

PEM PAL 2013 BCoP Event

Study Visit on Spending Reviews

Background to Budgetary Reform in Ireland

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Some Key Features

Context

- **Recall Ireland is an island trading economy, and 40 years in EU**
- **€167 bn GDP (2013); down 9% (real) since 2007**

Crisis

- **External: Significant impact of Global Financial Crisis**
- **Domestic: Construction ‘bubble’ burst, following over-building**
- **“Bail-out”: €85 bn (€45bn (EU); €22.5 bn (IMF); €17.5 bn (domestic))**

Past Policy weaknesses

- **Irish Government's pro-cyclical fiscal stance**
- **Regulatory policies ‘too light’**
- **Eurozone Membership: fixed exchange rate/external monetary policy**

Responsible Public

- **Pay cuts – top earners loss of 12% (bottom around 4%), 2008-2012**
- **Society has endured 5 years of austerity with extraordinary fortitude**
- **4.59 million population and 13.3% unemployment**

Content of Presentation

1. Key Data in Six Slides
2. Drivers of Reform
3. Reviewing and Evaluating
4. Some Conclusions

Fiscal Forecasts, 2013-2014 (est.), € mn

Area	year 2013	year 2014 (est.)
Current expenditure	51,195	49,140
Current receipts	40,380	42,020
Current Budget Balance	-10,815	-7,120
Capital Budget Balance	-475	-2,470
Exchequer Balance	-11,300	-9,595
GDP % Gen Govt Balance	-7.3%	-4.8%

Change in Expenditure, from 2008 to 2014 (est.), € bn

Expenditure Area	year 2008	year 2014 (est.)
Pay & Pensions	19.3	17.4
Unemployment benefits	17.5	19.3
Other programmes	16.6	12.9
Gross Current Expenditure	53.4	49.6
Gross Capital Expenditure	9.0	3.3
Gross Total Expenditure	62.4	52.9

Departments Spend, 2013/2014

<u>Departments (€ bn and share)</u>	Year 2013 and %	Year 2014 and %
Social Welfare	20.2 (37.0%)	19.6 (37.1%)
Health	14.0 (25.6%)	13.2 (25.0 %)
Education	8.9 (16.3%)	8.8 (16.6%)
Justice	2.2 (4.0%)	2.2 (4.2%)
Transport, Tourism & Sport	1.7 (3.1%)	1.6 (3.0%)
Environment & Local Govt.	1.2 (2.2%)	0.8 (1.5%)
Agriculture, Fish & Food	1.2 (2.2%)	1.2 (2.3%)
Nine Depts less than €1 mn	5.2 (9.5%)	5.5 (10.4%)
TOTAL (current & capital)	54.6 (100%)	52.9 (100%)

Exchequer Tax Revenue, € million

Tax	2013	2014
Customs	250	255
Excise Duty	4720	4815
Capital Gains Tax	390	400
Capital Acquisitions Tax	405	380
Stamp Duty	1310	1475
Income Tax	15730	17045
Corporation Tax	4355	4380
Value Added Tax	10365	10740
Local Taxes	300	550
Total	37825	40040

General Government Debt, 2012/2016

Year	General Government Debt , € billions	Debt-to-GDP Ratio
2012	192.5	117.4%
2013	205.9	124.1%
2014	204.7	120.0%
2015	209.4	118.4%
2015	211.6	114.6%

Public Sector Employment, 2012

Area	Number
Central Government Bodies	36,329
Local Authorities	28,306
Health Services	101,505
Education Services	90,702
Defence Forces	9,979
Garda Síochána (Police)	13,352
Non-commercial Bodies (sponsored by State)	10,686
Total	290,859

Public Service Reform

- **November 2011**: Public Service Reform Plan with 200 actions across 14 main areas (Reform and Delivery Office at Department of Public Expenditure and Reform)
- **15 October 2013**: Minister for Public Expenditure and Reform said - *“over the course of the last 5 years, the Public Service has reduced in size by almost 10%. The cost of the pay bill has fallen even further, by some 17%...”*
- **2015**: Under the Plan, a planned reduction of 37,500 to reach 282,500 by 2015, from peak of 320,000 in 2008.

