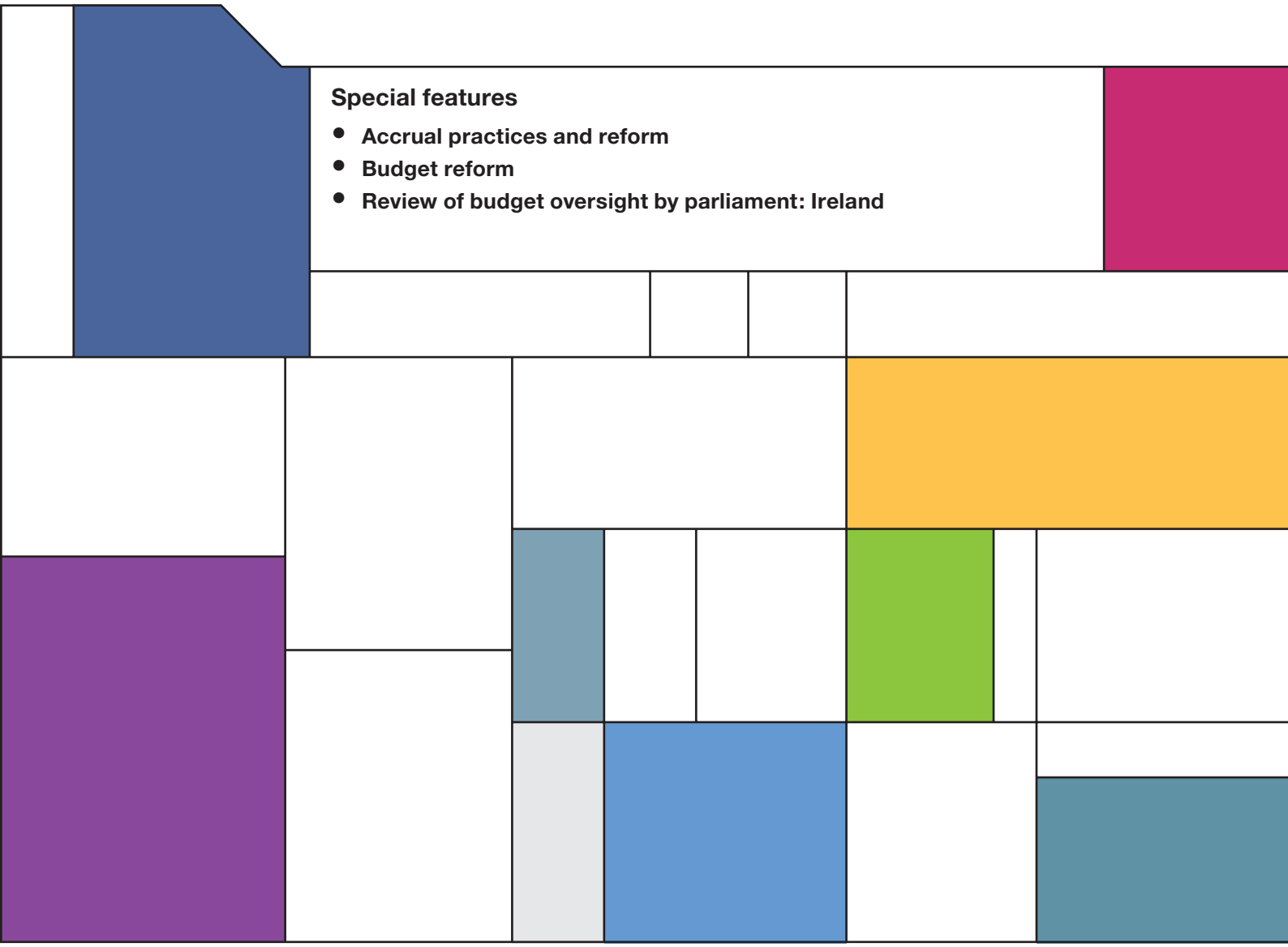
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- Accrual practices and reform
- Budget reform
- Review of budget oversight by parliament: Ireland

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OECD Journal on Budgeting

Volume 2016/1

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Foreword

The OECD Journal on Budgeting *is a unique resource for policy makers, officials and researchers in public sector budgeting. Drawing on the best of the recent work of the OECD Working Party of Senior Budget Officials (SBO), as well as special contributions from finance ministries of member countries and from other practitioners, the Journal provides insights on leading-edge institutional arrangements, systems and instruments for the effective and efficient allocation and management of resources in the public sector.*

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OECD Journal on Budgeting

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Accrual practices and reform experiences in OECD countries – Results of the 2016 OECD Accruals Survey

by
Delphine Moretti*

Over the past two decades, a growing number of governments have begun moving away from pure cash accounting toward accrual accounting. In the wake of these reforms, the budget presentation, audit techniques, and accounting standards setting and consolidation practices have evolved significantly. This paper reviews the current accrual practices in OECD countries, challenges associated with accruals reforms, and assesses the benefits achieved. It finally considers initiatives in OECD countries to make better use of accrual information in the future.
JEL Classification: H60, H83
Keywords: accrual accounting, accrual budgeting, accounting practices, budgeting practices, consolidation, external audit, accounting standard setting.

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Foreword

The OECD Accruals Survey is carried out yearly by the OECD Secretariat since 2003. The present Survey is an update of results from previous Surveys of member countries' selected accounting and budgeting practices at the core national government level as well as the accounting treatment of specific transactions, consolidation practices, and standard-setting frameworks.

In addition, as many member countries have implemented accruals reforms in recent years, this Survey aims at gaining a better understanding of the design of these reforms, implementation challenges, and associated benefits.

The Survey was sent to Ministries of Finance and equivalent bodies of all thirty-four (34) OECD countries: Australia (AUS), Austria (AUT), Belgium (BEL), Canada (CAN), Chile (CHL), the Czech Republic (CZE), Denmark (DNK), Estonia (EST), Finland (FIN), France (FRA), Germany (DEU), Greece (GRC), Hungary (HUN), Iceland (ISL), Ireland (IRL), Israel (ISL), Italy (ITA), Japan (JPN), Korea (KOR), Luxembourg (LUX), Mexico (MEX), the Netherlands (NLD), New Zealand (NZL), Norway (NOR), Poland (POL), Portugal (PRT), the Slovak Republic (SVK), Slovenia (SVN), Spain (ESP), Sweden (SWE), Switzerland (CHE), Turkey (TUR), the United Kingdom (GRB), and United States of America (USA).

Answers from all 34 Ministries of Finance were collected from November 2015 to March 2016.

The OECD Accruals Survey's results will form the basis for a joint publication with the International Federation of Accountants and the *Accountability! Now!* initiative.

Summary

Around three quarters of OECD countries have adopted accrual accounting for their year-end financial reports, although they have not necessarily implemented all aspects of what may be regarded as a full accrual accounting framework. In particular, countries have progressed differently in populating their balance sheet: for example, civil service pensions and natural resources are not reported yet by a majority of countries.

More than a quarter of OECD countries prepare their annual budgets on an accrual basis. However, the Survey does not evidence shared understanding and practices with regards to the definition and meaning of accrual budgeting in terms of content and presentation of budgets, and nature of appropriations. The use of cash appropriations in a large majority of countries, including some of those that are using accrual budgeting to measure the impact of current and new public policies, suggests that governments are wary of the volatility and discretion in accrual valuations, with regards to control over resources spent by ministries and departments.

Looking at the accounting and budgeting framework as a whole, there are two dominant models: i) a majority of countries prepare accrual financial statements and cash budgets and budget execution reports; ii) a significant minority of countries prepare accrual financial

statements and budgets, the latter incorporating either accrual, or cash, or both accrual and cash appropriations and related budget execution reports.

Despite a large majority of number of countries having adopted accrual accounting, the direct adoption of international accounting standards (IPSAS or IFRS) by national governments remains very low. Countries seem to favour national standards in order to be able to accommodate a number of specific deviations. However, more than one third of standard-setters (in most cases, the ministry of finance or an independent standard setting board) use IPSAS or IFRS as primary or explicit references for developing the national standards.

Only 15% of OECD countries provide an overview of the public sector as a whole in their financial statements, and another 20% of countries do so at the federal level. Few countries declare that they plan to expand the coverage of their financial statements. Constitutional provisions on the independence of local governments, the technical and practical challenges of consolidation, combined with a lack of appreciation of the need and use the full view of public finances in financial statements, may be factors that explain that situation.

In all OECD countries, financial statements are subject to independent external control or audit, but only 62% of respondents indicated that their supreme audit institutions (SAIs) provide an opinion on the year-end financial report according to international auditing standards. Among this group of countries, a high proportion of the audit opinions are qualified.

A majority of OECD countries have completed their reform programs. Despite variations in the timescale, duration, and cost of reforms, countries encountered many similar challenges for preparing and implementing accrual accounting, including capacity building, establishing an inventory and valuation of assets and liabilities, the design and roll-out of new IT systems, and preparation of consolidated fiscal reports. A majority of countries expressed satisfaction that the reforms' objectives with regards to transparency and accountability have been fully achieved. Other objectives are not yet fully met by a majority of respondents. In particular, the use of full accrual costs for evaluating the management and performance of government entities is not widespread. A number of countries, including early adopters of accrual accounting and/or budgeting, note that politicians and the public at large have limited interest in accrual financial information. Several initiatives are on-going to address these issues, which undermines otherwise successful accruals reforms.

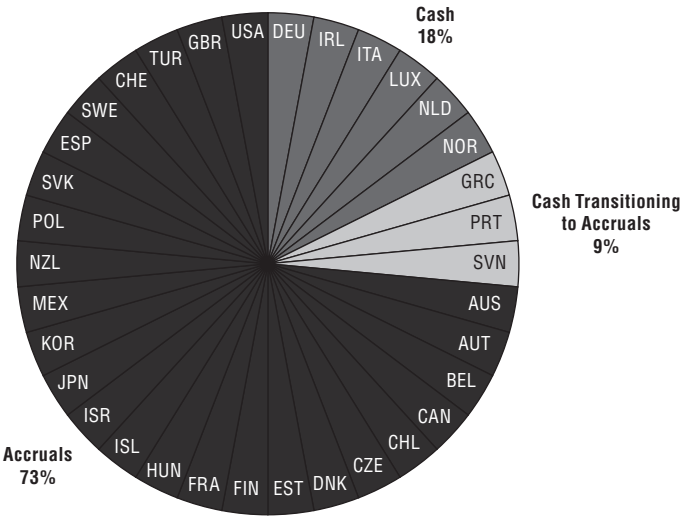
1. Accrual accounting Practices

1.1. *Accounting basis*

Annual financial reports are established on an accrual basis in the bulk of OECD countries (Figure 1):

- Twenty-five countries (73 %) identify their annual financial reports as being based on accrual accounting.[1] This figure is to be compared with results of the first OECD Accruals Survey, dating back to 2003: at that date, only a quarter of countries were declaring using an accrual accounting system. The accrual accounting frameworks of countries take a number of forms. At one end of the spectrum are countries (such as New Zealand), which has embraced accrual as the basis for fiscal policy, budgeting, financial management, and reporting. At the other end, others (such as Japan) produce accrual based financial

Figure 1. **OECD Countries: Accounting Basis for Annual Financial Reports**



Notes: The figure above, and following figures, reflects the answers provided by countries unless stated otherwise. Countries that answered as having both accrual financial statements and cash financial reports (Czech Republic and Hungary) are classified as "Accruals".
Luxembourg is currently using a modified cash accounting system and has therefore been classified as "Cash". However, it is planning a transition to accrual accounting (see Figure 7).
Source: OECD Accruals Survey (2016).

statements as supplementary information to the cash based accounts. In between, there are countries that produce accrual based annual financial statements as their main or official accounts – not supplementary information – in addition to producing cash based reports to show compliance with cash budgets;

- Another three countries (9%) indicated that they are in the process of transitioning to accrual accounting;[2]
- Six countries (18%) indicated that they follow cash accounting.[3] Among this group, 2 countries indicated that they are considering whether to require ministries and departments (Ireland), and agencies (Norway) to report on an accruals basis in addition to continuing to report on a cash basis; two countries (Italy and Luxembourg) have an ongoing reform process to move to accrual accounting, though progress has been limited. Only two countries (Germany and the Netherlands) indicated that they do not have any plans to adopt accruals, although one (the Netherlands) has agencies reporting on an accrual basis.

1.2. Presentation of Annual Financial Reports

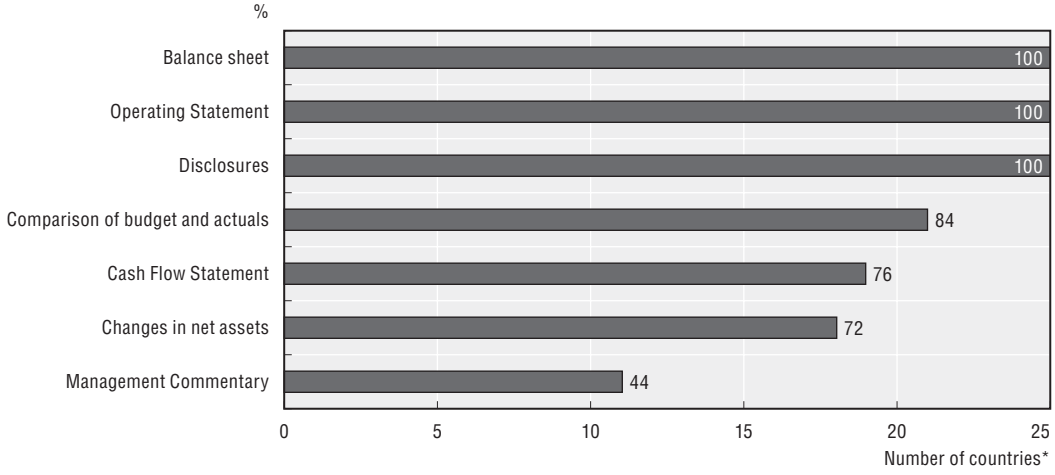
This section discusses the presentation of the annual financial report, and identifies which statements (balance sheet, income statement, cash flows, changes in net assets, comparison of budget and actuals) and comments (disclosures and management commentary) are established at year-end by Governments. The presentation of financial reports is important because it affects the comprehensiveness and understandability of annual financial reports.

Countries that are following cash accounting or are transitioning to accruals establish only one primary statement at year-end. This group of countries provides either a comparison of budget and actuals or a cash flow statement with notes. The main objective the annual

financial report is indeed to facilitate the discharge of accountability. Half of them also produce a simplified or incomplete balance sheets and income statements as supplementary information to budget outturn reports (Germany, Greece, Ireland, Portugal, and Slovenia).

More information is provided in accrual basis financial reports, although they do not always include all key statements and disclosures required by international standards (Figure 2). All countries that have adopted accrual accounting prepare a balance sheet (or statement of financial position), income statement (or statement of financial performance), and disclosures. Fewer countries prepare a statement of cash flows and changes in net assets. This could be explained by the fact that cash flow statements are perceived as redundant with other cash reports, in particular the comparison of budget and actuals, and changes in net assets are disclosed in the notes to the financial statements (France), or a concern with not overloading users with too many statements, and simplifying therefore as much as possible the presentation of the financial statements in the public sector. Less than half of countries establish a commentary to accompany the financial report.[4] This may suggest that they consider that the analysis of the government's financial position, financial performance, and cash flows is provided at other stages of the budget process. Countries that indicated they do not establish a comparison of budget and actuals in their financial statements do so in separate budget execution reports.

Figure 2. **OECD Countries: Presentation of Annual Financial Statements**



Source: OECD Accruals Survey (2016), based on the answers of the 25 countries implementing accrual accounting.

1.3. Content of Annual Financial Reports

This section discusses the content of the annual financial report, with regards to assets, liabilities, expenses or expenditures, revenues, and financial commitment. It allows the assessment of whether governments, regardless of the accounting basis, provide a complete picture of their financial operations and their impact on the financial position.

All countries reporting on a cash basis provide financial information that is not restricted solely to cash transactions. All but one of the six countries reporting on a cash basis provides information on cash balances, debt, guarantees, and commitments. This would suggest that countries operating on a cash basis acknowledge the need for inventorying and measuring assets and liabilities. Some countries also keep track of the stock and value of a number of

other assets and liabilities. Germany and Norway, in particular, disclose the value of selected assets and liabilities. Norway also discloses the value of its natural resources albeit in the budget. The three countries that are transitioning to accrual accounting supply additional information on accrued expenses and tax receivables (Greece, Slovenia), or fixed assets (Portugal).

Countries that report on an accrual basis have progressed differently in populating their balance sheet with assets and liabilities (Table 1). All countries report their financial liabilities and assets, and accrued expenses. Other elements are reported in a less consistent way:

- A majority of countries that have adopted accrual accounting disclose on the balance sheet land and buildings (92%), infrastructure (92%), tax receivables (85%), defence assets and inventories (79%), and derivatives (75%). This suggests that operational issues for inventorying and measuring these items have been overcome. However, remaining difficulties are evidenced by the relatively large number of financial statements that received a qualified audit opinion due to issues with the reporting of fixed assets (see below);
- For civil and military service pension liabilities, practices vary greatly: 39% of countries record them on the balance sheet, 14% disclose them in the notes, and 36% do not disclose them at all. Among these last two groups of countries, some countries consider indeed that their employees –civil or military – do not have any *contractual* pension entitlements.[5]

  Similar reasons are mentioned for not reporting social benefits (53 % of countries do not report them).[6] The lack of reference accounting treatment in international standards can also explain this situation.

  Some countries mentioned that the sustainability of their pensions and social benefits policies was assessed in the *Long-Term Fiscal Sustainability Report* (also called *Intergenerational Report*). This report is able to assess both future liabilities and taxation to fund the liabilities, which compares future revenues and spending and therefore highlights possible fiscal imbalances, rather than in the balance sheet;
- With regards to PPPs, 36% of countries do not report the assets and liabilities on the balance sheet. This could be explained by technical difficulties for inventorying contracts and evaluating the related debt, or implementing the control approach required by international standards. Similarly to what was mentioned for pensions and social benefits, there might be a reluctance to report on potentially significant amounts of debt related to these contracts;
- Natural resources and heritage assets are reported respectively by 11 and 43% of governments, which could be explained by the lack of reference accounting treatment in these areas, and difficulties for establishing reliable and meaningful valuations. The other reason, for countries such as Australia, is that the Federal Government is not responsible for natural resources, which are the responsibility of State jurisdictions.

