

Reforming Ireland's Fiscal Framework:

Expenditure Aspects

Introduction

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Public Expenditure: Managing, Planning, Performing

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Outline of Presentation

- ❑ Existing Fiscal / Expenditure Management Frameworks
- ❑ Strengths & Shortcomings
- ❑ Themes for Reform
- ❑ Specific Proposals
- ❑ Questions to be addressed...

Legal Context

- Long-established domestic legal framework
 - Exchequer & Audit Departments Act, 1866
 - Public Accounts and Charges Act, 1891
 - Comptroller and Auditor General Act, 1923
 - Constitution of Ireland, 1937
 - Central Fund (Permanent Provisions) Act, 1965
- Evolving EU framework
 - Maastricht Treaty, 1992
 - Stability & Growth Pact, 1997
 - EU governance reforms, 2010-2011
- Fiscal Responsibility Law, due for 2011

Existing Budget process

- Annual Estimates / Budgetary Process
 - One-year focus – little attention to medium term
 - Budget Strategy Memorandum in July
 - Autumn Estimates/Budget process
 - Final expenditure level / allocations not decided until then
 - Annual **Stability Programme Update**
 - “three year” focus
 - Indicative, not normative
 - Process starts ‘from scratch’ in following year

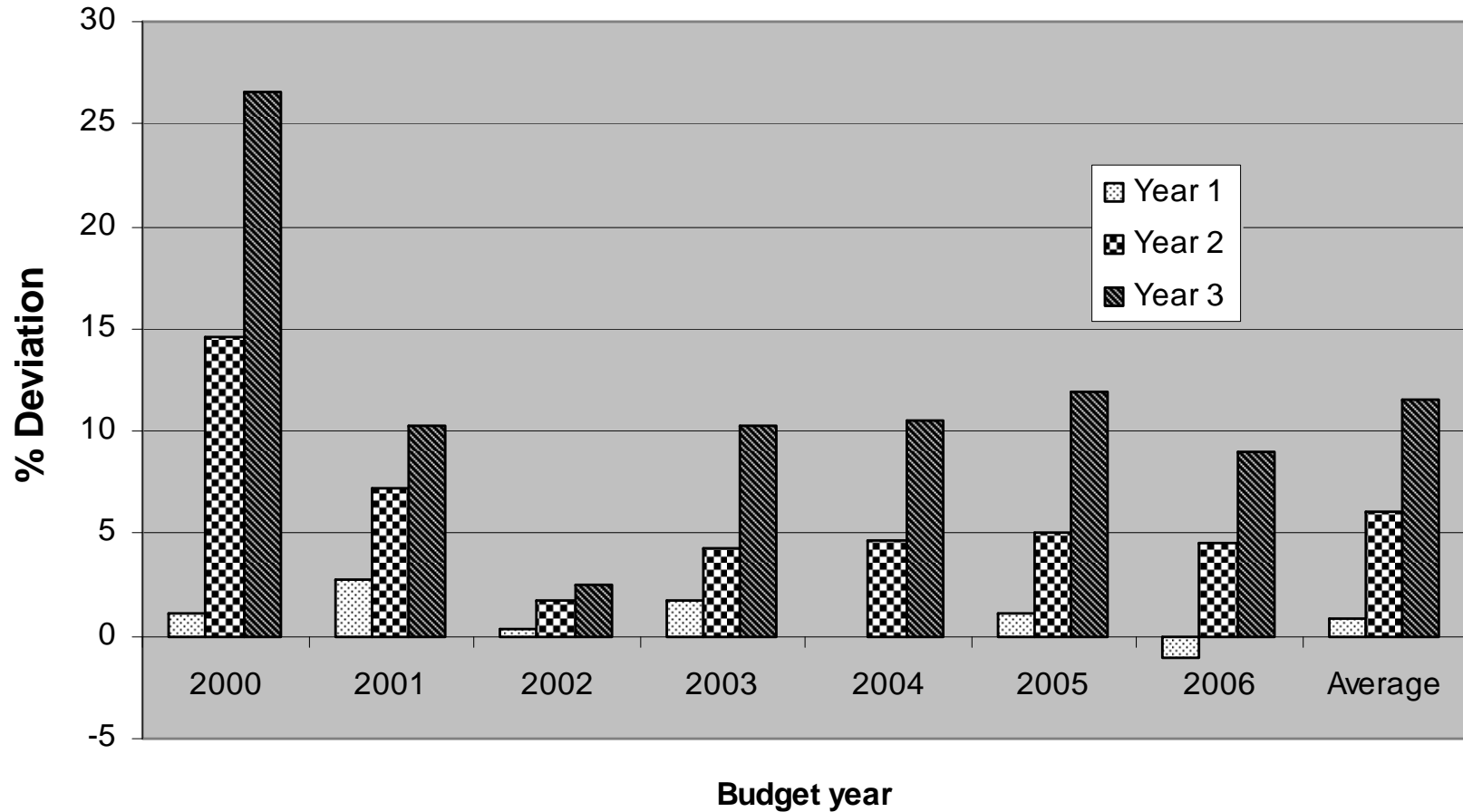
Strengths?