Part 2. Drivers of Reform

- Economic and Fiscal Crises
- 2010 EU/IMF “Bail-out” Programme
- EU’s more stringent rules

Overview of Budget Timings

Period before Budget Day	Actions
Five months	Budgetary Strategy Memorandum
Five months	Departments prepare requests
Four months	Finance estimate budget boundaries
Four months	Departments engage with Finance
Three months	Departments engage with Finance continue
Two months	Majority of Departments estimates settled
One month	"Estimates of Expenditure" agreed by Govt
Two weeks	Submit Outline Budget to European Commission
Three days	White Paper on Receipts & Expenditure issued
Budget Day	Full range of Budget Details announced
Budget Day	Updated Stability Programme for EU submitted

Department of Public Expenditure and Reform

- Public Spending Code
- Comprehensive Expenditure Reviews
- On-going Evaluations (CBA and VFM)
- Fixed Expenditure Ceilings
- Public Service Reform
- Performance Budgeting
- Public Accountability

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“Foolish not to make productive use of a serious crisis”.

- Irish society has endured five years of austerity with extraordinary fortitude
- Numerous actions have been taken to balance the fiscal reality of consolidation with maintaining social cohesion
- Ireland has maintained a gini coefficient of 0.31*. This compares favourably with international benchmarks and shows that consolidation measures have been based on ability to pay, with those in the top two income deciles facing the greatest reductions

*The Gini-coefficient is a measure of income dispersion which ranges from 0 to 100, with 0 representing maximum equality and 100 being complete inequality (i.e. one individual holding all income).

11th Review Mission of EU/ IMF Programme, July 2013

“Ireland has successfully concluded the 11th review mission of EU-IMF Programme. In line with each of the previous quarterly reviews, Ireland has met its commitments and continued strong programme implementation has been recognized by the Troika.

“This review mission... has again involved a detailed assessment of the macroeconomic outlook, the fiscal position, and the progress being made on the restructuring of the financial sector and broader structural reforms in line with the commitments set out for the second quarter of 2013...consideration and approval by the IMF in September and the EU in October.

<http://www.finance.gov.ie/viewdoc.asp?DocID=7747>

Irish Fiscal Advisory Council (IFAC) and Fiscal Responsibility Act, 2012/2013

- **IFAC** , set-up under **Fiscal Responsibility Act 2012**. It is an independent statutory body whose purpose is to provide an independent assessment of official budgetary forecasts and proposed fiscal policy objectives
- **Fiscal Responsibility Act 2012** part of a wider agenda of budgetary reform, benchmarked under the Programme for Government 2011 and the EU/IMF Programme of Financial Support for Ireland. It also legislated for implementation of national and EU fiscal rules
- **July 2013**, further EU regulations resulted in IFAC being assigned role of independent body to endorse the macroeconomic forecasts produced by Department of Finance on which Budgets and EU Stability Programmes are based

EUROPEAN SEMESTER

“A New Regime for EU”

- ❖ Yearly cycle of economic policy coordination for EU28
- ❖ Initiated in 2010; launched in Jan 2011 with first Annual Growth Survey (AGS)
- ❖ New approach to fiscal and macro-economic surveillance and new policy-making timetable
- ❖ Upstream policy co-ordination to cover macro-economic imbalances and financial sector issues
- ❖ Enhanced role of the European and national parliaments

**EUROPEAN SEMESTER:
The Components**

**Stability and Growth
Pact 1997**

**Fiscal Compact,
in force
1st Jan 2013**



**EU 27
'Six-Pack'-
5 Regulations
1 Directive, Dec 2011
Sanctions - Euro Area
only**

**Euro Area
'Two-Pack' -
2 Regulations
agreed Feb 2013**

'SIX PACK' - 5 Regulations and 1 Directive – in force since 13 Dec. 2011

- ❖ Applies to **EU28**
- ❖ Reformed and strengthened Stability and Growth Pact
- ❖ Strengthened budgetary discipline and domestic budgetary frameworks
- ❖ Introduced **Expenditure Benchmark** - spending limited
- ❖ New mechanisms to identify and correct macroeconomic imbalances (MIP) – macroeconomic scoreboard
- ❖ Codifies the European Semester
- ❖ Enshrined Principle of 'Economic Dialogue' with the European Parliament
- ❖ EP can exercise moral suasion and hold the institutions to account