Table 1. **OECD Countries: Reporting Practices for of Selected Assets and Liabilities in Annual Financial Statements**

	Balance sheet	Disclosure	Not reported	N/A
Tax receivables	AUS, AUT, CAN, CHL, CZE, DNK, EST, FRA, GRC, HUN, ISL, ISR, JPN, KOR, NZL, POL, SVK, SVN, ESP, SWE, CHE, TUR, GBR, USA	BEL, MEX,	FIN, PRT	
Natural resources	ISR, SVN, SWE	EST, USA	AUS, AUT, CAN, CHL, CZE, FIN, GRC, HUN, ISL, KOR, MEX, NZL, POL, PRT, ESP, CHE, TUR, GBR	BEL, DNK, FRA, JPN, SVK
Land buildings	AUS, AUT, BEL, CAN, CHL, CZE, DNK, EST, FIN, FRA, HUN, ISR, JPN, KOR, MEX, NZL, POL, PRT, SVK, SVN, ESP, SWE, CHE, TUR, GBR, USA		GRC, ISL	
Infrastructure assets, excluding PPPs	AUS, AUT, BEL, CAN, CZE, DNK, EST, FIN, FRA, HUN, ISR, JPN, KOR, MEX, NZL, POL, PRT, SVK, SVN, ESP, SWE, CHE, TUR, GBR, USA		CHL, GRC, ISL	
PPP assets and liabilities	AUS, AUT, CAN, DNK, EST, FIN, FRA, ISR, JPN, KOR, NZL, POL, SVK, TUR, GBR, USA	CZE, HUN, MEX, ESP	BEL, CHL, GRC, ISL, PRT, SVN,	SWE, CHE
Heritage assets	AUS, AUT, CAN, CZE, FIN, FRA, NZL, POL, SVN, ESP, SWE, GBR	ISR, KOR, USA	BEL, CHL, DNK, GRC, HUN, ISL, MEX, PRT, CHE, TUR	EST, JPN, SVK
Defence assets and inventories	AUS, AUT, BEL, CAN, CZE, DNK, EST, FRA, HUN, ISR, JPN, MEX, NZL, POL, PRT, SVK, SVN, ESP, SWE, TUR, GBR, USA		CHL, FIN, GRC, ISL, KOR, CHE	
Derivatives	AUS, AUT, BEL, CHL, CZE, DNK, EST, FIN, FRA, ISR, JPN, KOR, NZL, SVK, SVN, ESP, SWE, CHE, TUR, GBR, USA	CAN, HUN	GRC, ISL, PRT	MEX, POL
Civil and military service pensions	AUS, CAN, EST, ISR, ISL, KOR, NZL, SVK, SWE, GBR, USA	AUT, FIN, FRA, CHE	BEL, CHL, CZE, DNK, GRC, MEX, PRT, SVN, ESP, TUR	HUN, JPN, POL
Social benefits	CAN, EST, FRA, ISR, JPN, NZL, POL, PRT, SVK	HUN, USA	AUS, AUT, BEL, CHL, DNK, FIN, GRC, ISL, KOR, MEX, ESP, SWE, CHE, TUR, GBR	CZE, SVN

Note: In Australia, natural resources are owned by State (i.e. regional) governments and therefore not reported in the Federal Government Financial Statements.
Source: OECD Accruals Survey (2016), based on the answers of the 28 countries that report on accrual or cash transitioning to accrual basis.

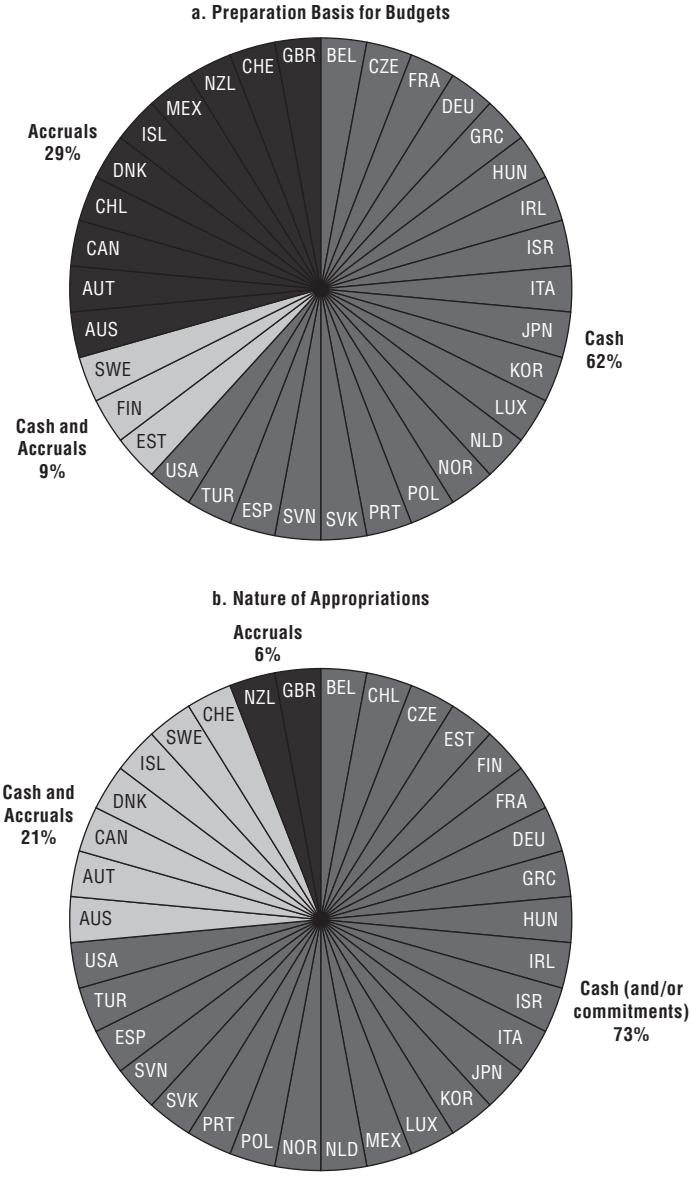
2. Accrual Budgeting practices

While a budget is prepared on the basis of a range of concepts and principles, for the purposes of this report the term "preparation basis of budgets" has been used to refer to the basis on which the financial implications of the budget policies and programs are reported and measured in the budget. This section also discusses Parliamentary appropriations, which in some countries are distinct from the "budget".[7] They are defined for the purpose of this report as "authorization by an act of parliament to permit government entities to incur obligations, and/or to pay for them from the treasury", even though appropriations' definition may differ between countries.

A majority of OECD countries prepare their budgets on cash or modified cash basis (Figure 3.a):

- Twenty-one countries (or 62%) use the cash basis for preparing the budget and appropriations. However, within that group, many countries provide information on debt, commitments, and guarantees in the budget, and therefore do not qualify their system as "cash basis" *per se*. In particular, commitments are considered as a special feature of budget systems that do not fall neatly into the cash or accrual categories.[8] In this group, one country (Luxembourg) plans to adopt accrual budgeting over the medium-term;

Figure 3. **OECD Countries: Selected Budgeting Practices**



Note: (Figure 3.a) Sweden and Finland are presented in figure in the "Cash and Accruals" category as the budget includes both accrual and cash elements, Estonia is planning a transition to accrual accounting to be completed by 2017.
Source: OECD Accruals Survey (2016).

- Three countries (or 9%) prepare budgets that are comprised of some items budgeted on an accrual basis: this group of countries has been designated as "Cash and Accrual".[9] Among this group, one country (Estonia) is well advanced in its preparatory work for a move to full accrual budgeting commencing with the 2017 budget. Other countries have indicated that despite forecasting some elements of their budget on an accrual basis, they did not contemplate a transition to accrual budgeting;
- Ten countries (or 29%) have adopted the accrual basis for the preparation of their budgets. A majority of countries within that group presents a full set of prospective financial statements (Australia, Canada, Denmark, New Zealand, Switzerland, and the United Kingdom). Other countries establish incomplete or simplified versions of the financial statements (Austria, Iceland, Chile, and Mexico).

Accrual budgeting does not entail systematically the use of accrual appropriations (Figure 3.b). Among the countries that use accrual budgeting, 2 countries (New Zealand and the UK) use full accrual appropriations.[10] Other countries within that group mix accrual and cash appropriations (Australia, Austria, Denmark, Iceland, and Switzerland), or use cash appropriations only (Canada, Chile, Mexico). This would suggest that countries may be are wary the volatility and discretion in accruals valuations (in particular with regards to provisions and depreciations), and believe that cash appropriations allow a better control over resources spent by ministries and departments, even when they are using accrual forecasts to measure the impact of current and new public policies.

Appropriations are used for authorising current and capital expenditures in a large majority of countries. All countries authorise annually the capital and current expenses or expenditures.[11] In more than half of countries, authorisations are also granted for incurring commitments. Three countries (Australia, Iceland, and the United Kingdom) indicate that an annual authorisation is also granted by the Parliament for incurring pension liabilities.

Overall, the survey draws a varied picture of budgeting practices. Budgeting is indeed an area where, contrary to accounting, standards or generally accepted principles have not been developed, and practices are related to the ways the Parliament authorises and controls public spending, and the nature of the national fiscal targets and rules. Categorising budget frameworks between cash and accrual therefore proves difficult – these are indeed accounting concepts that may not fully reflect the specificities of budget practices.

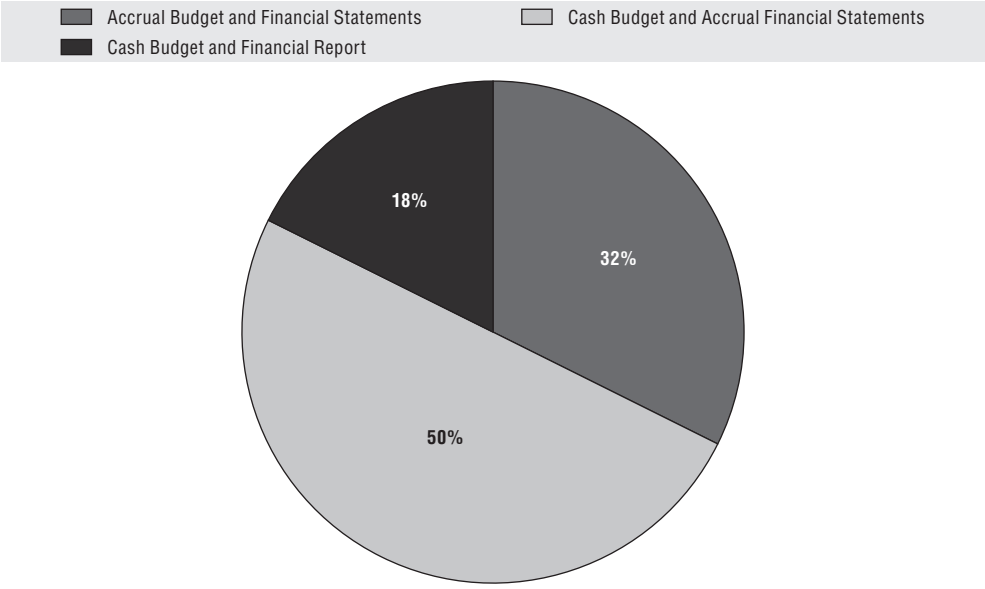
Looking at the accounting and budgeting framework as a whole, there are two dominant models (Table 2). Almost a half of countries (50%) prepare accrual financial statements and cash budgets and budget execution reports. A third of countries (32%) prepare accrual financial statements and budgets, the latter incorporating either accrual, or cash, or both accrual and cash appropriations and related budget execution reports. The remaining countries (18%) prepare cash budget and financial reports.

Table 2. **OECD Countries: Accounting Basis for Annual Financial Reports and Preparation Basis for Budgets**

	Countries
Accrual financial statements and budgets (1)	AUS, AUT, CAN, CHE, CHL, DNK, EST, GBR, ISL, MEX, NZL
Accrual financial statements and cash budgets (2)	BEL, CZE, ESP, GRC, FIN, FRA, HUN, ISR, JPN, KOR, POL, PRT, SVK, SVN, SWE, TUR, USA
Cash financial reports and budget	DEU, IRL, ITA, LUX, NLD, NOR

Notes: (1) Includes Estonia, which is transitioning to accrual budgeting in 2017; (2) Includes countries with cash transitioning to accrual financial statements (GRE, POR, and SVN) and budgets comprised of cash and accrual elements (SWE and FIN).
Source: OECD Accruals Survey (2016), based on the answers of the 28 countries that report on accrual or cash transitioning to accrual basis.

Figure 4. **OECD Countries: Accounting Basis for Annual Financial Reports and Preparation Basis for Budgets**



3. Institutional coverage of financial reports and budgets

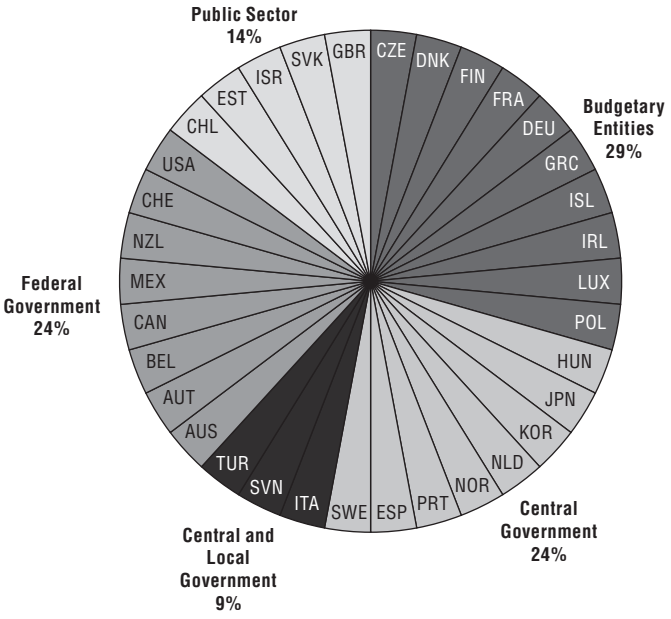
As fiscal activity is carried out by different levels of government, this section discusses what public sector entities are part of budgets and financial reports, and whether fiscal reports provide a full understanding of the amount and composition of public spending and revenue, and the related accumulation of government assets and liabilities.

Regardless of the accounting basis, very few countries present a full overview of the public finances across levels of government in their financial statements (Figure 5). At one end of the spectrum, five (or 14%) countries establish financial statements that encompass the central and local levels of government, and state owned corporations; another group of eight (or 24%) countries establish financial statements that cover all entities over which the national or federal government exercises authority (control). At the other end of the spectrum, eight (or 29%) of countries cover only the budgetary entities in their annual financial statements. Within that group, a number of countries provide supplementary information to the public and parliament. For example, Portugal presents a number of aggregated figures in the year-end financial statements for the regional and local governments.

The variety of practices with regards to consolidation is explained both by the consolidation criterion and national circumstances:

- A majority of countries indicates that the scope of their financial statements is defined by law. In this group of countries, local and regional governments are more often included in the consolidated financial statements than in countries that follow the "control" criterion for consolidation;
- About one quarter of respondents uses "control" as their consolidation criterion. In this group of countries, local and regional governments, or social security funds may not be consolidated in the financial statements of the government because they are constitutionally or legally independent;

Figure 5. **OECD Countries: Institutional Coverage in Annual Financial Report**



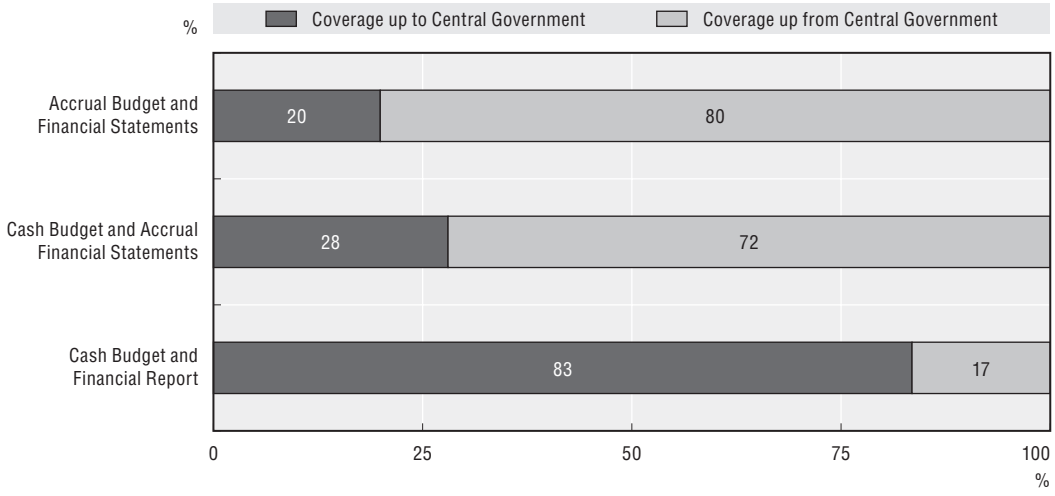
Note: Some of the countries classified in the category "Central Government" have specified that their financial statements include Social Security Funds (HUN, NLD, NOR, PRT, ESP); Countries classified in the category "Central and Local Governments" includes the Social Security Funds; Iceland's financial statements will present going forward a consolidated view of the public sector as required by the Organic Budget Law adopted in 2015.
Source: OECD Accruals Survey (2016).

- Some countries mentioned technical or operational difficulties as factors explaining the limited coverage of their financial statements;
- Finally, some countries mentioned that the full view of public finances was provided in fiscal statistics, and questioned the need and use of such information in financial statements.

It is to be noted that the coverage of fiscal statements tend to be wider in the group of countries that is implementing both accrual budgeting and accounting than in other groups: 80 percent of the countries within that group have financial statements that cover the general or federal government, or the public sector as a whole (Figure 6).

In a majority of countries, financial statements have broader coverage than the budget. A majority of governments that prepare consolidated financial statements do not establish budgets with a similar coverage.[12] The few countries that have aligned the coverage of fiscal reports, notably the United Kingdom[13] and New Zealand, consider that harmonisation is beneficial for a number of reasons including producing consistent and comparable figures which are believed to be more transparent, understandable, and easier to use. Where the coverage is not aligned, this likely reflects the fact that the budget and financial statements do not serve the same purpose: while the budget is mainly the vehicle used by the legislature for deciding how expenditures should be allocated, financial statements provide a more global view of the financial situation of the public sector, including public corporations and sub-national governments in certain cases.

Figure 6. **OECD Countries: Institutional Coverage by accounting and budgeting model**



Source: OECD Accruals Survey (2016).

With regards to consolidation, concepts and practices vary between countries. The concept of consolidation is understood differently by countries: entities that receive transfers disclosed in the Government's budget, or entities reported at equity value in the balance sheet are considered as "consolidated" in the budget or financial statement by certain countries. For those countries that do undertake a consolidation according to international standards,[14] some establish consolidated financial statements by "sub-sectors" (Slovak Republic, for example). About half of countries rely on a harmonised chart of accounts, while another half uses consolidation packages or templates to gather information necessary for consolidation purposes. Most governments use an automated integrated financial management information system (IFMIS) to undertake the consolidation. It should be noted that there are continuing problems in this area as evidenced by the relatively large number of financial statements that received a qualified audit opinion due to the issues with intragroup eliminations, as explained in the following section.

4. Standard setting and audit practices[15]

4.1. Standard-Setting Practices

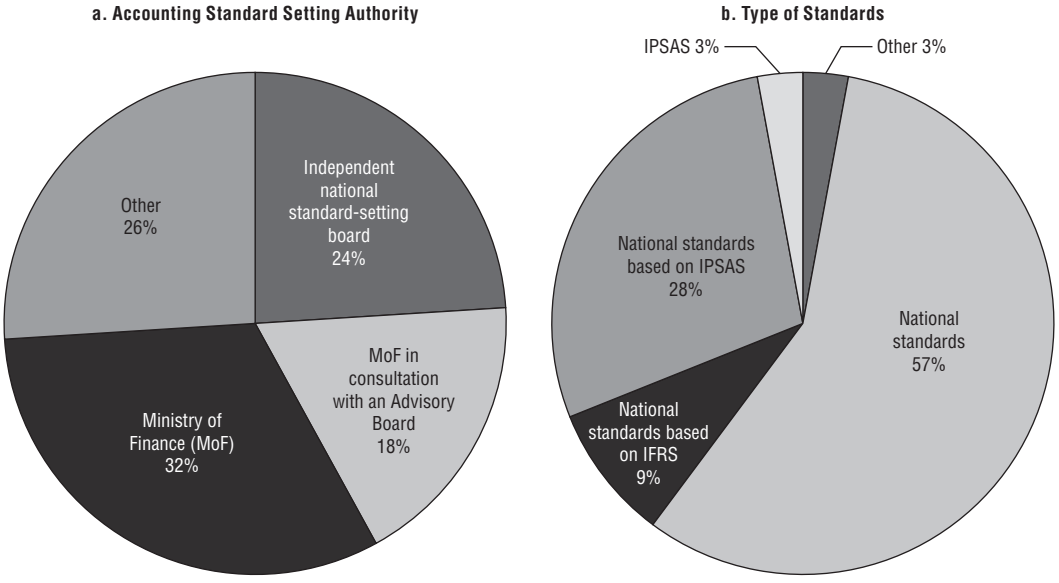
This section discusses the various practices for setting accounting standards. Financial reporting standards – also referred to as accounting standards – define how financial statements are to be prepared and specific items are to be identified, recognised, valued and reported in financial statements. Governments may set standards directly (e.g., through the Ministries of Finance – MoF) or create independent standard-setting authorities. Regardless of the standard-setting process, the accounting standards may be specific to the country, or derived from international standards. Understanding these mechanisms is important to assess the level of quality and consistency of accounting practices in OECD countries.