- Effective annual control
- Transparent – cash-based
- Familiar
 - Traditional
 - Test of time?

Shortcomings?

- Leads to pro-cyclical expenditure policy
 - Double-digit growth in 2000's
 - Based on boom-time tax revenues
- Weak credibility of medium-term projections
- Little structured engagement with outsiders
 - independent commentators / economists
 - Oireachtas Committees
 - e.g. to inform policy-formulation process
 - or provide a critique of proposed fiscal stance

Deviation of Actual Gross Current Expenditure from Budget Projections



also: Stability & Growth Pact

□ Preventive Dimension

- “Medium-term budgetary objective”
- Country-specific Safety Margin against incurring excessive deficit
 - “Close to balance or in Surplus”

□ Corrective Dimension

- 3% G.G. Deficit/ 60% G.G. Debt to GDP
- Convoluted procedure involving Commission, Council & Periodic Reporting

□ Has not proven effective

Drivers of Reform

- IMF, OECD, Commission
 - Calls for “top down” multi-annual framework
- EU economic governance reforms
 - driven by Greek bond crisis, early 2010
- National drivers
 - Special Group – multi-annual spending ceilings
 - National Recovery Plan 2011-2014
 - Independent Review Panel – D/Finance
 - **Government Programme 2011-2015**
- EU / IMF Programme of Assistance
 - Budget Advisory Council
 - **Binding multi-annual expenditure ceilings**
 - Fiscal Responsibility Law

EU Economic Governance Reforms 2010, 2011

- Commission / Van Rompuy Group - SGP reform
 - stronger preventative dimension
 - greater *ex ante* coordination – “European semester”
 - “prudent economic management” – expenditure rule
 - greater analysis of risks / imbalances
 - stronger corrective dimension
 - numerical targets for deficit / debt reduction
 - political and financial penalties
 - draft Directive on fiscal frameworks
 - need for strengthened national medium-term frameworks
 - role of independent Fiscal Council

Performance dimension

- We know how much is **spent**
- We don't know how much is **bought**
 - Effectiveness of public service delivery
- Weak linkage between resources and outputs / outcomes
- Dáil scrutiny of allocations
 - *Ex ante* – weak, superficial
 - *Ex post* – strong, substantive
- Difference: poorer information

Annual Output Statements

- ❑ Introduced in 2007
- ❑ Considered alongside annual Estimates (*ex ante* process)
- ❑ “Programme” structure
 - Same as Statement of Strategy
 - Different from traditional Subheads
- ❑ Information overload
- ❑ Quality of performance information

- ❑ Have not proven fully effective

OECD Report, 2008

- ❑ Qualified support for AOS approach
- ❑ Improvements in quality and consistency
- ❑ Better integration into resource allocation process
- ❑ "Performance dialogue"

Key Themes of reform

- Stronger medium-term framework
 - Overall fiscal management
 - Expenditure management in particular
- Stronger performance focus
 - within each Government Dept / body
 - within D/PER
 - within Dáil Committees
 - within public discourse more generally
- Core themes of new Govt Programme

IMF: effective medium-term expenditure frameworks...