'TWO-PACK' REGULATIONS (Euro Area)

- ❖ Two draft Regulations proposed by the Commission in **Nov. 2011**
- ❖ Applies to **euro area MS only** and **aims to:**
 - ❖ Strengthen existing surveillance mechanisms for MS threatened with financial instability
 - ❖ Introduce stronger monitoring /assessing of budgetary policies
 - ❖ Introduces enhanced Excessive Deficit Procedure for Euro Area
- ❖ Introduces common budgetary timeline – draft budgets to be presented to Commission on or before **15th October** each year.

Fiscal Responsibility Act 2012 & 2013

FRA imposes a duty on the Government to ensure compliance with the **budgetary rule** and the **debt rule**, which are provided for in the Act.

The budgetary rule requires that the budgetary position of general government must be either:

- In balance or in surplus and this will be satisfied if the annual structural balance is at the medium-term budgetary objective (MTO); or
- If it is not at the MTO target, on the adjustment path towards adhering to the MTO as set in accordance with the Stability and Growth Pact.

EU Medium Term Requirements

- The reformed EU Stability and Growth Pact (SGP), including the so-called ‘six-pack’ and ‘two-pack’ of EU Regulations and one Directive, have introduced significant changes to the way in which EU Member States manage public resources.
- Complemented by the Treaty on Stability Coordination and Governance in the EMU (“Fiscal Compact”), which was ratified by referendum in Ireland in 2012.
- Changes placed on a statutory footing in Ireland by means of the Fiscal Responsibility Act 2012 and 2013 and Ministers and Secretaries (Amendment) Act 2013.

Part 3. Reviewing and Evaluating

- Comprehensive Expenditure Reviews
- Public Spending Code
- On-going Evaluations (CBA and VFM)
- Performance Budgeting
- Public Accountability

Department of Public Expenditure and Reform

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Public Spending Code

- The recent Public Spending Code has brought together and updated all of the guidance, instructions and Value for Money requirements for public expenditure
- Departments and agencies must now adhere to these reformed standards across the appraisal, implementation and review activities involved in the different stages of the expenditure life cycle - <http://www.per.gov.ie/>

Comprehensive Expenditure Reviews

- Special Group on Public Service Numbers and Expenditure Report, July 2009
- Infrastructure and Capital Investment 2012-2016: Medium Term Exchequer Framework', November 2011
- Comprehensive Expenditure Review 2012 – 2014, December 2011
- Medium Term Fiscal Statement, November 2012

Value for Money Policy Reviews 2012

1. Department of Agriculture, Food and the Marine – Animal Welfare, Recording and Breeding Scheme for Suckler Herds
2. Department of Agriculture, Food and the Marine – Fisheries Decommissioning Schemes 2005-2008
3. Department of Transport, Tourism & Sport – Marine Survey Office
4. Department of Environment, Community & Local Government – Rental Accommodation Scheme
5. Department of Environment, Community & Local Government – CLAR / RAPID Leveraged Expenditure Approach
6. Department of Health – Disability Services
7. Department of Defence – Reserve Defence Force
8. Office of the Revenue Commissioners – Solicitor Enforcement Programme (*Chaired by Tom Ferris*)

Department of Finance: Capital Appraisal Guidelines, February 2005*

- Guidelines 2005: do Ex-Ante Appraisal of all Capital Projects
 - Proportionate to the value of the projects
- Guidelines 2005 specify following thresholds:
 - < €m 0.5: do “Simple Assessment”
 - >€m 0.5 < €m 5: do “Single Appraisal”
 - > €m 5 < €m 20: do Multi-Criteria Analysis
 - > €20 million: do Cost-Benefit Analysis
- Need to take account of revisions announced in Department of Finance letter of Jan. 2006
- Sponsoring Agency responsible for Appraisal (using “in-house” or “bought-in” expertise)
- Pre-requisite to get approval from the Sanctioning Authority