The MoF is the standard-setting authority in about half of OECD countries (Figure 7a). The level of guidance on accounting principles and standards stipulated in the law varies according to countries. Where the legal framework only defines general principles, the MoF is in most cases tasked with setting out the accounting standards, either directly (32% of

cases) or in consultation with an advisory board (18% of countries). Independent national standard setting boards are responsible for standard-setting in a further 24% of countries (Australia, Canada, France, Israel, Mexico, New Zealand, and USA).

Nearly all countries develop national accounting standards, but use international frameworks as a reference (Figure 7b). Standards are established at national level in all but one country. International standards (IFRS, IPSAS, or statistics frameworks[16]) are considered as an explicit or primary reference for developing national standards in 40% of countries. Other countries often mention them as guidance. Countries seem to favour national standards in order to be able to accommodate a number of specific deviations, such as limiting the quantity of disclosures (for example, Sweden), defining boundaries for the financial statements that are aligned with the ones used in the budget and the fiscal statistics (United Kingdom, Australia, or New Zealand), or reflecting the specificities of the national legal frameworks and public policies (France, for example, with regards to the accounting treatment for the public service pension system). In Switzerland, which is the only country that directly adopts IPSAS, the Cabinet of the Government can authorise deviations from IPSAS.

Figure 7. **OECD Countries: Accounting Standard Setting Authority and Type of Standards**



Note: In figure 3.a, Other is Government (Belgium, Hungary, Ireland, Poland, Sweden, and Switzerland); Comptroller General of the Republic (Chile); and Specific Committee (Germany); In figure 3.b, Other is National Standards based on European System of Accounts (Belgium).

Source: OECD Accruals Survey (2016).

4.2. Audit practices

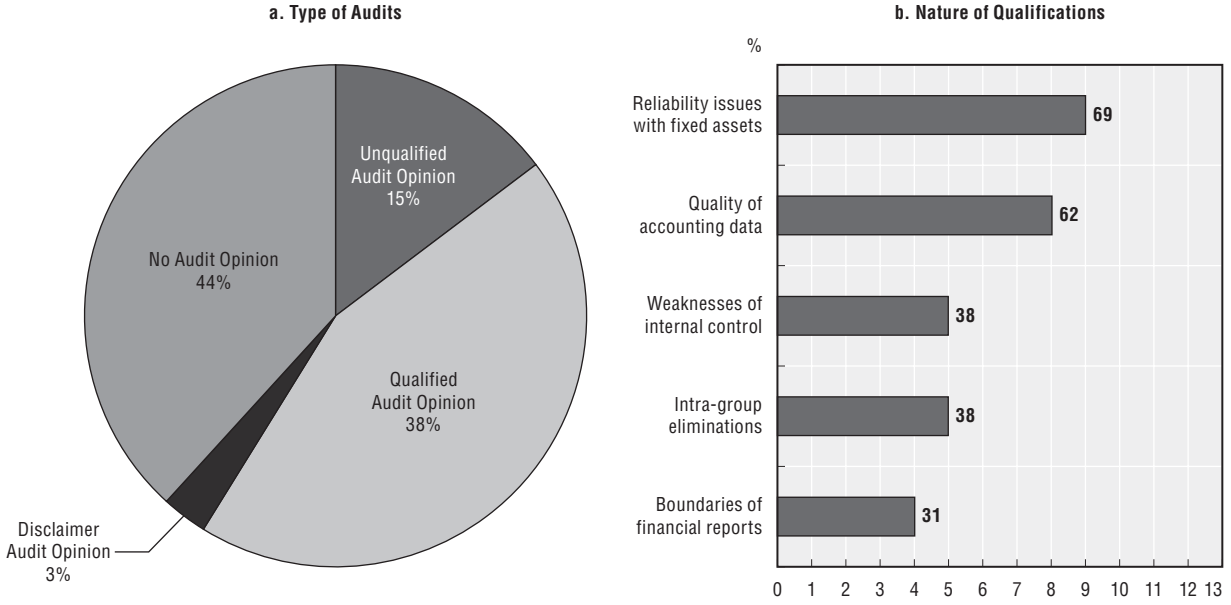
This section discusses the types of external controls and audits on annual financial reports. This function can be exercised by supreme audit institutions (SAIs), which are independent public institutions with a mandate for overseeing the management of public funds and the quality and credibility of the government's' reported financial data, or audit firms. The importance of high quality and independent audit as countries move towards accrual accounting cannot be over-emphasised: as governments adopt accrual accounting,

there will be an increasing need for skills and judgments to prepare financial statements, which makes particularly important that audits provide the necessary assurances to the users that, among other things, the statements have been prepared with due care, are free from materials errors or misstatements, and comply with relevant standards and legal requirements.

The annual financial reports are subject to some form of external control and audit in all OECD countries (Figure 8.a). A majority of respondents (56%) indicated that their supreme audit institutions (SAIs) follow international auditing standards and provide an opinion on whether the financial statements present a true and fair view.[17] Another group of countries declare that the financial statements are audited, or controlled, by the SAI in accordance with national requirements set out in the constitution or law, which require in most cases to assess the compliance of annual expenditures with the Parliamentary authorisations, and regulations on financial controls.

A high proportion of the audits are qualified (Figure 8.b). In the group of countries where an audit opinion is provided on the financial statements according to international audit standards, a large majority are qualified. Issues with the inventory and valuation of fixed assets (in particular defence equipment) and the general quality and reliability of accounting data lead to the qualifications in a majority of cases. Issues with boundaries of government financial reporting and intra-group eliminations are also mentioned by around half of the countries, which may not fully reflect the scale of the challenges associated with consolidations, as few countries have started establishing consolidated financial statements. Continuing engagement and cooperation with the SAI is often mentioned by respondents as an important success factor for implementing accrual accounting, and improving the reliability of the financial statements over time.

Figure 8. **OECD Countries: Type of Audits and Issues with Year-end Financial Statements**



Note: Figure 6a: where no audit opinion is provided according to international auditing standards, SAI undertake compliance audits or other types of controls; Figure 6b: Percentage of countries that received a qualified opinion on their year-end financial statements, for the 13 countries that have received a qualified opinion on their financial statements.

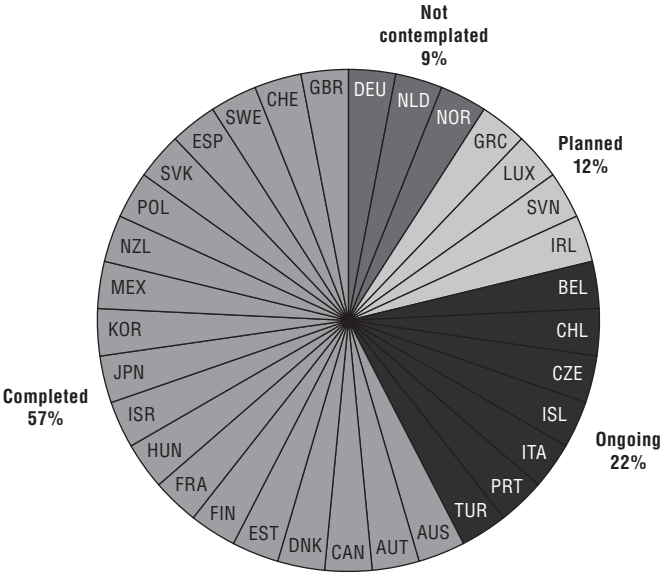
Source: OECD Accruals Survey (2016).

5. Accrual Reforms[18]

5.1. Status of Reforms

A majority of countries stated that they have completed their reform programmes (Figure 9).[19] This highlight a major shift in public accounting practices since the 2000s, as only 24% of countries reported using accrual accounting in the first OECD Accruals Survey (2003). However, the objectives and scale of reforms vary significantly: the United Kingdom's reforms involved a transition to accrual for the whole of the public sector and the introduction of accrual budgeting, while France's reforms are aimed at implementing accrual accounting at the budgetary central government level only. In addition, as discussed earlier, the accrual frameworks show a great deal of variations. Another group of countries described their reforms as ongoing, some of them linked to the possible development of European Public Sector Accounting Standards (EPSAS). Few countries have not implemented nor contemplate any accrual reform. The main reasons for this are the lack of political support, concern that the benefits are unlikely to exceed costs (Germany), and satisfaction that cash based budgets and financial reports (with interest budgeted and accounted for on an accrual basis) provide all the necessary information (the Netherlands).

Figure 9. **OECD Countries: Status of Accrual Reforms**



Source: OECD Accruals Survey (2016).

The adoption to accrual accounting was often part of, and intended to facilitate, wider public management reform initiatives. The motivation for reform mentioned most often in the Survey include presenting a fair view of the public finances, assessing the full costs of government operations, introducing or enhancing a performance culture, and modernising public management. Having similar presentation and preparation basis for all fiscal reports (including statistics) is a motivating factor for some countries that have adopted or are transitioning to accrual budgeting in addition to accrual accounting. The government or the MoF sponsored the reforms in a majority of countries. The MoF (often through the budget office or the treasury) were the agencies responsible for the preparation, monitoring, and implementation of the reforms in most countries.

The results of the Survey do not allow evaluating precisely the duration and costs of the reforms. The full implementation of the reform took several years in all countries. Duration however vary greatly: for example, Sweden considers that the reforms took about twenty years to complete, while Estonia completed its reform in two years. A majority of countries have mentioned a ten-year period for completing their accrual accounting reform. Costs seem to vary significantly depending on the scale of the IT systems upgrades and consulting services, but only one country provided detailed information. In New Zealand, the public management reforms as a whole – of which accrual accounting and budgeting was only a part – cost an estimated NZD 160 – NZD 180 million, or 0.1% of expenses over the period of implementation.[20] Some countries noted that the IT systems were upgraded as part of the normal replacement/maintenance cycle – hence did not generate any significant additional operating costs.

5.2. *Reform Challenges*

Countries seem to have experience a number of common challenges for implementing reforms:

- The identification and valuation of assets and liabilities are considered as the most challenging tasks during the preparatory stage of the reforms. This is understandable because in most cases countries did not have reliable or complete records of assets – particularly non-financial assets – that were owned and identified, let alone the values of such assets. Similarly, the recognition and reporting of civil service and military pension liabilities, PPPs, etc. can present conceptual as well valuation challenges;
- Putting in place new IT systems are presented challenges at the implementation phase, in the bulk of countries. It was noted that the implementation of a new IT system is already difficult enough when the accounting framework remain unchanged. However, the challenges increase exponentially when the accounting basis changes from cash to accrual and the new system is required to support this new framework;
- A number of countries also mentioned difficulties for realising changes in legislation, as these have to be discussed with the political leadership, the preparation of consolidated financial statements and the preparation of financial statements within agreed timetable.

Most governments sequenced implicitly or explicitly the move to accrual accounting. Most governments have taken a realistic view of the time required to implement the reforms. A key strategy was to adopt a phased approach to the reforms in order to manage the challenges, to minimise the risk of failure and maximize the probability of a successful implementation. Some countries (for example, Denmark) also included a pilot phase or limited test-runs, during which lessons would be learnt prior to proceeding with full implementation. In most cases, the balance sheet was populated progressively. For example, in France, individual evaluations of defence assets were established a few years after the first publication of the Government balance sheet.

Effective project management and coordination and strong leadership by the MoF (or another central agency such as the budget office or the treasury) were identified as critical. Many countries also underline the importance of providing sustained training and assistance to implementation units. Guidance and guidelines have also been used in all countries.

The importance of human resources management and capacity building was a common theme. In particular, countries stressed the importance of having staff or consultants with knowledge and experience of accrual accounting, IT systems, and consolidation to address the biggest challenges they faced. Indeed, a number of countries, for example Canada, which successfully implemented a sophisticated accrual accounting framework, indicated that at the time of the commencement of the reforms many finance personnel had never been exposed to accrual concepts. Therefore, training programmes were delivered in all countries, and experts were often hired to supplement the existing skills base.

5.3. *Achievement of reform objectives*

Countries that engage in accruals reform pursue a broad range of objectives. All of them mentioned, as intended benefits, accountability, transparency towards public at large, political and public awareness about the state of public finances, better information on full costs of operations, efficiency of the administration's business processes, more informed decisions about asset and liability management, and producing meaningful figures and financial analysis.

Overall, satisfaction that reforms objectives have been achieved is mixed (Table 3). Ministries of Finance, in around half of countries considered that the expected benefits were achieved; around one third considered that they were partially achieved; and the remaining countries indicated that the achievements could not be assessed yet.[21] However, none of the countries classified any of the intended benefits of the reforms as "not achieved". It is an interesting contrast that, in some countries where what may be regarded as a full accrual accounting framework has already been achieved, Ministries of Finance consider that further improvements should be made.

Accountability and transparency are considered by Ministries of Finance as the main positive outcomes of the reforms. It is indeed undeniable that accrual accounting has made more and better financial information available to the public at large. A number of countries also note that new procedures and IT systems have helped developing the internal control environment.

Table 3. **OECD Countries: Achievement of Reforms Objectives**

	Fully achieved	Partially achieved	Ongoing
Enhancing Accountability	AUS, AUT, CAN, FIN, FRA, ISR, KOR, MEX, NZL, ESP, CHE, TUR	BEL, DNK, HUN, ISL, ITA, POL, SVK, SWE	CHL, CZE, IRL, PRT, GBR
Increasing transparency towards public at large	AUS, AUT, CAN, FIN, FRA, ISR, KOR, MEX, NZL, ESP, SVK, CHE, TUR	DNK, HUN, ISL, ITA, POL, SWE	BEL, CHL, CZE, IRL, PRT, GBR
Producing meaningful figures/ financial analysts for cabinet and/ or parliament and/or citizens	AUS, AUT, FRA, ISL, ISR, KOR, NZL, ESP, SVK, CHE	BEL, CAN, FIN, HUN, ITA, MEX, POL, SWE	CHL, CZE, DNK, IRL, PRT, TUR, GBR
Increasing political and public awareness about the state of public finances	AUS, CAN, FRA, ISR, KOR, MEX, NLD, NZL, SVK, ESP	AUT, CZE, FIN, ISL, ITA, POL, SWE, CHE	BEL, CHL, HUN, IRL, PRT, TUR, GBR
Better information on full costs of operations	AUS, AUT, ISL, ISR, KOR, MEX, NZL, ESP, SWE, CHE	BEL, CAN, DNK, FIN, FRA, ITA, POL	CHL, CZE, HUN, IRL, PRT, SVK, TUR, GBR
More informed decisions on asset and liability management	AUS, AUT, DNK, FRA, ISR, KOR, NZL, ESP, CHE	CAN, FIN, ISL, ITA, MEX, POL, SVK, SWE	BEL, CHL, CZE, HUN, IRL, PRT, TUR, GBR
Efficiency of the administrator's business processes	AUT, CAN, ISL, ISR, KOR, NZL, ESP	BEL, DNK, FIN, ITA, MEX, POL, SWE, CHE,	AUS, CHL, CZE, FRA, HUN, IRL, PRT, SVK, TUR, GBR

Source: OECD Accruals Survey (2016).

Satisfaction with the use of this information by external stakeholders is however limited. In particular:

- A number of Ministries of Finance, including early adopters of accrual accounting and/or budgeting, note that parliamentarians have limited interest in accrual financial information. This suggests that accrual financial statements remain somehow inaccessible to their primary users, and that ministries of finances still have a way to go to demonstrate their use and added-value;
- Information on the full costs of operations is not always available at operational entities or units levels. Where the information is available, tools and methodologies to use it to assess and improve the management of public assets and performance of entities seem to be lacking. Some countries note also that public managers remain accountable mostly, if not only, through the appropriation process, and therefore have limited incentive in using accrual information;
- A majority of countries also note that adoption of accrual accounting had a limited effect so far on improving the efficiency of administrative processes. This could be explained by the fact that expectations with regards to the efficiency of internal audit and quality of accounting data increase with the adoption of accrual accounting, and development of high quality and independent audits.

The use of accrual information for macro-fiscal purpose is uneven. Most of countries that responded to the question on this issue indicated that the accrual information is not used or used only in a limited way for establishing fiscal forecasts. In many countries, the cash budget balance and net lending remain indeed the key fiscal figures, and focus most of the political debate. However, other countries, in particular Australia, Austria, New Zealand and the United Kingdom, underline that efforts for harmonising the accounting basis and coverage of fiscal reports (budget, financial statements, and statistics) have allowed greater usefulness of the accounting data for fiscal analysis, and greater transparency on the state of public finances.

Recent innovations are directed towards making accrual information more user-friendly and useful to budgetary decision making. Noteworthy initiatives include:

- Attempts at reducing the time lapse for establishing the financial statements(for example, Austria), in order to make them available at an earlier stage of the budget process;
- The use of management commentaries, and attempts at simplifying and streamlining the financial reports (for example, the United Kingdom) to make them more user-friendly;
- The use of accrual information to inform citizens and decision-makers on the efficiency of public management (for example, the *Investment Statement*, which measures the Government's performance in managing its assets and liabilities, in New Zealand; or the development of cross government benchmarks for certain costs, in Denmark).

Notes

1. Countries are classified in this category when i) transactions are budgeted or recognised in the financial reports at the time at which the underlying economic event occurs, regardless of when the related cash is received or paid, and ii) assets and liabilities are budgeted or reported in a balance sheet, irrespective of exceptions regarding the reporting or measurement method of some specific assets and liabilities.
2. Countries are classified in this category when some transactions are budgeted or recognised in the financial reports using cash basis, and some transactions are budgeted or recognized under accrual basis, with the final aim to adopt the accrual basis.
3. Countries are classified in this category when transactions are budgeted or recognised in the financial reports only when the associated cash is received or paid, irrespective of their reporting of commitments.
4. The management commentary, which is a common practice in the private sector, provides readers of financial statements with a backwards and forward looking analysis of the entity's financial position, financial performance, and cash flows.
5. In some jurisdictions, all employees, whether employed by the public or the private sector, are entitled to pensions from the state, which are not considered liabilities because the government can change the pension arrangements at any time.
6. For example, in Australia, social benefits do not constitute liabilities, as they are not legal obligations (not legal obligation to pay until a future point in time) and do not represent a constructive obligation (as the government does have an ability to avoid specific payments). This approach is agreed by the Auditor-General.
7. The basic elements of an annual budget are i) a policy statement describing the macroeconomic assumptions on which the budget is based, presenting the fiscal objectives, targets, and the main policy decisions (new programs or savings) of the government; ii) annual forecasts of revenue and expenditure, the fiscal balance, and financing need; iii) legal provisions to authorize or limit the incurrence of expenditure by ministry and/or program, and to implement the policy measures adopted by the budget. In most countries of the Continental tradition, the Budget Act adopted by the Parliament combines all these basic elements. In particular, the Budget Act both forecasts and appropriates money for public policies. Countries of the Westminster tradition have a different approach and make a clear difference between forecasts and the granting of authority to spend. Fiscal forecasts are included, together with a discussion of fiscal policy and government priorities, in a budget statement which has no legal force and is normally debated in Parliament in the form of a vote of confidence (i.e., if the vote is rejected the government must resign). Annual authority to spend is granted through Appropriation Acts (also called "Estimates") or through other laws which permanently appropriate money for specific programs, such as entitlements.
8. They allow authorising, reporting on, and controlling future cash outflows, but are not liabilities. Some countries that use commitments in their budgets have described their budgeting system as "cash and commitment frameworks", rather than cash basis budgeting.
9. In the Survey, the category was entitled "Cash transitioning to Accruals", which did not reflect the actual situation described by most countries.
10. Within these accrual appropriations regimes, cash allocations are made available to the ministries and departments based on their estimated cash requirements, as summarized, for example, in the cash flow statement.
11. Germany and the Netherlands use only commitment appropriations.
12. This is does not mean, though, that comparability between budget and actuals is not possible: budget execution reports are usually comparable with the initial budget.
13. The United Kingdom highlighted its initiative, referred to as the Clear Line of Sight project, to align estimates, budgets and accounts.
14. In international standards, "consolidation" means presenting the assets, liabilities, net assets/equity, revenue, expenses and/or cash flows of public sector entities as if they were a single entity. Consolidation also implies elimination of all transactions and balances between entities that are being consolidated.
15. These practices are not specifically related to accrual accounting, but are necessary and important elements of an accrual accounting framework.

