is delivering upon public service objectives and, as an online publication, will allow for a deeper level of information to be presented than is possible in printed form. A consultation process is

underway on the usefulness of Ireland Stat, and this will inform whether the approach should be extended to all areas of public expenditure.

To illustrate how the new budgeting approach is working, evidence of the experience extracted from official records for the Department of Children and Youth Affairs will be presented at the BCoP Conference in Tirana, February 2013.

B.6 Enhancing Accountability to Parliament

In the 2011 CER, the Government laid the foundations for a new ‘whole of year’ budgetary process, allowing for open and constructive engagement by the Oireachtas (the Parliament) with the Estimates discussions throughout the course of the year including discussions about the next year’s Estimates. Previously the Oireachtas, the Irish Parliament, simply considered expenditure allocations after they had been settled by Government and presented in the Book of Estimates. In January 2012, the Minister for Public Expenditure & Reform wrote to the chairpersons of all the relevant Parliamentary Committees inviting them to engage fully in this new exercise, and to bring their considered political perspectives to bear upon the task of deciding upon priorities for the 2013 Estimates. During 2012, meetings have accordingly taken place between Ministers and the relevant Committees concerning the prospective Estimates for 2013, framed within the context of the expenditure ceilings set out in the Comprehensive Expenditure Report 2012-2014. This is the first time that such an ex ante process of considering the Estimates has been undertaken in the Irish parliament, and arrangements are in train to ensure that the process becomes further embedded in the work of the various Committees during the course of 2013.

Part C: On-going Domestic Processes

C.1 Statements of Strategy

On an on-going basis, it should be noted that Government Departments have responsibility for delivering the commitments that are in Programmes for Government. Under the Public Service Management Act 1997, each Government Department has to prepare and publish a Strategy Statement within six months of the appointment of a new Minister. These statements serve as frameworks for action by Departments. A Strategy Statement shall, as defined by the Public Service Management Act, 1997, “*comprise the key objectives, outputs and related strategies (including use of resources)*” of Departments. Agreeing the strategies and the goals is only part of the process. Departments have also to specify what outcomes and outputs they hope to achieve. Having good output targets – performance measures or indicators - makes it possible to measure the extent to which goals are being achieved. It is interesting to note that the current Programme for Government, March 2011, places emphasis on having data to support strategy statements. And that is where Oireachtas members, as representatives of the public, have a responsibility to ensure that Departments are held fully to account. The Programme for Government challenges the Oireachtas Committees to...“expose any failure to hit milestones and targets”. An article on this topic, entitled “*Scrutiny of Statements of Strategy*”, by Tom Ferris⁶, is being circulated, for information, to those attending the BCoP conference in Tirana in February 2013.

C.2 Comptroller and Auditor General and Committee of Public Accounts

It is important to note the important on-going work of the Comptroller and Auditor General (C&AG), who holds office under Article 33 of the Irish Constitution. His constitutional function is to audit on behalf of the State all accounts of moneys administered by or under

⁶ “*Scrutiny of Statements of Strategy*”, Public Affairs Ireland (PAI) Journal, Issue No. 87, October 2012.

the authority of the Oireachtas. In addition, certain other functions have been conferred on him by law. He audits the annual financial statements of over 360 public bodies and funds. The C&AG authorises the release of funds from the Exchequer on foot of requisitions by the Department of Finance or the National Treasury Management Agency on behalf of the Minister for Finance. Funds requisitioned must be for purposes permitted by law and can only be drawn down to the extent authorised by Dáil Éireann (The House of Representatives).

The core activities of the Office of the Comptroller and Auditor General are the audit of the annual financial statements of central government departments and agencies and the provision of reports to Dáil Éireann on the management of public business and resources. The accountability element – aimed at providing assurance that taxpayers' money has been properly managed and that adequate information is available to judge performance – underpins the focus, conduct and execution of the work. In addition, in order to maximise the potential benefits from the work, the C&AG also tries to identify areas for improvement, to promote learning and to encourage and support necessary change.

The C&AG undertakes a very important role in briefing the Committee of Public Accounts of Ireland's Parliament. The role of the Committee of Public Accounts is to examine and report to the Dáil on

- the accounts which are audited by the C&AG and presented to the Dáil, together with any reports by the C&AG thereon
- the C&AG's reports on examinations of economy, efficiency, effectiveness evaluation systems, procedures and practices
- other reports made by the C&AG under the Comptroller and Auditor General (Amendment) Act 1993.

The C&AG or, in his absence, his representative is a permanent witness before the Committee. Following its examination and report to Dáil Éireann, the Minister for Public Expenditure and Reform replies, indicating the action he has taken or proposes to take on the matter.

Conclusion

The Irish Government has taken significant steps, in recent year, to introduce a suite of reforms to Ireland's national budgetary architecture. All of those reform measures have been taking root in 2012 and have informed the task of preparing and settling the Estimates for 2013. However, the task of budgetary reform is not yet complete. The changes that have been introduced are transformational in nature and need to become more fully embedded into the culture and the processes of the various institutions – Government Departments, Parliamentary Committees and indeed the national media. Moreover, the further package of economic governance and procedural reforms that are being finalised at EU level will probably have implications for Ireland's future budgetary calendars.

* * *