* Department of Finance’s website

Focused Policy Assessments (FPAs)

Focused Policy Assessments (FPAs): These new FPAs provide shorter, more focused analysis of public expenditure programmes and are particularly useful in addressing issues that cut across a number of Departments or as preliminary assessments that can lead to more comprehensive analysis

Expertise needed: Expertise is needed to do evaluations. The Public Service Evaluation Service has been established to enhance the capacity of the public sector to undertake evaluations of public expenditure, to provide economic analysis, and to improve the analytical resources available in the design and formulation of policy

'Ireland Stat' is the new *pilot* whole-of-Government level performance measurement website

<http://per.gov.ie/ireland-stat/>

On-going Reviews

- **15 October 2013**: Public Expenditure and Reform Minister, Brendan Howlin, announced that next Comprehensive Review of Expenditure to begin shortly
- **Action**: Will be a line-by-line examination of current expenditure across all expenditure programmes and it will build on the experience of conducting the previous spending reviews
- **Benefit** : To inform Government decisions on future budgetary matters and allow for Government's reviews and recalibration of ministerial expenditure ceilings in light of changing priorities and evaluations of expenditure
- **Capital**: In parallel with **current**, medium term capital investment programme to be reviewed at same time

On-going Processes

- **Statements of Strategy** : Departments have responsibility for delivering the commitments that are in Programmes for Government. Under the Public Service Management Act 1997, each 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
- **Comptroller & Auditor General and Committee of Public Accounts**
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 Parliament 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 - <http://www.audgen.gov.ie>

The Audit Function

- **Internal auditing** is an independent, objective assurance and activity designed to add value and improve the operations of Departments
- **Government Departments** have to have audit committees which review Departments' corporate governance regime, including internal control environment and risk management; as well as monitoring the work of the internal audit function
- **IPA (Dublin):** Useful reference to public audit committees:- : <http://www.ipa.ie/pdf/AuditCommitteesReport.pdf>
- **Controller & Auditor General** provides independent assurance that public money is properly managed and spent to good effect

Performance Budgeting

- Performance budgeting strengthens the focus on what is being delivered with public resources and builds this information into the policy-making process. The inclusion of performance information in the Estimates documentation is intended to support examination by Parliament (the Oireachtas) of the Estimates
- Parliamentary Committees provided with key relevant information about what services are being purchased with public money and the impacts of these services for Irish citizens and for Irish society in general
- Such information also helps Select Committees to have ex ante discussions of resource allocations as part of the 'whole of year' budgetary process. The development of the 'Ireland Stat' website further support the more efficient delivery of evaluation work via a single platform
<http://per.gov.ie/ireland-stat/>

Part 4: Some conclusions

- Ireland now has a comprehensive system to provide for effective examination of public expenditure. Medium Term Expenditure Framework supported by legislation to set the overall context for expenditures
- Spending reviews have proven themselves to be a useful means of identifying specific savings options for Government. They have the potential to develop in a way that informs expenditure prioritisation and decision making through the years ahead
- There has also been significant progress in putting in place a systematic way of collecting and presenting performance information to inform ALL. But, still need to improve the quality and usefulness of the information
- Very positive that Ireland's budgetary architecture is shifting 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)

Importance of on- going Training

- Specialised training is being provided in the public sector, but more could be done
- Ensures that officials are properly trained in areas such as procurement, project management, project appraisal and policy analysis
- Professional courses and training are provided: -
 - ⑩ Masters in Policy Analysis
 - ⑩ Higher Diploma in Policy Analysis

Much done – more to do

- The Irish Government has taken significant steps, in recent year, to introduce a suite of reforms to Ireland's national budgetary architecture
- Reform measures are taking root and have informed the task of preparing and settling the Estimates for future years
- 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
- Moreover, the package of economic governance and procedural reforms introduced at EU level are having implications for Ireland's budgetary architecture