16. International Monetary Fund's Government Finance Statistics Manual or European Commission's European System of Accounts.

17. Such as the standards enacted by the INTOSAI.

18. This section of the OECD questionnaire was not completed by one respondent (United States of America).

19. See Appendix 2, Table 1.

20. Public information is also available for a number of European countries, and a recent study published by EUROSTAT based on a survey of EU Member States estimates that the total cost of such a reform for central government would be around 0.05% of GDP.

    Australia and the UK are among the countries that decided to address this issue by making a strategic decision that the ministries, departments, and other agencies should absorb the costs of the reforms and that no additional funding would be provided. These included the very substantial costs of implementing new IT systems.

21. The assessment of the achievements of objectives may however vary depending on the stakeholders consulted.

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Budget reform before and after the global financial crisis

by
*Marc Robinson**

Budgeting techniques are undergoing major change in many OECD countries in the wake of the global financial crisis. As part of this, many of the directions of pre-crisis budgeting reform are being critically reviewed. This paper reviews the past and future of budgeting reform. It also considers what will be needed to develop a more robust analytical framework within which to map future reform directions.
JEL codes: E62, H12, H50, H55, H61
Keywords: fiscal discipline, allocative efficiency, prioritization, value-for-money, reallocation, accrual accounting, accrual budgeting, performance budgeting, programme budgeting, fiscal rules, expenditure rules, expenditure ceilings, expenditure carryover, actor/motivation frameworks, legal principles framework.

* Marc Robinson is an independent consultant and a member of the OECD's Advisory Panel on Budgeting and Public Expendits. He wishes to thank Danièle Pralong for valuable comments on a draft of this paper.

1. Introduction

The global financial crisis (GFC) and its aftermath have radically changed the landscape of government budgeting. Fiscal circumstances have deteriorated significantly, and this is forcing a rethinking of the main directions of budgeting reforms which characterised the pre-GFC era. In the majority of OECD countries, public finances are clearly unsustainable. One key reason for this is long-term expenditure pressures: in particular, future age-related spending (e.g. old-age pensions), and potentially large future increases in interest expenditure (arising from the impact of future interest-rate increases on high levels of government debt). The other particularly grave problem is slow post-GFC revenue growth. This is not a purely temporary cyclical phenomenon, but is in all likelihood a long-term problem arising from "secular" slow economic growth. Slow revenue growth makes it not only harder to control deficits in the short run, but also much more difficult to reduce the effective debt burden.

Setting aside debates about the appropriateness of fiscal stimulus in the short run, a majority of OECD countries require fiscal consolidation. This will in most cases call for a major emphasis on the expenditure side. Although in a minority of OECD countries (e.g. the USA and the UK) a credible argument can be mounted that substantial tax rises should be part of the solution, in the majority of countries the scope for significant tax rises is either limited or non-existent.

This is the context in which budgeting reform must be viewed in the post-GFC era. It has major implications both for the mix of objectives which are the focus of budgeting reform, and for the choice and design of public financial management (PFM) instruments and structures.

This is best viewed through the lens of the familiar three-level taxonomy of the main objectives of budgeting:

- Aggregate fiscal discipline (in particular, through control of the fiscal balance and aggregate spending)
- Allocative efficiency (through good prioritisation of expenditure)
- Effectiveness and efficiency of expenditure – referred to in this paper as value-for-money (VfM).

Prior to the GFC, the dominant theme of budgeting reform was VfM, and the reform objective was to transform budgeting into a powerful tool for promoting efficiency and effectiveness. This dovetailed with VfM as a broader public sector reform movement – often captured in the term *managing-for-results* – influencing everything from human resources management through to organisational structure and the boundaries between government and the private sector. The idea that budgeting should become a key instrument for promoting VfM led not only to a major focus on performance budgeting, but to a range of other reforms including carryover flexibility and accruals. It also significantly influenced the design of medium-term budgeting systems in many countries.

Expenditure prioritisation, on the other hand, received less attention. Although, as discussed below, some countries got better at prioritising the allocation of new fiscal space, little attention was paid to mechanisms to reprioritise (reallocate) baseline expenditure.

The contribution of budget reform to improving aggregate fiscal discipline was an important pre-GFC theme, notwithstanding (or perhaps precisely because of) the poor state of public finances in some OECD countries. It was, for example, at this time that top-down budgeting – a particularly important instrument for aggregate expenditure control – was developed.

The significantly more difficult fiscal circumstances of the post-GFC world are bringing about major changes in the emphasis placed on the three objectives of budgeting. Overarching everything is the increasingly dominant preoccupation of budgeters with aggregate fiscal discipline. So far, the main emphasis of post-GFC budget reforms to strengthen aggregate fiscal discipline has been on the tougher application of instruments developed in previous decades – including fiscal rules, fiscal transparency, top-down budgeting and aggregate expenditure ceilings. However, there are major issues concerning both the design of these instruments, and their adequacy in the face of fiscal consolidation requirements, which are only gradually being addressed.

The need for improved expenditure prioritisation mechanisms is an area of budgetary reform in which there is virtual unanimity. In a context where fiscal space for new spending is extremely limited or negative (Marcel, 2013), it is understood that governments have no choice but to be careful and systematic in the way in which they allocate their limited resources. There is a widespread desire to build strong institutions and processes capable of reallocating expenditure, including – but not limited to – spending reviews. Improved expenditure prioritisation is, moreover, generally understood to be important for restraining the growth of aggregate expenditure and, therefore, for aggregate fiscal discipline.

It is most of all in the area of VfM-oriented budgeting reform that thinking is in a state of flux. There is a widespread view within Ministries of Finance (MOFs) that VfM reforms including accruals and performance budgeting have been both burdensome and disappointing. Burdensome in the sense that the information and administrative costs of these reforms have often been very large indeed. Disappointing in the sense that the benefits which have been realised – in terms of improved effectiveness and efficiency – are less than VfM budgeting reform advocates promised. This raises the question of whether some of these reforms should be abandoned, or whether a radical change of direction is instead required.

This paper aims to contribute to the reconfiguration of the budgeting reform agenda to meet the needs of the challenging post-GFC environment. To this end, it reviews major themes of the reform agenda inherited from the past and assesses their continuing relevance. It also examines some of the emerging responses to the new context in which governments and their MOFs are now operating. Selected key issues and directions for future reforms are identified.

The structure of the paper is as follows: the first three sections examine budget reform sequentially from the perspective of each of the three objectives of budgeting reform identified above. This analysis commences with a discussion of expenditure prioritisation (Section 2), then turns to VfM-oriented budgeting reforms (Section 3), before finally considering the role of budgeting reforms in achieving aggregate fiscal discipline (Section 4). Following

this, the paper turns to future directions. This discussion is prefaced by a discussion of the appropriate analytic framework for consideration of future reforms (Section 5), before concluding with a discussion of key issues and directions for the future (Section 6).

2. Improving expenditure prioritisation

As OECD governments reflect on the adequacy of their budgeting instruments and structures to handle the changed circumstances of the post-GFC world, one of their greatest preoccupations is the inadequacy of inherited expenditure prioritisation processes. Many have formed the view that their expenditure prioritisation processes are weak (e.g. NAO, 2012: 9; NCA, 2014), and require urgent strengthening.

However, while it is true that prioritisation processes require extensive reform, it is important not to be blind to the progress which was made in many OECD countries prior to the GFC in one important dimension of expenditure prioritisation – namely, whole-of-government prioritisation of *new spending*. In a number of leading countries, MOFs, often in partnership with other key central agencies (e.g. prime ministers' and cabinet offices), became very good at systematically injecting government-wide priorities into the allocation of new fiscal space which became available to government. The periodic "Spending Reviews" which took place in the UK from 1997 were a classic example of this. Despite their name, the UK Spending Reviews of the pre-GFC era were not spending reviews in the sense in which the term is generally used today (i.e. reviews of *baseline* spending to identify savings options)[1]. Rather, they were a process which was designed primarily as a means for government to think strategically every three years about how and where to allocate additional spending.

Similarly, in Canada, budgeting changed during the decades preceding the GFC from a process in which each agency received its "'fair share' of incremental funds" to one in which priority setting in respect to new fiscal space took on "greater importance" (Good, 2008: 32). In these and certain other OECD countries, the pre-GFC period was one in which the central institutions of government – political and bureaucratic – increasingly and successfully claimed new fiscal space as the property of government as a whole, to be allocated according to government-wide priorities.

The weakness in this, however, was that even in these leading countries, the prioritisation effort was focused on new fiscal space, and not on baseline expenditure. Little attention was given to reviewing expenditure on existing programmes and identifying opportunities to reduce spending on ineffective or low priority programmes in order to *reallocate* the money to better uses. So long as revenue growth was buoyant, as was the case in most OECD countries in the financial bubble years immediately preceding the GFC, strategic allocation of new fiscal space appeared sufficient to give budgetary effect to government priorities.

Not only was reallocation[2] off the agenda in most OECD countries during the pre-GFC years, but some of the major budgeting reforms of the era had the effect of weakening the capacity of budgeting processes to reallocate resources across government. This happened in several ways.

Firstly, the magnitude of the effort and resources devoted by MOFs in some countries to VfM-oriented budgeting reforms distracted from, and undermined, MOF capacity in expenditure prioritisation. In Australia, for example, the Department of Finance (in partnership with the Department of Prime Minister and Cabinet) had from the 1970s into the 1980s focused much attention on spending review and expenditure prioritisation, and

had developed first-rate expenditure policy analysis capacity. In the mid-1990s, however, much of this disappeared when the main focus of reform shifted to the resource-intensive (but ultimately ineffective) development of so-called *accrual output budgeting* (see below).

In a number of countries, a second – and related – factor was at work: the notion that the best way to maximise VfM was to pursue a private sector corporate model of public sector reform, in which ministries would operate as largely autonomous entities devoted to maximising performance. This vision left little room for attention to government-wide priorities. Instead, it encouraged so-called "silo" behaviour. One (of many) manifestations of this model was a set of reforms designed to motivate ministries to improve the management of capital assets by, in effect, treating these assets as the property of individual ministries rather than of the government as a whole. (These reforms are described below.)

A third factor at play was that top-down budgeting processes were in a number of countries developed in a way which gave spending ministries unprecedented allocative discretion – particularly in internally reallocating baseline expenditure, but in some cases even over the allocation of new fiscal space – as a *quid pro quo* for strengthened central control over aggregate expenditure. Certain countries implemented a specific version of top-down budgeting in which, early in the budget preparation process, the aggregate expenditure ceiling was split into spending ministry ceilings, and spending ministries were then given a large measure of discretion over the allocation of their ceilings.

Other countries (starting with New Zealand in the 1980s) sought to implement the principle that new spending initiatives should in most cases be funded by spending ministries by reallocation within their ceilings, avoiding requests to the government for increased total funding for the ministry.

It is these and related initiatives which were captured in the familiar pre-GFC slogan "every spending ministry its own ministry of finance".

The effect of these approaches was to treat the baseline component of government expenditure – and sometimes also new fiscal space – as the property of spending ministries, rather than belonging to the government as a whole. The model of fixed ministry ceilings being set early in the budget process may have been unproblematic if those ceilings had been set to fully reflect government-wide expenditure priorities and if, in particular, they were informed by serious review of baseline expenditure aimed at delivering expenditure reallocation across government. In practice, however, this was not the case. The baseline expenditure of spending ministries tended instead to be treated as the starting point, with additional funds provided on top of that, in what amounted to classic incrementalism. The weakness of spending review processes was an important factor in this. However, even in countries where spending review was undertaken, baseline expenditure was sometimes treated effectively as the property of individual spending ministries.[3]

The real problem was not primarily the lack of tools for reallocation, but rather the limited willingness to undertake it. If spending cuts were required, reliance tended to be placed on the usual range of indiscriminate instruments – uniform across-the-board cuts, capital expenditure squeezes, and new hiring freezes – rather than targeted reallocation. Even the much-trumpeted "efficiency dividend" mechanism developed during the decades prior to the GFC was little more than the old-fashioned uniform across-the-board cut, rebranded and given a superficially plausible rationale (based on expectations of productivity growth).

Some major reallocations did, of course, occur prior to the GFC. These were, however, rare and episodic, and only undertaken as part of major fiscal consolidation – as, for example, in Sweden and Canada in the mid-1990s.

In post-GFC circumstances, the inability to carry out targeted resource reallocation across government has become a fatal weakness in budgeting systems. New fiscal space is, as noted above, limited and in some cases negative (in the sense that projected baseline expenditure exceeds affordable aggregate expenditure). It is precisely for this reason that spending review – properly defined as the review of *baseline* expenditure to identify savings options – is now one of the top budgeting reform agenda items in OECD countries.

However, reallocation is one of the toughest processes in budgeting. Selectively cutting the budgets of specific ministries and programmes in order to reallocate funds to other ministries and programmes is difficult and painful, both politically and technically. The disappointing aftermath of Canada's campaign in the early 2000s to build a "continuous culture of reallocation" is but one example from experience of such difficulties (Good, 2008). The "political" (using the term in a broad sense) reasons for this have been extensively analysed in the academic budgeting literature.

Notwithstanding this, under the difficult circumstances of the post-GFC era the development of better budgetary instruments and structures for resource reallocation has become an urgent imperative for most OECD governments.

In this context, we must beware of thinking of politics and technical rationality as so inherently contradictory that any attempt to design budgetary instruments and structures to facilitate reallocation is doomed in advance to fail. In countries with good governance, where the quality of service delivery by government significantly affects citizen choice in elections, there is substantial room for considerations of effectiveness and efficiency to more systematically influence the allocation of resources, even if electoral calculus will inevitably have the final word in budgetary allocation decisions. It is important in this context that the design of budgetary processes for reallocation should not be politically naive, and should not seek to transform inherently political resource allocation decisions into purely technical processes. This is why, for example, spending review should always be designed to deliver savings *options* to the political leadership for their decision, and not to make decisions about cuts on their behalf. It is not surprising that, for example, a recent Italian spending review effort led by a technocrat failed whereas politically-led spending review processes in countries such as the United Kingdom have been much more successful.

Developing reallocation mechanisms which are both politically and technically rational is not the only challenge. Another important challenge is that of achieving the right balance between centralised and decentralised allocative decision-making. If, in the decades before the GFC, governments and ministries of finance delegated allocative decision-making excessively to spending ministries, it does not follow that the correct antidote to this is to now attempt to completely centralise decisions regarding expenditure priorities. The failure of communist economies during the last century demonstrated graphically the limits of central planning, and everyone now understands the informational problems which make it impossible for central planners to determine the optimal allocation of resources. Although greater use of mechanisms for introducing consumer choice into the public sector can help with this problem, its contribution will only ever be marginal, given the fundamental problems of market failure which dictate the role of government.

Good expenditure prioritisation in government therefore requires a balance between centralised decision-making (in the hands of Cabinet and the MOF and other key central agencies) and decentralised decision-making by the spending ministries themselves. Getting the balance right is difficult, and what constitutes the right balance will vary between one country and another. What is clear is that there needs, in most countries, to be a significant rebalancing toward a stronger central role.[4] Baseline expenditure – let alone new fiscal space where it exists – can no longer be treated as the property of individual spending ministries to allocate as they wish.

A key element in the development of a stronger central role in expenditure prioritisation is the development of spending review systems which are fully integrated into budget preparation processes. However, spending reviews alone will not be enough. Budget preparation processes more generally will require major modifications. For example, it will be important to improve the design of top-down budgeting systems so that they facilitate, rather than obstruct, reallocation (Robinson, 2012).

Improving the information base to support expenditure prioritisation decisions is considered by many countries to be an important priority. This raises the issue of the relation between reallocation and performance. Performance budgeting is discussed in greater detail below. However any discussion of reallocation would be incomplete without reference to the potential contribution of performance budgeting. It is striking that few of the many OECD which introduced performance budgeting systems in the pre-GFC era viewed them as tools for expenditure reallocation. With rare exceptions[5], even after the GFC, OECD countries do not view performance budgeting as an instrument for expenditure prioritisation decisions and therefore have not harnessed it to the spending review systems which are being developed.

This seems strange on the surface. The majority of the performance budgeting systems which exist today are programme budgeting systems, such as the French *LOLF* system (implemented progressively over the five years 2001-2005) and the Canadian *Management Resource and Results Structure* system (introduced in 2005). Historically, programme budgeting was developed as a tool mainly for improved expenditure prioritisation. The basic aim was to help governments to improve allocative efficiency by structuring expenditure prioritisation around programmes based on policy objectives. The programme classification of the budget would, on the one hand, show the allocation of money to policy objectives, while the accompanying programme performance information would indicate the efficiency and effectiveness of that expenditure. Armed with this information about costs and benefits, budgeters would supposedly be in a position to make much better decisions about how much money to allocate to each programme.

Improved allocative efficiency was the core aim of the all of the "first wave" performance budgeting systems developed in the late 1960s and 1970s, which were based on the original US programme budgeting model (the Planning-Programming-Budgeting System). In France, for example, the allocative objective was highlighted by the decision to name the programme budgeting system which was introduced at the time: "*rationalisation des choix budgétaires*" (RCB).

It was in sharp contrast to this approach that most OECD countries which introduced (or re-introduced) programme budgeting systems during the "second wave" of performance budgeting reforms prior to the GFC viewed them principally as instruments for improving VfM, by motivating spending ministries to manage better and thereby to improve the

effectiveness and efficiency of expenditure. One manifestation of this conception of programme budgeting was the fact that a number of countries did not consider programme-based *appropriations* to be an essential feature of a programme budgeting.[6]

The conception of performance budgeting as a tool for promoting VfM, rather than for improving expenditure prioritisation, applied even more explicitly to the other models of performance budgeting adopted by several OECD countries during the 1990s which did not follow the programme budgeting template – such as the target-based Public Service Agreements system in the UK and the accrual output budgeting systems of Australia and New Zealand (see below).

3. Promoting effectiveness and efficiency via budgeting

Alongside the growing focus on improving the capacity of budgeting to reallocate resources, there is at present a re-evaluation underway of the pre-GFC budget reforms focused on promoting effectiveness and efficiency (VfM). As noted at the outset, these reforms are increasingly under criticism as both burdensome and disappointing. Accruals and performance budgeting are particular targets for criticism. This raises major questions about the future of the VfM budgeting reform agenda.

3.1. Accrual Accounting and Budgeting

The pre-GFC campaign led by the accounting profession for the adoption of accrual accounting in government was strikingly successful. Most OECD countries implemented accrual accounting in the general government sector, and a significant minority implemented accrual budgeting. The information costs of the move to accrual *accounting* have been quite large. Accrual *budgeting* – which is inherently much more complex and demanding to operate than a cash budgeting system – involves even larger additional administrative as well as informational cost. It is impossible to operate these systems without employing a small army of accountants and, in the case of accrual budgeting, without continuing large-scale effort to help operational staff work within a budget system which they find complex and confusing.