- MTEFs
- Four pre-requisites
 1. Credible Annual Budget
 2. Prudent Medium-term Macroeconomic Projections
 3. A Stable Medium-term Fiscal Framework
 4. Comprehensive & Unified Budget Process

What MTEFs Do	How They Do It	Who Benefits
<p>1. Reinforce aggregate fiscal discipline</p>	<p>By constraining budget appropriation & execution in future years to levels consistent with the Government's medium-term fiscal objectives</p>	<p>Finance Ministers Taxpayers Future Generations</p>
<p>2. Facilitate a more strategic allocation of expenditure</p>	<p>By abstracting from the immediate pressures and legal and administrative constraints that impinge upon the annual budget process</p>	<p>Prime Ministers Planning Ministers Parliamentarians</p>
<p>3. Encourage more efficient inter-temporal planning</p>	<p>By providing greater transparency and certainty to budget holders about their likely future resources</p>	<p>Line Ministries Agencies Local Governments</p>

Overview of Proposals

- Expenditure management

- **Stability Programme** is promoted to fully-fledged medium-term framework
- **Expenditure ceilings** are built into the overall framework
- **Annual Budget / Estimates** processes must comply with the framework

Stability Programme

- Draft version early in year
 - Opportunity for engagement, critique
- Final version by end-April
- Fiscal plans and projections for next 3 years
 - Multi-annual expenditure limits and ceilings
 - **medium-term budgetary objective**
 - will include sensitivity analysis, risk assessment
- Policy constraints
 - must comply with Fiscal Rules

Expenditure Limits and Ceilings

- Aggregate Expenditure Level
 - must conform to Expenditure Growth rule
- broken into **Ministerial Expenditure Ceilings**
- Annual Estimates must comply with ceilings
- Major structural reform
 - Move away from purely annual focus
 - Promotes commitment by line Depts to Govt's multi-year budgetary strategy
 - encourages medium-term planning
 - especially for structural reforms with little or no short-term savings

Flexible and realistic approach is needed ...

- Full responsibility of Minister to manage their own ceilings
- 5% carryover of unspent ceiling allocation from year to year...
- ... but overruns treated as an advance of following year's allocation
- ceilings have continuity from year to year
 - ... but cyclically-sensitive allocations can be reviewed more regularly
 - contingency fund within overall budgetary arithmetic

Allocations must be chosen carefully

□ Comprehensive Review of Expenditure

- every 2-3 years
- root-and-branch examination by reference to new / revised Programme for Govt
- Drawing upon international models
- Will integrate reform agenda
- To be completed in September

Overview of Proposals

- *Performance agenda*

- Integrate performance information into the traditional Estimate
- Develop **Performance Reports** as a standard tool of accountability for all State bodies
- Institute **performance dialogue** approach as between D/PER and other Departments/ agencies

Performance budgeting – international approaches

- Spectrum of approaches
- Basic presentational model
 - Supporting information is made available
- Performance-informed budgeting
 - Integration of performance and financial information in decision process
- Full performance-based budgeting
 - Allocations are linked to delivery of performance objectives
 - Contractual models

Pilot Project 2010/2011

- 2011 Estimates for D/PER, D/Finance, D/Agriculture prepared on integrated basis
- Old subhead format replaced with Strategic Programme basis
 - Same as Statement of Strategy, AOS
 - Clear presentation of funds, staffing, results
 - Addresses “information overload”
- “Headline” outputs
- Context and impact indicators

Taking the project forward

- Get feedback from stakeholders
- Roll out to other Departments
- Performance information
 - Needs critical engagement to come alive
 - Dáil Committees, Departmental managers, D/PER, public and media
- Performance continuum
 - Organisational, Divisional and individual

Questions... (1)

- ❑ Are we ready for a major shift to medium-term expenditure ceilings?
- ❑ What other structural elements / incentives need to be in place to make it work?
- ❑ Is it better to build on existing frameworks, or re-design from scratch?
- ❑ How can the multi-year ceilings withstand pressures from economic, cyclical shocks?

Questions... (2)

- ❑ How should the 'performance budgeting' be modified to achieve its objectives?
- ❑ Should responsibility for selecting performance measures be shifted from Depts to D/PER?
- ❑ How can public / political engagement in this process be maximised?
- ❑ Can performance budgeting subsist within administrative system, if there is no public / political engagement?