Box 1. **Accrual Accounting versus Accrual Budgeting**

Accrual accounting means financial reporting on an accrual basis. Accrual budgeting, on the other hand, means arrangements under which budget appropriations (legal authorisations) are formulated in terms of accrual concepts rather than as authorisations to make cash payments (or to enter into commitments) (Blöndal, 2004; Robinson, 2009). The essential feature of accrual budgeting is therefore that the budget allocates to spending ministries expenses budgets – that is, allocations from which ministries must cover the expenses which they incur rather than the payments which they make. Discussions about accrual budgeting have, unfortunately, been marred by conflicting definitions of the concept.

There are those who have put forward an alternative definition according to which accrual budgeting means nothing more than using accrual information in the budget preparation process and budget presentation (Khan, 2013). This alternative definition is analytically unhelpful. It is a definition which makes it impossible to distinguish between accrual and cash budgeting (a term which everyone understands to mean appropriations for cash expenditure) – because any cash budgeting system in which accrual information is used in budget preparation and presentation would simultaneously qualify as an accrual budgeting system. It is also a definition which tends to divert debate about the merits of accrual budgeting away from the considerable challenges which arise in appropriating based on expenses to the largely uncontroversial issue of whether accrual accounting can provide information which is useful for fiscal policy and budget planning.

For aggregate fiscal policy purposes, information provided by accrual accounting is clearly valuable – particularly in giving a broader measure of debt (based on all liabilities and financial assets) than is provided by cash accounting. There may be questions about how far this information is actually used in fiscal policy formulation, given that in most countries fiscal targets and rules are formulated on a cash or near-cash basis. Nevertheless, in the post-GFC world, where fiscal sustainability concerns have intensified considerably, the broader perspective on the fiscal position provided by accrual accounting is welcome.

However, it is not on the basis of fiscal policy benefits that accrual accounting (and budgeting) was "sold" to governments. Rather, it was the managerial advantages of accruals as an instrument for improved efficiency and effectiveness which were emphasised. These putative advantages were of three main types:

- Improved decision-making based on accurate output cost measures – i.e. measures of the full costs of the services delivered by government,
- Better capital asset budgeting and management, and
- Better control and management of liabilities.

How does experience stack up against these anticipated advantages? The outcome would appear to have been particularly disappointing with respect to the use of accruals as the basis for development of output cost measures. Developing output cost measures requires the combination of accrual accounting with product (output) accounting – i.e. managerial accounting to accurately allocate costs (measured in accrual terms) to the range of outputs delivered by government. This type of managerial accounting has made only quite limited progress in OECD countries generally. The UK – one of the first OECD countries to move to both accrual accounting and budgeting – seems to be representative in this respect. Output costing was identified at the outset as a key objective of the UK's accrual accounting and budgeting reform (HM Treasury, 1994). However, more than a decade after these reforms were introduced, few spending ministries were able to meet a Treasury request, as part of the 2010 Spending Review, to provide output unit cost data (NAO, 2012: 21-4).

The story is broadly the same in France. One of the avowed aims of the *LOLF* reforms was to "endow the state with a real system of accrual accounting which would permit it to measure its true costs" of service delivery (MINEFI, 2005). To this end, the 2001 LOLF legislation (Article 27) specifically mandated the introduction of management ("analytic") accounting. However, a study undertaken by the Cour des comptes [supreme audit institution] a decade later found that the use of management accounting across government "remained weak" (CdC, 2011: 149).[7]

Box 2. **Output Costing and "Accrual Output Budgeting"**

Limited success with output costing was one important factor in the failure of the accrual output budgeting (AOB) systems developed in Australia and New Zealand in the 1990s. AOB, which was an atypical form of performance budgeting, aimed to use output unit cost measures as the basis for a purchaser-provider model of budgeting in which government would fund spending ministries by paying "prices" for the services they delivered. The AOB objective was to apply pressure to spending ministries to improve the efficiency of output delivery (Robinson, 2007).

Experience has been no more positive in respect to the supposed capital asset budgeting and management advantages of accruals. Here the proposition put forward by accrual advocates was that decisions about acquiring physical assets, and decisions about whether to hold or sell these assets, needed to be informed by an appreciation of the ongoing costs which they entail (depreciation and the "opportunity cost" of the capital invested). It was argued that accruals was the way to ensure that this information was taken into account.

However, merely providing accrual accounting *information* to spending ministries could not be expected to significantly change behaviour with respect to capital asset budgeting and management. To change behaviour, it would be necessary to change the *incentives* facing spending ministries, so that they were forced to take depreciation and opportunity costs properly into account. It seemed to follow from this that to achieve the desired improvements in capital asset budgeting and management, it would be necessary to implement accrual *budgeting* rather than merely accrual accounting. More specifically, it would be necessary to design the accrual budgeting system so that incentives for better capital budgeting and management were built into the system of budget appropriations.

There were two main ways in which certain OECD countries designed their accrual budgeting system so as to provide incentives to spending ministries for better capital budgeting and management. These were *capital charging* and *depreciation funding of capital expenditure* (see Box 3)[8]. Both were strategies for factoring capital costs into the expenses budgets (see Box 1) allocated to spending ministries under accrual budgeting.

Box 3. **Capital Charging and Depreciation Funding**

The idea of capital charging, which was first introduced on a whole-of-government basis in the UK and New Zealand, was to levy a budgetary charge on spending ministries as a percentage of the value of their assets. The "capital charge" was then treated as an expense which each spending ministry was obliged to cover from the expenses budget which it received under accrual budgeting arrangements. If a spending ministry sold a surplus asset, it would reduce the capital charge burden on its budget. Similarly, if the ministry avoided undertaking an unnecessary new capital expenditure, it would be better off because it would avoid the capital charge that capital expenditure would generate in the future. The aim of including the capital charge within spending ministry budgets was to make agencies aware of the opportunity costs of their assets and give them incentives, firstly, to assess carefully whether planned new capital assets were really needed and, secondly, to identify and sell surplus assets. The idea sounded good in theory, but was in fact both conceptually flawed and quite costly to operate (Robinson, 1998). It was abandoned in Australia in 2002, and in the UK in the 2010-11 budget.

Under the system of funded depreciation, the expenses budget of each spending ministry not only included depreciation on their capital assets, but this depreciation component of the expenses budget was intended to serve as its main source of funding for future capital expenditure. Spending ministries were not bound to use the depreciation funding they received in the year it was provided, but were in theory permitted to "save" it for future use – and in particular, for the replacement of assets when they reach the end of their useful lives. The objective of the system was to promote more efficient capital asset management by mimicking corporate practices (Robinson, 2002). It reflected a private sector corporate analogy in which government ministries were conceptualised as stand-alone enterprises which had a responsibility to appropriately manage "their" capital stock. The fundamental problem with this system was that it was inconsistent with the need of government to control the level of aggregate capital expenditure in order to be able to achieve government-wide fiscal targets. It also had other major defects including the loss of transparency and democratic accountability in capital expenditure appropriation arrangements. It was for these reasons that Australia abandoned this system in the 2010-11 budget (DOFD, 2012: 23).

It is therefore significant that both capital charging and depreciation funding have, in almost all of the countries which introduced them, been abandoned as excessively cumbersome and ineffective. Moreover, the majority of countries which adopted accrual budgeting systems never implemented these mechanisms in the first place. This was mainly due to countries like Switzerland (FFA, 2008) clearly recognising from the outset that limiting government debt in order to maintain fiscal sustainability necessarily requires setting limits for the capital *expenditure* of spending ministries, which meant that budget authorisations for capital had to remain essentially on a cash (payments) rather than an expense basis (Robinson, 2009).

The absence of these mechanisms means that, with scarcely an exception, the accrual budgeting systems which exist in OECD countries today are systems which do not budget for capital on an accrual basis. Rather, it is with respect only to *expenses which involve future payments* that the accrual budgeting principle applies. That is, the expenses budgets given to spending ministries serve, whether explicitly or implicitly, to limit only expenses which require payments in the current or future financial years. Although depreciation (an expense arising from *past* payments) may be formally included in the expense appropriations (as in the UK), there is no mechanism for using this depreciation component of expense budgets to fund future capital expenditure, so that the inclusion of depreciation has no practical expenditure control significance.

In the absence of the main accrual budgeting mechanisms for motivating spending ministries to improve their capital budgeting and management, it seems doubtful that accruals can have delivered anything like the improvements promised.

Finally, what has been the experience with respect to improved liability control? The case for accruals started from the familiar point that under cash budgeting spending ministries can incur liabilities requiring payments in future years without having to count them against their budgets at the time the liabilities are incurred. This creates perverse behavioural incentives for individual spending ministries (and for the government as a whole) by encouraging them to spend now while deferring payments to the future. Again, however, it would be naive to expect that such behaviour would change merely as the result of the introduction of accrual accounting providing *information* about outstanding liabilities. If spending ministries were to be induced to control their liabilities better, it would have to be through accrual budgeting which would force them to count against their budgets expenses which involve future payments.

It may be that accrual budgeting has, in the countries where it has been introduced, had the effect of encouraging spending ministries to improve their control of liabilities involving future payments. However, it is not clear that improved liability control provides an adequate justification for adopting accrual budgeting. It is not the case that, in the absence of an accrual budgeting system, there is no control over the incurring of liabilities. In the chain of expenditure, the incurring of commitments (legal obligations to spend money, such as contracts) precedes the incurring of liabilities. All well-developed budgeting systems, including cash budgeting systems, have mechanisms to control commitments and, to the extent that these function properly, the incurring of liabilities is thereby also controlled.

The most sophisticated mechanism for commitment control is that which operates in France, under which spending ministries are given annual budgets both for cash and for commitments. The French system is, in other words, a system of dual cash budgeting and commitment budgeting. The commitment budgeting element means that spending ministries are given an annual limit for the value of commitments into which they can

enter, as well as a conventional cash budget authorisation which limits the payments they may make. A persuasive argument can be made that such a system of commitment budgeting is superior to accrual budgeting. Because commitments arise prior to liabilities, an accrual budgeting system does not prevent excessive commitments from being incurred, so that it remains necessary (as under a cash budgeting system) to have additional mechanisms to control commitments. Commitment budgeting, on the other hand, directly controls commitments and indirectly controls liabilities. It is also less complex than accrual budgeting. It can, finally, serve as the basis for improved multi-annual capital budgeting. It is therefore unsurprising that the French have shown little interest in moving to accrual budgeting. Limited interest in accrual budgeting has also been apparent in the United States and Germany, both of which have long operated partial forms of commitment budgeting.

The case for adopting accrual budgeting on "managerial" grounds such as improved liability control, or improved capital asset budgeting and management, is therefore hardly compelling. Moreover, it is clear that even if a country sets fiscal targets based on accrual rather than cash measures (as, for example, in Canada, where debt targets are formulated on the basis of the accrual measure of total liabilities net of financial assets), this does not make it necessary to shift budget appropriations onto an accrual basis. It is not difficult to understand why, after very detailed consideration by their ministries of finance, countries like the Netherlands and Canada decided not to adopt accrual budgeting. It also becomes clear why even in Australia the MOF has floated the idea of moving back to cash budgeting (DOFD, 2012: 23).

More generally, after a decade or more of experience in a number of OECD countries, it is clear that the benefits which had been promised from the move to accruals – whether accrual accounting only or accrual budgeting as well – have only been realised to a quite limited degree. It is hard to argue with the conclusion reached by the Netherlands Ministry of Finance (2010: 7) – that there is "little doubt … that accrual basis accounting does not live up to the ambitious expectations of its advocates". Moreover, although the case for accrual accounting is much stronger than that for accrual budgeting, major challenges remain in ensuring that the accrual-based financial reports are useful for government. It is widely recognised that accounting standards have to date been insufficiently tailored to public sector requirements. Important work is underway to address this problem – for example, through the revision of IPSAS accounting standards – but much remains to be done.

3.2. Performance Budgeting

Performance budgeting – which as noted earlier has been generally conceived as an instrument for promoting VfM – was perhaps the most prominent single area of budgeting reform during pre-GFC era. Today, however, many OECD MOF officials consider that it failed. They believe that performance budgeting has been merely a "paper" exercise, with little significant impact on budget decision-making. Critics also suggest that little budgetary use has been made of the performance indicators developed as part of the performance budgeting reforms, and that many of these indicators are irrelevant to budget decisions.

This poses the question of whether to abandon performance budgeting, or to seek to modify it to turn it into a useful budgeting tool.

However, before concluding that experience has demonstrated it to be useless, it should be noted that in practice so-called performance "budgeting" has, in most countries, not in fact operated as a budgeting tool *per se*. Even in those OECD countries which had implemented performance budgeting reforms, little consideration was given to

performance during budget preparation. The observation of Küchen and Nordman (2008: 5) in respect to the Swedish budget preparation process – that "only to a very limited extent do the discussions between the spending ministries and the Ministry of Finance's budget department concern previous performance or concrete ambitions for the future in terms of performance" – has been true of most countries with programme budgeting systems. In France, for example, a major 2011 review of the LOLF performance budgeting system by the Cour des comptes noted that there was no discussion of ministry performance during budget preparation prior to the point when ministry budget allocations were finalised (CdC, 2011: 176-77).[9]

One of the reasons for this was precisely that most countries which introduced performance budgeting systems during the pre-GFC era did not view these systems as expenditure prioritisation instruments. As discussed earlier, this lack of interest in performance budgeting as a tool for expenditure prioritisation reflected the widespread lack of interest in reallocation at the time.

However, this does not provide an adequate explanation for the failure to use performance information during budget preparation. Even in a performance budgeting system designed only to promote VfM, it makes sense to closely review performance when deciding ministry budget allocations. This is because spending ministry incentives to improve efficiency and effectiveness will be strengthened considerably if ministries know that the MOF will carefully scrutinise their performance, and that they are likely to be exposed to tough bilateral discussions on performance during budget preparation.

Why, then, the lack of consideration of performance during budget preparation? To some extent, the problem may be traced to an implicit assumption that merely shining the spotlight on spending ministry performance through the publication of key programme performance indicators would be sufficient to encourage better performance. In some cases, the problem also arose from a different assumption – namely, that merely providing relevant performance information would be enough to ensure that it was used during the budget preparation process.

However, overarching all of this is the fact that prior to the GFC so-called "performance budgeting" was generally more focused on performance *management* than on budgeting. It was, in other words, seen more as an instrument for general performance-oriented public management reform, then as a budgeting tool.

Despite the widespread dissatisfaction with the performance budgeting reforms of the last decades, there is in the wake of the GFC a widely recognised need to make budgeting more performance-informed. In particular, the renewed emphasis on reallocation is generating a desire to see relevant performance information harnessed to the task of expenditure prioritisation.

One of the key lessons of pre-GFC experience is, however, that performance information – no matter how pertinent – will only be put to full use if specific routines are created within the budget preparation process for the systematic review of spending ministry performance. One of the most important ways of doing this is to establish a *performance dialogue* between the MOF as a routine at an appropriate stage during the preparation of each budget. Another is to create mechanisms to ensure the systematic use of the information generated by performance budgeting systems in spending review processes.

Box 4. **Budgeting and Performance – the UK PSA System**

Arguably, one of the most successful performance budgeting systems of the pre-GFC era was the UK Public Service Agreement (PSA) system, precisely because of the systematic link between performance and budget preparation. The essence of the PSA system, as it operated between 1997 and 2007, was multi-year outcome targets which were set as an integral part of the preparation every three years of the multi-annual budget (the so-called Spending Reviews referred to previously). The system's primary objective was to increase the effectiveness of expenditure, and it was not a tool for expenditure prioritisation. The close link between budget preparation and target setting appears to have ensured that spending ministries took the targets seriously and worked to achieve them (Smith, 2007).

It is today widely recognised that, if performance is to be seriously reviewed during budget preparation, it is also essential that the performance information available to the MOF is *relevant* for budget decision-making. There have been many problems at this level also. In many countries, it was assumed that the only type of performance information required were performance *indicators*. However, it is well known that indicators by themselves (even when well chosen) are of limited decision-making value.[10] All performance indicators need careful analysis and interpretation to yield actionable information for either budgeting or management purposes. This is why evaluation – using the term in the broadest possible sense to include efficiency as well as effectiveness analysis – is crucial to the success of performance budgeting systems. However, during the pre-GFC wave of reforms very few countries considered evaluation to be a necessary part of the information base of performance budgeting. Only a handful of countries – most notably Canada and Chile – operated government-wide evaluation systems (run by the MOF). Even in those countries, evaluation was viewed more as a management tool for spending ministries than as a budgeting information tool (Robinson, 2014).

There is today a growing recognition amongst OECD countries of the potentially important role of evaluation as a tool to inform budgeting. Evaluation is, in particular, seen as a means of improving the spending review process. This renewed emphasis on evaluation is most welcome. At the same time, however, it is important not to forget the lessons of the past. During the first wave of performance budgeting reforms in the 1970s, evaluation was much emphasised and many governments devoted large resources to the construction of government-wide evaluation systems. However, disenchantment rapidly set in because much evaluation was excessively academic, lacking in timeliness, and not designed to provide conclusions tailored to decision-makers' needs. If evaluation is to be resurrected, it must be practical, timely and client-focused. The differing information requirements of programme managers and budget decision-makers will also need to be recognised and accommodated in the design and presentation of evaluations (Robinson, 2014).

This points to the need, in future, to give much closer consideration to the specific ways in which additional information generated to support VfM-oriented budgeting reforms will actually be used by budget decision-makers. As the US Office of Management and Budget has observed, "prior reforms [have] tended to increase the passive collection and reporting of performance information but not its active use" (OMB, 2014: 60). There is a general tendency – whether it is on the part of accountants, evaluators, performance management specialists, or IT systems developers – to advocate large investments in the acquisition of additional information which is expected to be of great value for decision-making purposes, but which turns out to be much less useful than they had imagined. One of the reasons for

this is that the professionals who supply information often have only a very general notion of the requirements of those who are supposed to use that information. Experience clearly demonstrates that, prior to launching major new information initiatives, the manner in which the additional information will be used by the decision-makers needs to be very precisely defined, and the information tailored accordingly.

4. Aggregate fiscal discipline

The third major objective of budgeting is to assure aggregate fiscal discipline. Under the difficult fiscal conditions facing most OECD countries in the wake of the GFC, this is increasingly becoming the primary preoccupation of budget reform. Indeed, even the increasing focus on improving the mechanisms of expenditure prioritisation is in large measure driven by an understanding that better prioritisation can help to control aggregate expenditure and thereby substantially contribute to aggregate fiscal discipline.

The main PFM response to this need to strengthen aggregate fiscal discipline has been to demand the use of tougher forms of instruments developed by reformers prior to the GFC. Tougher limits on aggregate expenditure – through top-down budgeting, expenditure ceilings and expenditure rules[11] – are a particularly important contemporary theme. So is the tightening of fiscal rules by, for example, establishing automatic "correction mechanisms" which apply when the rules are breached (as in the Swiss and German "debt brake" systems), or by more explicitly defining and limiting provisions for the adjustment or suspension of these rules under circumstances such as major recessions. Closely linked to this is the call for increased fiscal transparency, both through better reporting of the government's overall fiscal position and through the use of independent fiscal councils. Finally, the merits of medium-term budgeting frameworks are today being emphasised with intensified fervour.

It is, however, important not to entertain exaggerated notions of what can be achieved through budgeting mechanisms. Aggregate fiscal discipline is above all a question of political will, cultural attitudes and expenditure policy choices, rather than of the design of budgetary instruments and structures. Mechanisms designed to enforce aggregate fiscal discipline have a poor track record in countries where there is little popular understanding of the importance of fiscal responsibility, and where political leadership on these issues is lacking.

Improved fiscal transparency, for example, is a thoroughly good thing, but its benefits will always be marginal. The fiscal risks which financial bubbles pose for government can only be resolved by fundamentally reforming the framework of financial regulation, not through improved transparency. After the GFC, who needs more transparency to know that inadequately regulated banking poses a huge fiscal risk for government? Similarly, although fiscal councils are undoubtedly useful, it would be profoundly naive to believe that even the most frank and fearless commentary by fiscal councils on inappropriate government fiscal policies can have a great effect on public opinion and change the political calculus of fiscal matters. Nor is it realistic to view fiscal councils as having a major impact via the disciplinary effect of financial markets upon government. The financial markets have a track record of blissfully lending freely to irresponsible governments one day, and then taking extreme fright the next day, without paying close attention to the objective facts of the situation.

Nor is it appropriate to expect too much from stronger *permanent* fiscal rules. Fiscal rules tend to work best in the countries which have least need for them. But even allowing that they play a useful role, permanent fiscal rules do not provide an adequate framework for fiscal policy when major fiscal consolidation is required, as is the case in most OECD

countries today. Fiscal rules are by definition not forward-looking, because they do not take into account prospective fiscal developments which are not part of the measures of financial flows and stocks upon which rules are based. For example, the need for surpluses in the medium-term to cover longer-term demographically-induced deficits (especially from pension expenditure) cannot be captured in a permanent fiscal rule.

Permanent fiscal rules are in general more suitable as an instrument for maintaining fiscal sustainability than for consolidating public finances when they have already become unsustainable. Any permanent rule which will over time deliver fiscal consolidation – such as a traditional cash balance budget rule – will be unduly restrictive in the long term (in the case of the cash balanced budget rule, by inappropriately banning the use of debt for infrastructure financing).

Expenditure rules which are appropriate for permanent application are inadequate for consolidation purposes. This is true, for example, of the recently-introduced European Union (EU) expenditure rule, which essentially requires that expenditure may not grow faster than the trend growth rate of revenue. The main value of a permanent expenditure rule along these lines is to prevent pro-cyclical surges of expenditure during the upswing of the business cycle. However, big spending based on cyclical surges in government revenues is hardly an imminent danger under current depressed macroeconomic conditions. The unkind might suggest that this type of rule is a case of shutting the gate after the horse has already bolted.

There has been also little success in designing *conditional* fiscal rules to force consolidation. The EU rule requiring countries with debt above the upper limit of 60% to reduce the excess debt by one-twentieth per year on average has worked poorly, largely because it is too arbitrary and mechanistic to take proper account of macroeconomic conditions. This points to a conundrum facing fiscal rule designers. On the one hand, the effectiveness of fiscal rules depends a great deal on their public credibility, for which purpose it is critical that they are simple and understandable. On the other hand, however, the GFC has underlined the need for fiscal rules to be designed so as, firstly, to take better account of potential unanticipated shocks and, secondly, to make it more difficult to circumvent them (e.g. by creative accounting). To do this, their design needs to be more sophisticated, which necessarily means that they become more complex and consequently less readily understandable.

For the purposes of the fiscal consolidation which most OECD countries will require in the years to come, it is not permanent rules which are important but rather fiscal *targets* and temporary fiscal rules (i.e. rules which are intended to apply over a significant period of time but not permanently). The Swedish objective of a 1% fiscal surplus to prepare public finances to cope with future age-related spending pressures falls into this category – it makes no sense as a permanent rule, but makes eminent sense when applied over, say, a 20 year period. Fiscal targets, which are time-bound objectives for aggregate fiscal variables (such as an objective of reducing debt/GDP by a certain quantum within a defined time frame) by definition lapse once they have been achieved their intended effect of consolidating public finances.

As a solution to the fiscal challenges facing most OECD countries, medium-term budgeting suffers from the same type of limitations as fiscal rules. While it is undoubtedly important to strengthen the medium-term perspective in budget formulation, what counts most in the majority of OECD countries at present is not the medium term but the long term. In most countries, fiscal policies need to be formulated primarily with an eye to

addressing the problems of long-term sustainability, and medium-term fiscal policies should be derived from long-term objectives, rather than merely reflecting the object of maintaining medium-term fiscal sustainability. The long-term fiscal projections and analysis which are now produced by most OECD governments (and by the European Union) are particularly useful in this context, but need to be more closely linked to budgeting.

4.1. Limiting Aggregate Expenditure

Perhaps the most important PFM response to the need to tighten aggregate fiscal discipline has, however, been the increased emphasis on strengthening control over aggregate expenditure. The more widespread adoption of expenditure rules is one manifestation of this, as is the reintroduction in the United States of *pay-as-you-go* (PAYGO) and the CUTGO version of this which requires adjustments exclusively on the expenditure side[12]. Moves towards the wider adoption of mechanisms whereby pension entitlements, including the retirement age, are automatically adjusted with life expectancy, are another.

Two instruments for aggregate expenditure control have assumed particular importance. The first is top-down budgeting, the defining characteristic of which is the imposition of an aggregate expenditure ceiling *during budget preparation*. The other is aggregate expenditure ceilings which are limits on aggregate expenditure which apply *during budget execution* (and may or may not apply during budget preparation), and which therefore require corrective action during the financial year if they look like being exceeded.

Box 5. **Expenditure Ceilings**

Discussions of expenditure ceilings sometimes become confused because the term "ceiling" is used in three different senses in the literature – as budget preparation ceilings, as budget execution ceilings, and as budget guarantees. A budget preparation ceiling is a planning limit on expenditure which applies during budget preparation. This involves a commitment that, at the end of the budget preparation process, the expenditure estimates for the coming year will be consistent with that ceiling. A budget execution ceiling, on the other hand, is a limit which must be respected during the execution of the budget. This means that, if during the year it looks like actual expenditure is on track to exceed the ceiling, immediate cuts must be applied to ensure that this does not happen.

It is possible to set a budget execution ceiling at the end of the budget preparation process without having applied that ceiling during budget preparation. The converse is also possible: as discussed later in this paper, budget preparation may be framed by a ceiling which the government recognises may, for reasons outside its control, be exceeded during budget execution. For this reason, although top-down budgeting necessarily involves the application of an aggregate expenditure ceiling during budget preparation, it should not be considered to necessarily require enforcement of that same ceiling during budget execution.

If fixed multi-annual expenditure ceilings are set, the outer-year ceilings necessarily operate both as budget preparation ceilings and as budget execution ceilings. In other words, when those outer years arrive, the ceiling will need to be respected in both the preparation and execution of the budgets for the years concerned. A multi-year budgeting system based on fixed multi-annual ceilings therefore mandates a top-down budgeting system, as well as firm budget execution ceilings.

Although the plain meaning of the term "ceiling" is that of a limit on expenditure, the term is also used in the third sense of a guaranteed minimum level of expenditure, particularly in the context of fixed medium-term ministry ceilings. The role of ceilings as budget guarantees is discussed further below.

In this paper, the sense in which the term "ceilings" is being used will either be clear from the context or is expressly indicated.

Since the GFC, the use of both top-down budgeting and aggregate (budget execution) expenditure ceilings has increased. Germany, for example, adopted top-down budgeting in 2011. Portugal has done the same. In Denmark, 2013 amendments to the Budget Law introduced four-year expenditure ceilings (which were fixed for the first time for the period 2014-17). There has also been a tendency to call for the application of tougher forms of aggregate expenditure ceilings – in particular, ceilings with more comprehensive coverage (EC, 2013; IMF, 2014b).

Strengthening control over aggregate expenditure is highly desirable. However, there are dangers which should be recognised and properly addressed. In particular, there are sometimes trade-offs between, on the one hand, strengthening control over aggregate expenditure and, on the other hand, improving allocative efficiency, effectiveness and efficiency. Linked to this, there are major risks in the imposition of *arbitrary* limits on aggregate expenditure which do not take proper account of the underlying dynamics of expenditure – i.e. of trends in baseline expenditure on a "constant policy" basis. Purely top-down limits which are set without regard to bottom-up expenditure pressures may raise major problems.

PFM tends to be characterised by a permanent tension between the different perspectives of, on the one hand, those whose primary focus is on the "macro" task of controlling aggregate expenditure, and those who are more focused on the "micro" objectives of improving VfM and allocative efficiency. Some of the former (who are mainly economists) have little awareness of the potential adverse implications for VfM and allocative efficiency of some of the mechanisms which they favour for improving aggregate expenditure control. They also often have a tendency to favour arbitrary top-down limits on spending without fully acknowledging the strength of the bottom-up expenditure dynamics. They do not necessarily understand that controlling aggregate expenditure is not simply a matter of deciding how much spending is to be authorised, and issuing orders to that effect.

On the other hand, many of those whose main focus is on improving VfM and allocative efficiency – who are often accountants and public administration specialists – have an inadequate understanding of aggregate fiscal policy and do not attach sufficient importance to controlling aggregate expenditure. In the pre-GFC era their myopia was often aggravated by the fashionable pursuit of private sector models, which as previously mentioned led many to seek to apply management models based on the notion of ministries operating as independent stand-alone enterprises, without recognising the crucial importance of whole-of-government perspectives.

Prior to the GFC, the emphasis given to VfM-oriented budgeting reforms, and the inadequate understanding on the part of the "micro" budgeters of expenditure control imperatives, resulted in the adoption of some reforms which undesirably weakened aggregate expenditure control. In the coming years, there is a danger that the reverse may occur – that well-intentioned reforms designed to strengthen aggregate expenditure control might have unintended and unnecessary adverse effects on the pursuit of VfM and allocative efficiency.

Perverse effects on aggregate expenditure control arising from pre-GFC VfM-oriented budgeting reform may be illustrated by two examples. The first is expenditure carryovers, and the second concerns medium-term budget guarantees to spending ministries.

4.2. Expenditure carryover

The introduction of automatic expenditure carryover arrangements, under which spending ministries were allowed to retain unspent expenditure appropriations rather than return them to the MOF, was a major reform of the 1980s. However, in the decade prior to the GFC a number of OECD countries regarded as leaders in budgeting reform dramatically increased the level of carryover which was allowed. Moreover, they did so in ways (e.g. removing limits on carried over expenditure, or permitting indefinite carryover into the future) which seriously eroded the capacity of MOFs to control annual aggregate expenditure. In Sweden, for example, the accumulated carried over expenditure entitlements of spending ministries were characterised as a "time bomb" (Blöndal, 2001: 48).

British experience with unconstrained carryover is noteworthy. In that country, most limits on carryovers were removed as part of 1998 reforms to expenditure control mechanisms (HM Treasury, 1998). Over the years that followed, spending ministries accumulated increasing amounts of carryover expenditure entitlements and it was increasingly understood that, should they choose to exercise these rights in any particular year, there would be a large impact on aggregate expenditure. As a consequence, some initial steps to rein in carryover rights were taken in 2005, just prior to the GFC. It was, however, in 2011 that the UK government took more radical action to limit the extent of expenditure carryover available to ministries, when it replaced the previous "End Year Flexibility" system with a new "Budget Exchange" system (HM Treasury, 2010, 2014b). At the time it did so, accumulated carryover expenditure rights across the entire UK Government had reached the remarkable level of approximately GBP 20 billion. The new Budget Exchange system aimed explicitly to strengthen aggregate expenditure control, while nevertheless retaining flexibility "within prudent limits".[13]

So far, the UK appears to be the only country which has moved to restrict carryover in the interest of expenditure control. It is, however, likely that other OECD countries will in the coming years to limit the extent of carryover permitted.

4.3. Medium-term budget guarantees to spending ministries

A key focus of the massive literature on medium-term budgeting is the role of medium-term expenditure ceilings. However, as noted in Box 5, there is a certain ambiguity in the term "ceiling" as used in some of the literature. It is clear that any expenditure ceiling must represent a level of expenditure which is not to be exceeded – that it must represent a *maximum* level of expenditure. However, the term is also used to refer to government commitments to spend at that level, in which case the ceiling also functions as a *minimum*.

For spending control purposes – which is the main focus of *aggregate* expenditure ceilings – it is the core notion of a ceiling as a maximum which is crucial. Indeed, the idea of locking government years ahead into minimum levels of expenditure raises potential problems for aggregate fiscal policy.

Prior to the GFC, however, a small number of OECD countries firmly committed to the idea of ceilings as both expenditure minimums and maximums – specifically, as a means of providing firm guarantees to spending ministries about their future budgets over the medium-term time horizon. The main objective was to improve VfM. Giving spending ministries certainty about their budgets over, say, a three-year time horizon was expected to improve the effectiveness and efficiency of spending by permitting better planning and implementation of expenditure. For example, when in 1998 the UK introduced three-year fixed "departmental expenditure limits" (DELs), it did so in order to enable ministries to

"prioritise resources and plan ahead, providing a more stable foundation for managing public services" (HM Treasury, 1998: 3.4). It was the same VfM objective which inspired France's adoption in 2009 of two-year fixed *programme* expenditure ceilings. This point is perhaps not universally understood, because some of those who today argue for fixed medium-term ministry expenditure ceilings seem to believe that such ceilings are first and foremost an instrument for fiscal discipline.

In the presence of uncertainty about medium-term revenues, there is always a potential conflict between, on the one hand, providing medium-term budget guarantees to spending ministries and, on the other hand, committing to specific targets or rules for the fiscal balance or other fiscal aggregates. In the decade before the GFC, buoyant revenue conditions in many OECD countries prevented this potential conflict from manifesting itself. In the UK, for example, repeated positive revenue surprises not only supported the operation of the medium-term ministry expenditure ceiling system introduced in 1998, but permitted the government to *increase* on a number of occasions the supposedly fixed ministry ceilings (Keynes and Tetlow, 2014: 43).

In the post-GFC era, circumstances have been completely different. Revenue growth has generally been slow and has often surprised on the downside, while at the same time increased attention has been given to achieving aggregate fiscal targets. The conflict between medium-term budget guarantees and aggregate fiscal policy has progressively manifested itself.

Thus in recent years, revenue shortfalls have put significant pressure on the U.K.'s system of fixed medium-term DELs. The outer year DELs which were set in 2010 were subject to subsequent substantial downward adjustments for a number of important ministries (NAO, 2012: 40). Then in 2013, six months after setting supposedly firm DELs for 2015-16, the government cut 1% off those of most ministries (Keynes and Tetlow, 2014: 43).

In France, the government has in recent years made increasing use of controls over the release of budget allocations to spending ministries during the course of the financial year to impose de facto cuts to ceilings when deemed necessary for deficit control purposes.[14] This practice has significantly increased *within-year* budget uncertainty for spending ministries, and has been repeatedly criticised by the Cour des comptes, which has urged that "this type of management involving the significant reduction of budget allocations during the course of the year should not be allowed to continue" (CdC, 2013a: 80; 2013b: 121-25; 2014: 95-96). Increasing the within-year budget uncertainty facing spending ministries hardly fits with a policy of giving them greater budgetary certainty over the medium-term time horizon.

This tension between aggregate fiscal policy and ceilings which operate as guarantees of future budgets has, in fact, also impacted on countries which have operated systems of fixed medium-term *aggregate* expenditure ceilings without ever providing guarantees to individual spending ministries about their future budgets. Even in these systems, it was in the past not always completely clear whether the aggregate expenditure ceilings were intended to function as minimums as well as maximums. Under difficult post-GFC fiscal circumstances, the answer is increasingly that the ceilings are purely maximums.[15]

4.4. Strengthening aggregate expenditure control in the coming years

If, in the past, VfM-oriented budgeting reforms have sometimes been pursued to the detriment of aggregate expenditure control, there is now a reverse danger. This is that the design of tougher instruments of aggregate fiscal control will fail to pay sufficient attention

to the objectives of good expenditure prioritisation and VfM. Strengthened aggregate expenditure control is undoubtedly vital, but it would be a huge mistake to sacrifice these other objectives of budgeting when asserting stronger spending control. Two examples – concerning, respectively, the comprehensiveness of expenditure ceilings and the process for setting spending ministry shares of the aggregate expenditure ceiling under a system of top-down budgeting – illustrate the danger.

4.5. *The comprehensiveness of expenditure ceilings*

As noted above, since the GFC there has been an increasingly assertive school of thought demanding that expenditure ceilings – by which is meant ceilings which apply during budget execution as well as budget preparation – should be as comprehensive as possible. Crucially, these advocates of "comprehensive" ceilings assert that a single aggregate expenditure ceiling should include all or most social security expenditure, which automatically ensures that the ceilings cover a very large percentage of government expenditure.[16] The Swedes have long been the firmest advocates of this position, having always included social security expenditure in the expenditure ceilings which have been a central feature of their budgeting system for almost 20 years.

Budget execution expenditure ceilings are, however, entirely unsuitable as an instrument for limiting social security benefit spending. As discussed above, a budget execution expenditure ceiling is a limit on aggregate expenditure which requires corrective action to cut spending during the financial year if it looks likely that the ceiling will be exceeded. It is not, however, possible to apply such an expenditure ceiling to social security expenditure, because the amount of spending is determined primarily by entitlements set out in legislation. Even if, at the time the budget is prepared, unbiased expenditure forecasts indicate that social security expenditure should remain within the planning limit, circumstances can and often do change during the year in such a manner that actual benefits expenditure, even without any policy changes, exceeds the forecast level. The same is true for some other types of mandatory expenditure, because mandatory expenditure is by definition determined by either legislative or contractual rights, and not by quantitative budget allocations. More precisely, the inapplicability of ceilings applies to "indeterminate" expenditures (Robinson, 2015).

It is possible to apply a budget preparation ceiling to mandatory expenditure – that is, to set a planning limit for the projected amount of mandatory expenditure and then make adjustments to benefits and other legislation during budget preparation so that forecast expenditure remains within that limit. But it is not possible to use expenditure ceilings to subsequently enforce such a planning limit if forecasts prove to be wrong.

The problem which social security and other mandatory expenditures pose for fiscal policy is that such expenditure is essentially uncontrollable in the short run, but *must* be controlled over time if aggregate fiscal discipline is to be preserved.

In the extreme, the notion that ceilings can be used to prevent social security expenditure from exceeding a pre-set level leads to the proposition that, if benefits expenditure looks like exceeding the ceiling during the year, the government should stop paying citizens the benefits to which they are entitled.[17] However, making needy citizens uncertain as to whether they will receive benefits seriously undermines the effectiveness of the social security system, a key aim of which is to reduce insecurity. Yet precisely this notion of quantitative rationing of social security benefits has been forced by international organisations on certain countries facing serious fiscal difficulties.[18]

Even if one excludes the notion of denying citizens social security benefits once a ceiling has been reached, the idea of including mandatory expenditure within a comprehensive budget execution expenditure ceiling remains deeply problematic. With a single comprehensive ceiling which includes mandatory expenditures, one faces a choice between two options neither of which is attractive. Option one is to maintain a *large* unallocated budget reserve (contingency reserve) in order to cope with unanticipated fluctuations in mandatory expenditure – and, in doing so, open the door to the abuse of this large reserve by governments to approve additional unplanned non-mandatory expenditure during the financial year. Option two is to keep the budget reserve small, in which case any unanticipated surge in mandatory expenditure may force disruptive cuts to non-mandatory expenditure during budget execution – running contrary to the objective of providing greater planning certainty to spending ministries in order to achieve better VfM. This unappealing choice between weakening the disciplinary value of expenditure ceilings, and permitting them to seriously disrupt budget execution with adverse consequences for the effectiveness and efficiency, has confronted Sweden repeatedly over the last decade (Robinson, 2015).

A more sophisticated approach, which properly balances the objectives of aggregate spending control and expenditure effectiveness – within the context of a top-down budgeting system – is the "welfare cap" on mandatory expenditure which has recently been introduced in the UK (HM Treasury, 2014a). Under the new system the government sets rolling multi-year target planning limits which cover most social security expenditure. It is these limits which are referred to as "caps". The government is then required to ensure that the budget presented to parliament respects these caps – in other words that *forecast* (not actual) social security expenditure is not in excess of cap. The entire emphasis is on *ex-ante* respect for the cap, and there is no mechanism for *ex post* enforcement if actual social security expenditure exceeds the cap. In the terminology of this paper, the caps serve exclusively as budget preparation ceilings.

The design of the welfare cap system is driven by the explicit recognition that it takes time to change the level of social security expenditure. It is precisely for this reason that the welfare caps are not designed to operate as budget execution expenditure ceilings. The cap is not part of the UK's system of DELs which, as discussed above, are ceilings which are enforced during budget execution. The DELs cover approximately half of central government expenditure and therefore remain quite deliberately very far from comprehensive.

4.6. Setting ministry shares of aggregate ceilings

The application of a crude approach to the design of expenditure ceilings is not the only way in which poorly-designed instruments for controlling aggregate expenditure can undermine allocative efficiency and expenditure effectiveness. Poor design of top-down budgeting processes can also generate the same undesirable consequences. There are two ways in which this can potentially happen. The first, which has already been discussed, is the inappropriate notion that top-down budgeting requires the setting of *ministry* shares of the aggregate expenditure ceiling right at the start of the budget preparation process, before there is an adequate opportunity for proper consideration of the merits of competing new spending proposals or review of baseline expenditure. Some think that establishing ministry shares right at the start of the budget preparation process is an essential feature of top-down budgeting. This is, however, not the case – it is the early establishment of the *aggregate* ceiling which is essential in order to guarantee aggregate fiscal discipline in the face of bottom-up spending pressures. The process which is used to share the aggregate

ceiling between spending ministries is a separate matter, and it is essential that it be designed so as to deliver good expenditure prioritisation, and not simply to set shares based (at best) on some vague notion of government strategic priorities but without close consideration of concrete alternative spending options (Robinson, 2012).[19]

The other potential danger is the notion that the setting of *fixed* medium-term expenditure ceilings for spending ministries necessarily constitutes "best practice" which everybody – i.e. all OECD countries and even most developing countries – should follow. As noted above, there is a school of thought today which views fixed medium-term ministry ceilings as a key instrument for strengthening fiscal discipline. Setting aside the question of whether this is the appropriate way to view such ceilings, there are persuasive grounds to fear that setting medium-term fixed ministry ceilings may seriously undermine expenditure prioritisation in some countries. Proponents of fixed medium-term ceilings have argued to the contrary – claiming, on debatable methodological grounds, that such ceilings generally lead to improved expenditure planning and, thereby, allocative efficiency (Harris et al, 2013). However, a more plausible hypothesis is that the impact on allocative efficiency of setting fixed medium-term ministry ceilings depends on national circumstances.

It is not difficult to accept that in the United Kingdom, where there are high levels of capacity and an excellent budgeting system – including, in particular, what is now a well-developed system of periodic spending reviews – the system of fixed medium-term DELs is compatible with good multi-year expenditure planning and expenditure prioritisation. However, in countries without such a well-developed budgeting system, there is a very real danger that locking in spending ministry budgets three years in advance may have precisely the opposite effect, by making it much more difficult to reallocate expenditure according to government priorities and effectiveness considerations. This is because, in the absence of highly sophisticated budgeting processes, including effective spending review, fixed medium-term ceilings are likely to be set on a largely incremental basis and therefore to have the effect of increasing the rigidity of expenditure allocations.[20]

Rather than advocating fixed medium-term ceilings as the best solution for everyone, a more nuanced and appropriate position would be that the choice between indicative and fixed medium-term ministry ceilings should be made on a country-by country basis, taking into account a set of relevant criteria.[21]

5. A practice-oriented analytic framework

From the practitioner point of view, there is a pressing need to develop a stronger corpus of budgeting literature focused explicitly on the normative question of the optimal design of budgeting instruments and structures to achieve the three key objectives of budgeting. Concretely, this means a literature which is directly geared to providing responses to questions ranging from the high-level (e.g. "what is the best way to design top-down limits on aggregate expenditure?") to the quite detailed (e.g. "what is the optimal size of the budget reserve and what rules should govern its use?"). To support the development of such a literature, the analytic framework needs considerable strengthening.

From the practitioner point of view, the academic literature has major limitations. Although this is not the place for a comprehensive review of this literature, two particularly important strands of the academic literature are worth discussing in this context. The first of these bases its analytic framework on actors and their motivations. The second is based on a set of legalistic budgeting principles.

5.1. *Actor/motivation frameworks*

There is a large family of budgeting literature based on institutional (and individual) *actors* and the self-seeking *motivations* that are attributed to these actors. One important branch of this family of literature is the political science school of public budgeting, which is particularly strong in the United States. This is a school which views budgeting as an essentially political game between key groups of actors who strategise to achieve the expenditure objectives which motivate them. For example, in the classical guardians/spenders model developed first by Wildavsky, spending ministries' driving motivation is to maximise their budgets, and central agencies' motivation is the inverse. Reflecting the preoccupation with political games, the political science tradition has tended to focus particular attention on explaining allocative outcomes (who gets what).

The other major branch of the actors/motivations family of budgeting literature is the "political economy" school, developed by economists. This is essentially a variant of the political science tradition, in which the self-seeking nature of the motivations attributed to actors is presented in even starker terms, in line with predilection of economists for *homo economicus* representations of human behaviour.

Many of the writers from these schools are not directly interested in the design of budgeting instruments and structures, but are primarily focused on other questions. However, even when this is the case this literature has had an enormous influence on practitioners, because it has supplied them with assumptions about the behaviour of actors in the budgeting process which have conditioned their approach to areas ranging from the design of institutions to assure aggregate fiscal discipline, through to the development of mechanisms to improve effectiveness and efficiency.

There is, in addition, a significant strand of the political economy school – a leading representative of which is Von Hagen – which does have an explicitly normative focus: specifically, on the design of fiscal rules and processes to guarantee aggregate fiscal discipline by constraining the inherent tendency of democracies to fiscally irresponsible outcomes. The main focus here is on high-level fiscal rules and processes (e.g. how to design the constitutional rules on parliamentary approval of the budget), and the methodology is less well suited to addressing more detailed questions of budget process design.

As important as the contribution of the literature based on the actor/motivation framework has been, there are significant dangers and limitations for practitioners in relying excessively on budgetary theory based on this framework.

The first of these arises from the fact that both the political economy and political science schools have a tendency towards crude caricatures of actor motivation. A familiar example is the Niskanen model of the budget-maximising bureaucrat, whose sole motivation is to build the largest possible bureaucratic empire. This is clearly an absurd one-dimensional description of bureaucratic behaviour.

The fashion for analysis based on these types of simple motivational hypotheses has faded somewhat. In recent decades, there has been a vigorous counter-assault directed at crude behavioural assumptions in the *homo economicus* tradition. Today, even many economists acknowledge that the behaviour of actors – whether in the budgeting process or in other contexts – is generally not as simple as this, and that both individuals and institutions are often guided by a mix of altruistic (principled) and self-seeking motives. Moreover, many analysts would today readily agree that the actor/motivation framework tends to accord far too little significance to differences in culture and political values as a determinant of fiscal outcomes – in explaining, for example, why it is so politically difficult

for French governments to consolidate public finances while in Germany there is always a strong electoral constituency for "sound" public finances.

Acknowledging the complexity of human behaviour poses, however, a major problem for budgeting theory based on actors and their motivations. The predictive power and attractiveness of these models depends precisely upon making simple ("parsimonious" in the jargon of economists) motivational assumptions. As soon as these simple assumptions are dropped, it is no longer possible to clearly deduce the consequences – e.g. for aggregate fiscal discipline – of a given set of budgetary institutions and practices.

The conclusion that practitioners should draw from this is that, while drawing on the insights which come from the actor/motivation analytic framework, they should use these with caution and considerable scepticism when designing budgetary instruments and structures.

There is a second danger which faces practitioners in drawing on literature based on this framework. This is the danger of relying too much on the analytic framework and not adequately taking into account the intrinsic complexities of the public sector. The danger can perhaps be best illustrated by the example of the erstwhile fashion for contractual models. Under the influence of principal-agent theory, many OECD countries sought in the pre-GFC era to introduce contractual modes and quasi-market systems of internal governance into the public sector. One manifestation of this was the development in certain countries of the accrual output budgeting model which has been referred to earlier in this paper. As noted, this was a model which sought to transform budgeting into purchaser-provider transactions where the government purchased outputs, based on pre-specified prices, from ministries (and equally, from outsourced private providers). This was supposed to create intense pressure to improve efficiency, along the same lines that competitive markets operate. At a superficial level, the idea was an attractive one. However, it was a model which failed fundamentally when confronted with the realities of the complex mix of services delivered by government, many of which were highly heterogeneous, had no standard unit cost, and for which it was in some cases even difficult to define units of output (i.e. measures of the quantity of services delivered).

For practitioners focused on the design of detailed budgetary instruments and structures, the devil is always in the detail. The specificities of the public sector are of fundamental importance, whether it is in respect to the characteristics of public sector outputs, the drivers of expenditure (e.g. mandatory versus non-mandatory), the existence of the hard budget constraint (see below), or any of a number of other important matters. Swashbuckling reform campaigns based on bold academic theories in the actor/motivation tradition, undertaken with too little regard for the "nitty-gritty" detail, are bound to fail.

5.2. The legal principles framework

Another major strand of budgeting literature is the legalistic tradition which dominates in much continental Europe, including France and Germany. This is a literature which focuses on budgeting primarily through the prism of the design of laws and subordinate legislation governing budgeting processes. Its analytic framework is primarily based upon legal principles which are supposedly fundamental to budgeting, but which turn out in fact to have limited value as the basis for normative propositions. This can be illustrated by reference to two of these supposedly fundamental principles – the principle of the *annual basis* of the budget and that of the *universality* of the budget. With the focus on the development of multi-annual budgeting, the first of these principles has been increasingly

ignored by OECD governments. As for the universality principle – the central aspect of which is the assertion that the budget should appropriate expenditure on a gross basis without any netting off of the own-source revenues of ministries and agencies (i.e. no "net" budget allocations) (Lienert, 2004: 138; Bouvier, Esclassen and Lassale, 2013: 278) – this is a principle which many governments quite deliberately set to one side as part of the pre-GFC autonomy movement, in order to create revenue-raising incentives for ministries.

The problem with these sorts of legal principles is that they are not anchored in the basic objectives of budgeting, and therefore have an inherently arbitrary quality. As a consequence, much ink ends up being spilt explaining why there are in practice so many exceptions to these supposedly fundamental legal principles. Another problem with the legal tradition is that it can lead to the legal tail wagging the budgeting dog: in other words, the drafting of budget laws and regulations takes primacy over the appropriate design of instruments and structures, sometimes to the detriment of the latter.[22]

In their different ways, then, neither the actor/motivation framework nor the budgetary principles framework provide an adequate basis for the design of budgetary instruments and structures to achieve the three basic objectives of aggregate fiscal control, good prioritisation, and value for money.

5.3. *Proprietary methodologies*

Nature abhors a vacuum, and into the partial void left by the academic literature step others – unfortunately, often management consultants. The consulting objective is to create a proprietary methodology which can be sold to unsuspecting governments on the promise of radically improving their budgeting systems. Often, these are simply recycled versions of proprietary methodologies originally developed to sell to the private sector, with little or no modification to take into account the significantly different circumstances of the public sector. A good example of this is the effort to sell the balanced scorecard as the basis for performance budgeting in government, with only a superficial "makeover" from the private sector version. Despite its genuine merits in a private sector context, the balanced scorecard is largely unsuitable for application to government-wide planning and budgeting. It tends to reinforce certain bad design practices (e.g., excessive use of internal process indicators rather than a focus on "big-picture" output and outcome indicators) (Robinson, 2010). Over the decades, there have been numerous examples of these types of inappropriate proprietary methodologies which have enjoyed temporary favour in the public sector in certain countries, before being recognised as burdensome and unsuccessful. These range from zero based budgeting in the 1970s through to activity-based costing and budgeting more recently. Without exception, they have done more damage than good.

5.4. *Towards stronger theory and practice*

What is the best approach to developing a stronger analytic literature focused on the optimal design of budgeting instruments and structures? Essentially, what is required is the development of stronger theory based on close observation of practice. By "theory" is meant credible and detailed explanations – grounded in and consistent with observation of practice – as to why specific instruments and structures can be expected to have desirable (or undesirable) consequences for the achievement of the three key objectives of budgeting. In seeking to develop stronger theory, the most valuable research tool is comparative analysis which sets out to contrast and evaluate the different instruments and structures which countries have used to achieve the three basic budgeting objectives, and uses this

to derive hypotheses about what works best and what does not work – and under what circumstances. Hypotheses derived from comparative analysis need then to be tested for theoretical plausibility, in what is essentially an iterative process. Comparative analysis and theoretical development therefore go hand-in-hand.

Although the merits of comparative analysis might appear obvious, it is surprising how little good comparative analysis of budgetary instruments and structures has been undertaken. Good comparative analysis means more than simply describing different approaches taken by different countries. It requires an explicit evaluation of the merits of alternative approaches with the objective of saying what works best. As part of this, it needs to be capable of differentiating between, on the one hand, differences in national budgeting practices which reflect good versus bad practice and, on the other hand, differences which are legitimate responses to varying contexts and circumstances. The aim should be to yield *conditional* good practice recommendations – e.g. recommendations for the size and role of the budget reserve which differ depending on, for example, the coverage of the budget in the country concerned.

As part of this, studies of *national* budgeting practice need to become more internationally comparative – that is, to not only describe budgeting practices in the country concerned, but to contrast these explicitly with practices elsewhere and explain the differences.

An essential tool for better normatively-oriented comparative analysis is a more well-developed set of basic concepts for describing and classifying budget systems. At present, the set of such concepts is very incomplete, and differences in terminology alone constitute major obstacle to international comparisons. In part, the problem is the use of many different terms to mean the same thing – for example *control aggregate* in one country for what another country calls an *expenditure ceiling* and a third country calls a *resource envelope*. But the problem is also that some widely-used terms have such completely different meanings in different countries as to be of no value in comparative analysis. This is true, for example, of the terms *budgetary* and *extra-budgetary* expenditure, given that in some countries even mandatory social security expenditure is subject to (admittedly purely symbolic) appropriation in the budget. One of the consequences of this lack of an adequate standardised conceptual framework is to make it difficult for readers of the typical "budgeting in country X" study to properly understand the budget instruments and structures described.

In addition to differences in terminology between countries, there is also a proliferation of divergent terminology in the budgeting literature itself. There is, for example, no universally (or even generally accepted) definition of what constitutes, say, accrual budgeting, a fiscal rule, or even a budget classification. Imagine how much difficulty the physical sciences would have had in progressing if scientists had been unable even to agree on a standard set of concepts and terminology.

The development of a stronger comparative budgeting literature focused on normative system design issues can potentially provide the best antidote to the constant danger that the limited normative literature which is produced (and technical assistance based on it) is largely comprised of manifestoes by national experts preaching their own national systems, with little understanding of what is done elsewhere and little capacity to adapt their recommendations to the circumstances of countries with different traditions and circumstances.

International organisations are particularly well-placed to lead with this type of analysis. Indeed, it is they – and particularly the OECD – who have been responsible for most of the practical comparative work focused on the optimal design of budgeting instruments and structures which has been carried out to date. However, a great deal more needs to be done. Moreover, the international organisations cannot do the job alone. They face, for example, the constraint of diplomatic nicety when conducting analysis of the national budgeting systems. The potential contribution of academics and other independent analysts, who do not face this constraint, is invaluable.

Box 6. **Statistical analysis of the efficacy of budget instruments and structures?**

In working to develop a stronger theory of effective budgetary instruments and structures, there are strong reasons to be suspicious of propositions derived from statistics. Over recent years there has been a proliferation of statistical studies, particularly from some international organisations, claiming to demonstrate the effectiveness of favoured budgetary institutions or processes. Some of these are better than others, but few would pass the test of rigorous review by independent external statisticians or econometricians. These studies are in many cases plagued by some of the most familiar problems of statistical analysis such as omitted variables, inadequate sample size and inability to distinguish correlation from causation. The budgetary institutions or processes the merits of which they purport to test tend to be poorly defined (in some cases to the extent that any country which claims to have a particular budgetary process in place is taken at its word and included within the sample tested). Remarkably crude proxies are frequently used for dependent variables which are intrinsically very difficult to measure (such as allocative efficiency). But even when based on reasonably sound methodology, these types of studies are unable to say much about the key design choices which interest practitioners, because in complex systems it is impossible to isolate the impact of one specific design choice from that of others – e.g. to provide answers to the question of whether, and under what circumstances, it is better to base medium-term frameworks on fixed or indicative expenditure ceilings. At best, all these types of studies can say with any degree of plausibility is that having a substantial set of "good practices" tends to produce better fiscal outcomes (e.g. Dabla-Norris et al, 2010). Although statistical analysis has some role to play, it needs to be recognised that the design of budget instruments and structures is not a field which lends itself to the extensive application of this approach.

6. Implications for future reforms

There is much work to be done to reconfigure the budget reform agenda to make it more relevant to the post-GFC era. To reinforce aggregate fiscal discipline, more attention needs to be paid to the manner in which aggregate fiscal targets and rules interact with bottom-up expenditure dynamics and budget preparation processes. As part of this, key design features of aggregate expenditure ceilings – such as the coverage of expenditure ceilings, and the size and role of budget reserves – need much closer examination so as to ensure that they achieve their intended disciplinary effect without making it more difficult to improve allocative efficiency. More attention is also required to means of strengthening the link between longer-term fiscal consolidation requirements and annual and medium-term budgeting processes.

The development of instruments and structures for expenditure reallocation – including, but not limited to, spending reviews – is also a key priority for the coming years. With respect to VfM, the main issue is to determine concrete ways of ensuring that

performance information is taken into account during budget preparation. This means integrating the review of performance into the budget process, and increasing the budgetary relevance of performance information.

In approaching these and other challenges, it is useful to bear three considerations in mind. The first is the need for a holistic and integrated approach to budgetary reform. The second is the imperative of keeping all reforms firmly grounded in the realities of the public sector. The third is the importance of better matching the demand and supply of information, by tying the supply of additional information tightly to the specific processes which it will support, and to the needs of users.

There are at least five requirements for the development a more holistic and integrated approach to budgetary reforms:

- A wider understanding that most budget reforms which are directed towards advancing one of the three key objectives of budgeting also have consequences for the others. For example, VfM-oriented budgeting reforms may have the unintended consequence of weakening aggregate expenditure control or allocative efficiency. Similarly, reforms intended to strengthen aggregate fiscal discipline may sometimes have the effect of making good expenditure prioritisation more difficult. It is therefore inappropriate to develop reforms based on a tunnel vision which focuses exclusively on a single budgetary objective.
- *A rapprochement between the "macro" and "micro" perspectives on budgeting*. Fiscal economists who are focused on the design of aggregate fiscal rules and targets need to develop a better appreciation of the detailed expenditure and revenue dynamics which hands-on budgeters must cope with. Conversely, budget reformers whose primary focus is on the design of detailed budgeting instruments and structures must always keep in mind the overarching imperatives of aggregate fiscal policy.
- *Improved institutional integration within ministries of finance*. For example, a recurrent problem in many OECD countries has been that MOF "performance" departments have little contact with the budgeting department. This is arguably the case in the US, where the management and budgeting sides of the Office of Management and Budgeting tend to operate as silos.
- Careful avoidance of narrow national perspectives which transform practices which apparently work well in a specific country into supposedly universal "best practice" which should be followed worldwide. The point here is not only that the design of budgetary instruments and structures should recognise each country's stage of development. Even between countries with similar levels of institutional and human capacity development, differences in political, legal and institutional structures – together with cultural differences – have important implications for the design of budgeting reforms.
- *The avoidance of narrow professional perspectives on budget reform*. Budgeting is inherently multi-disciplinary. Those who approach it with the explicit or implicit intention of remaining true to a specific discipline – e.g. taking the "accounting perspective" or the "economists' perspective" – are doomed to miss the big picture, and are likely to recommend reforms which will fail.

The need to insist that budgetary reform be approached from a firmly public sector perspective is a constant battle. There is a never-ending supply of snake oil merchants who suggests that the answer to all government's problems is to remodel government from top to bottom along private sector lines. Countries with the strongest pro-business ideological traditions, such as the United States, are particularly prone to this phenomenon. However,

even reformers who do not take such a shallow approach to governance questions have often been too easily seduced by private sector models.

There is no doubt that government can learn much – and has learnt much in the past – from good private sector business practice. However, government is fundamentally different from the private sector in ways which have ramifications for all aspects of budgeting and management. Most importantly, government expenditure is always faced with a hard budget constraint which does not apply to the private sector. In the private sector, additional expenditure can always be justified if it will generate additional sales and revenue. The only real constraint is the availability of appropriate equity or debt financing. In government, by contrast, revenue is not a function of sales, and increased expenditure rarely finances itself through additional revenue generated. The fact that government faces a hard budget constraint leads to the second key difference with the private sector – that the allocation of resources is always primarily a matter of planning rather than consumer choice and market processes. Recognising the desirability of introducing a greater element of consumer choice into public service delivery in no way changes this reality.

From these basic facts follows the importance of always maintaining a firmly *whole-of-government* perspective on budgeting and other governance questions. It is inappropriate to propose VfM-oriented reforms based on treating individual ministries as if they are stand-alone corporations. Even an analogy between government and multi-divisional private sector corporations is only useful to a limited extent. Similarly, an exaggerated notion of the role of price signals and financial incentives is dangerous. Government has many flaws, and should always be open to learning lessons from the private sector which can help it deal with the challenges which it faces. But the fact that the public sector is often dysfunctional does not mean that the answer to its problems is the slavish pursuit of private sector models.

Finally, there needs to be a more sceptical approach in future to calls for additional information to support budgeting. Repeatedly, in areas ranging from accounting to evaluation, governments have made large investments in the acquisition of additional information which has proven to be much less valuable to decision-makers than had been anticipated. A key reason for this is that those expounding the need for additional information often have only a vague and general idea as to how this information will actually be used by budgeters and other decision-makers. At worst, they simply assume that all additional information provided will in some way be useful. However, the usefulness of information can only be assured if there is a very concrete vision of how it will be used.

This means that any proposal to expand the supply of information should only be accepted if there is complete clarity about the specific budget processes, and specific budgeting actors, which will use that information. If the effective use of additional information will require changes to budget processes, these changes need to be clearly specified. Only by bearing this firmly in mind will it be possible to avoid the risk of future poor information investments – for example, in additional information to support improved fiscal and performance transparency.

The coming years will be particularly challenging for budgeters in OECD countries. Although the main responses to these challenges will need to be found in the areas of expenditure policy and politics, budget reform can play an important supporting role. Strengthening our theoretical and comparative perspectives on budgeting has an important role in helping to map the future directions of budget reform. Being clear about the lessons of the past, and about the changed parameters which face us in the future, is also vital.

Notes

1. As the UK Treasury itself acknowledges, the pre-GFC Spending Reviews «focused on allocating incremental increases in expenditure», giving little attention to savings measures (HM Treasury, 2006: 24)

2. Note that the term «reallocation» is used here in the standard sense of taking money away from something or somebody to give it to someone else. This differs from the much broader meaning assigned to the term (which included even the allocation of new resources) in the OECD's 2005 study *Reallocation: the Role of Budget Institutions*.

3. In Canada, for example, the practice developed of motivating spending ministries to identify savings options by implicitly promising to return a large portion of these savings to the same ministries to fund new spending initiatives. The results was that the government "had limited success in expenditure reallocation across government" (Good, 2008: 191-2). This practice of returning a significant portion of identified savings was continued even in the Strategic Review process undertaken over the three years from 2007-8 to 2010-11, but was discontinued under the 2011-12 Strategic and Operating Review (Robinson, 2013).

4. A key requirement for this rebalancing will be the strengthening of the capacity of ministries of finance and other relevant central agencies in expenditure policy analysis. Strengthening the central component of resource allocation also will require better staffing of ministries of finance – inevitably a sensitive matter during tough times. All too often, ministries of finance have taken the lead in downsizing in order to set an example to others. This can, however, be profoundly counter-productive in terms of the mission that they will need to fulfil in the coming years.

5. Canada is perhaps the clearest exception, where the programme budgeting system seems to have been generally regarded as an important tool for budget decision-making and the programme structure has been the basis of spending review.

6. If performance budgeting is not viewed as an expenditure prioritisation tool, then there is little benefit in appropriating the budget on a programme basis. Thus, when Australia developed a programme budgeting system in the 1990s, budget appropriations to spending ministries were not for programmes but rather took the form of a global amount which a spending ministry could allocate as it wished between programmes. Although the system was referred to at the time as "programme budgeting and management", the primary emphasis was on management, rather than budgeting. Even where budgets were formally appropriated on a programme basis, programmes were typically not used as an allocative tool. For example, in the United Kingdom, a system of programme allocations to ministries (under which programmes were known as Requests for Resources - RfRs) was in the 1990s allowed to wither away as part of the process, discussed above, of giving ministries a large degree of allocative discretion while the Treasury focused on tighter aggregate spending control. Although the budget appropriations continued to be formally based on RfRs, in practice these were only a formality and not a tool either for budget preparation or budget execution control. The RfR system was formally abolished after Treasury's 2009 «alignment» project, at which stage over half of ministries had only one RfR (which itself made them useless as an instrument for allocative choices) (HM Treasury, 2009).

7. There are multiple reasons for the limited progress with cost accounting across government as a whole, but one of them is undoubtedly an insufficient recognition of the complex and diverse character of many government outputs. In many cases the "heterogeneity" of government services means that unit cost measures are of limited management value (Robinson, 2007). It is therefore unsurprising that output costing has in general only made substantial progress in specific sectors, such as hospitals.

8. Some might suggest that this omits a third important tool for improved capital budgeting, namely net capital appropriations – which refers to arrangements which allow spending ministries to sell assets and use the proceeds to fund new capital expenditure, as a result of which the capital expenditure appropriations in the budget cover only capital expenditure net of that financed by asset sales. The idea is, of course, to give spending ministries incentives to identify and sell surplus assets. However, it is not necessary to have an accrual budgeting system – or even accrual accounting – to run a system in which spending ministries can spend the process of asset sales on new asset acquisition. Having said this, net capital appropriations are (with certain qualifications) a valuable instrument which does not (unlike, for example capital charging) involve large administrative costs. It continues to exist in a number of countries – including New Zealand (where it was originally introduced in 1989 (NZ Treasury, 2005: 22)) and the UK (HM Treasury, 2014b: 67).

9. Until recently, the budget calendar in France was organised in such a manner that performance was discussed only right at the end of the budget preparation process, and the focus was then primarily on the preparation of the required performance reports and selection of performance indicators, rather than on the review of performance to date (Direction du Budget, 2013: 17-8).

10. On the one hand, outcome performance indicators either do not distinguish (or distinguish only to a limited degree) between the outcomes achieved by government programmes and the influence of external factors. On the other hand, output indicators face a range of important limitations. For example, efficiency indicators such as unit output costs may raise question marks about efficiency which require investigation, but are not capable in themselves to show conclusively that, say, efficiency has been deteriorating or that one service provider is less efficient than another.

11. It is important to distinguish clearly between expenditure rules and expenditure ceilings or targets. Consistent with the general distinction between fiscal rules and fiscal targets (Kopits and Symansky, 1998; Robinson, 2012), an expenditure rule is a limit on a broad category of government expenditure which is formulated in a general form intended to have permanent or continuing application. By contrast, an expenditure ceiling or target is a limit which is formulated so as to have purely one-off application. A government commitment that expenditure should not exceed 30% of GDP is an expenditure rule, whereas a decision to limit expenditure next year to less than 300 billion is an expenditure ceiling. It is unfortunate that some have muddied the distinction, by re-defining the concept of fiscal rules to include purely temporary fiscal targets and ceilings (e.g. IMF, 2014a: 43; Schaechter et al, 2012: 6).

12. PAYGO requires that new mandatory expenditure initiatives must be compensated by measures which cut other spending or raise revenue sufficiently to avoid a net negative impact on the fiscal balance (see OMB, 2014: 94-7). In the CUTGO version adopted procedurally by Congress, the adjustment must be made solely on the expenditure side.

13. Under the new system, automatic expenditure carryover for large ministries is limited to 0.75% for current expenditure and 1.5% for capital expenditure (the percentages are larger for smaller ministries). Restrictions on the accumulation of carryover rights were introduced, as was an advance notification requirement.

14. This has been achieved by making increasing use of the so-called contingency reserve (*réserve de précaution*) for the purpose of rationing budget release. An increasing proportion of ministry budget allocations (rising to 7% of non-salary budgets in 2014) has been frozen as part of this reserve at the start of each financial year. The government then decides during the year how much to release (and how much to leave unspent), depending upon the evolution of receipts and its implications for the fiscal balance. The chronic tendency to over-estimate prospective revenues has contributed to the increased use of this instrument for cutting ministry budget during budget execution.

15. Aggregate expenditure ceilings have suffered *ex-post* downward adjustment in a number of countries. In Finland, for example, the outer-year ceilings set in 2011 for the three years 2012-15 were subsequently adjusted downwards twice (in both 2012 and 2013) (Finnish MOF, 2013: 11-12). The same things happened in Sweden in 2012 when the ceiling for that year which had been set in 2009 was cut (Finanspolitiska Rådet, 2013: 95). In Denmark, the Economic Council (Denmark's fiscal council) predicted in 2014 that the structural balance requirements of the Budget Law would make it impossible to authorise expenditure up to the full amount of the newly-introduced four-year fixed expenditure ceilings (Economic Council, 2014: 5).

16. In the technical literature supporting this position, only one clearly-formulated justification for excluding expenditure from aggregate ceilings is recognised. This is the need to permit the expenditure-side automatic stabilizers to operate – a justification for exclusion which applies mainly to unemployment benefits. Sweden, however, even includes unemployment benefits with its ceilings, and Finland excludes only an estimated cyclical component of unemployment benefit expenditure. Exponents of comprehensive ceilings also generally accept the exclusion of interest expenditure, but without providing a clear rationale for this exclusion.

17. The illusion on the part of certain fiscal economists that it is possible to apply ceilings to social security expenditure would appear to have been partly fuelled by a misunderstanding of a useful reform which has taken place in certain countries (e.g. Sweden and Italy) to require annual appropriations for entitlements expenditure – a reform which is wholly about transparency with respect to the level of mandatory expenditure, and which in no way stops beneficiaries from receiving benefits to which they are legally entitled.

18. For example, the 2010 Romanian Fiscal Responsibility Law – adopted as part of an IMF programme – requires (in Articles 20 and 27) the setting of a specific expenditure ceiling for social security expenditure (as well as a broader ceiling for consolidated general government expenditure), together with mid-year corrective action if these ceilings looks like being exceeded.

19. It should be noted in this context that few of the countries which introduced top-down budgeting systems prior to the GFC required that all new spending initiatives be included within spending ministry ceilings set in the early stages of the budget process (OECD/KIPF, 2005: 25).

20. Even then, it is by no means clear that even for the most advanced OECD countries, fixed medium-term ceilings generate superior allocative outcomes. It has certainly not been established that, say, the Australian medium-term budgeting system, which has never operated fixed medium-term ministry (or even aggregate) expenditure ceilings, is weaker at expenditure prioritisation than the UK system.

21. The predictability of macroeconomic conditions – and therefore of medium-term revenues – is an important consideration in deciding whether medium-term fixed ceilings (aggregate as well as ministry) are feasible in any specific country. Fixed medium-term expenditure ceilings are much less practicable in a rapidly developing economy (e.g. a Poland or Vietnam) than in a mature developed economy.

22. This can be seen in the unfortunate tendency of certain international organisations in advising developing countries to subsume the PFM reform task under the umbrella of redesign of the "organic" budget law, with the danger that an excessively detailed law ends up building in inappropriately designed instruments and structures which are then difficult to change. This approach is also a poor fit for developing countries with institutions of Anglo-Saxon origin, which generally avoid excessively detailed and prescriptive budget process legislation (and for which, indeed, the concept of an "organic" budget law is not part of their tradition).

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Review of budget oversight by parliament: Ireland

by
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Budget oversight by the Irish parliamentary chambers, the Houses of the Oireachtas, is under-developed by international standards. Many stakeholders and participants question whether the existing process is meaningful or impactful. Nevertheless, there is a strong momentum for reform with Ireland's public administration. Against this background, the OECD presents in this report an analysis of the strengths and weaknesses of Ireland's system of parliamentary engagement in budgeting, and outlines a number of proposals for continued reform by reference to international experience, for consideration by the Houses of the Oireachtas and by other institutional actors and by the political system more generally.
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Note on terminology

Ireland's two legislative chambers, ***"Dáil Éireann"*** (the lower chamber) and ***"Seanad Éireann"*** (the upper chamber or senate) are collectively referred to as the **"Houses of the Oireachtas"**. The Houses and the President of Ireland comprise the national legislative branch, which is officially referred to as ***"the Oireachtas"*** (described also as the "National Parliament" in the constitution). The administration / secretariat of the Houses of the Oireachtas is provided by the Houses of the *Oireachtas* Service, which in turn is accountable to the Houses of the Oireachtas Commission, a senior body chaired by the *Ceann Comhairle* (the chairperson / speaker of the *Dáil*). In this report, the term "Houses of the Oireachtas" is used to refer to the parliamentary chambers (i.e. the proper sense), and also to refer to the institution more generally, encompassing the secretariat and the Commission, as the context requires.

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Foreword

This report provides an overview of Ireland's current system of parliamentary engagement in the national budget process, and brings forward, for consideration by the Houses of the Oireachtas and by Ireland's public administration more broadly, some suggestions for ways in which this engagement might be made more effective. The objective of such an approach is to improve the quality of policy-making, resource allocation and accountability, and ultimately to promote better outcomes for citizens.

The methodology used has been to undertake a detailed analysis of the existing legal and procedural framework, and to conduct in-depth interviews with a wide range of stakeholders in Ireland who are in a position to put forward considered views on the subject. The OECD accordingly met with a range of parliamentarians from across the political spectrum, including chairpersons and members of committees; as well as with staff from various government departments, oversight institutions, representatives from across civil society, academia and the media. The staff of the Houses of the Oireachtas Service also provided invaluable information and insights. The OECD gratefully acknowledges the expert contributions from all of these stakeholders. However, the suggestions and proposals put forward in this report are the responsibility of the OECD alone, as are any remaining errors or omissions.

The report was written by Ronnie Downes (Deputy Head of Division) and Scherie Nicol (Analyst, Parliament and Independent Fiscal Institutions Unit), under the supervision of Jon Blondal (Head of Division), all of the Budgeting & Public Expenditures Division, Directorate for Public Governance & Territorial Development, OECD.

Preface

The relationship between a legislature and an executive goes to the heart of national democratic life. Across the OECD, each country has developed its own traditions, customs and legal frameworks to give expression to this relationship. Similar issues arise from one country to another: How can the parliament best exercise its accountability functions? How should the country balance effective, decisive government action with the deliberative, oversight and control functions of the parliament? How can parliamentary scrutiny enhance trust in the fairness and effectiveness of public policy-making?

Ireland provides an instructive example of how these questions have been answered in one of the OECD's most dynamic member countries. Over the past decade, Ireland's system of public administration has come to terms with acute challenges arising from the global economic and financial crisis, and the country is now set for a return to vibrant growth. Apart from the fiscal policy response to the crisis (as documented, for example, in *The State of Public Finances 2015* (OECD 2015b), Ireland has been distinguished by a commitment to broad-based public-sector reform, including a suite of budgetary governance reforms. The thorough-going nature of the reform effort is undoubtedly a recognition that, while global factors played a role in catalysing the economic crisis within the country, domestic factors

– institutional, procedural and indeed attitudinal – also need to be addressed to improve Ireland's resilience to future shocks.

As outlined in this report, an important strand of the national reform effort has been the activation of the national parliament, the Houses of the Oireachtas, as a positive agent for oversight, accountability and policy input – in particular in the budget process, which is of fundamental importance in deciding how scarce national resources are prioritised. It is against this background that the Houses of the Oireachtas Secretariat requested the OECD to examine the direction of the reform effort to date, and to highlight practical ways in which the parliament could further enhance its engagement in the budget process.

The OECD has maintained a close engagement with Ireland's public governance system and its agenda of reform throughout the course of the past decade (notably including the OECD Public Management Review of Ireland, *Towards an Integrated Public Service* (2008)). Nonetheless, in undertaking this task, the OECD is very conscious that parliamentary reform is a highly sensitive national concern, which will depend for its success on a shared vision and a shared commitment across all of government, understood in the broadest sense. Accordingly the analysis that the OECD has put forward, and the suggestions made about fruitful avenues for future reform, presuppose such a government-wide commitment which can facilitate the national parliament in realising its full potential as a modern forum of debate, scrutiny and accountability.

The experience of recent years and the ambitions from across the political landscape for continued reform, give good grounds for optimism that a supportive, enabling environment can indeed be attained. Our hope is that this OECD analysis, targeted on a specific but vitally important dimension of public governance within Ireland, can inform an open, productive national conversation as this modern republic takes its next steps forward.

Rolf Alter

Director, Public Governance & Territorial Development

Abbreviations and acronyms

C&AG	Comptroller & Auditor General
D/PER	Department of Public Expenditure & Reform
DOF	Department of Finance
ESRI	Economic and Social Research Institute
EC	European Commission
EU	European Union
HotO	Houses of the Oireachtas
IFAC	Irish Fiscal Advisory Council
IGEES	Irish Government Economic & Evaluation Service
IPBO	Irish Parliamentary Budget Office*
LRS	Library and Research Service
MTEF	Medium-Term Expenditure Framework
NED	National Economic Dialogue
NESC	National Economic and Social Council
NPF	National Performance Framework*
NPQP	National Performance Quality Panel*
PAC	Public Accounts Committee
PFM	Public Financial Management
SES	Spring Economic Statement
SPU	Stability Programme Update

* denotes an entity proposed for the future, not currently-existing.

Executive summary

Ireland's two parliamentary chambers – the Houses of the Oireachtas – comprise the national forum for legislative deliberation and accountability in this mature parliamentary democracy. As in most "Westminster-style" parliaments, the lower chamber of directly elected deputies (Dáil Éireann) is primarily responsible for scrutinising and authorising budget allocations, while the upper chamber (Seanad Éireann) has a more limited role in budgetary matters.

Over many decades, Ireland has developed a distinctive annual process for raising, allocating and authorising resources. In general, the government (i.e. the executive) has primacy, to the point of dominance, in budgetary matters. While Dáil deputies may table amendments (within tightly-restricted bounds) to tax legislation, expenditure proposals may not *de facto* be adjusted at all in parliament. In addition, the Dáil vote on expenditure does not take place until after the budget year has begun. In this context, many stakeholders and participants question whether the budget scrutiny processes of the Houses of the Oireachtas and its committees are meaningful or impactful. Some studies have placed Ireland lowest among OECD countries for effective parliamentary engagement in budgeting.

Nevertheless, there is a strong momentum of reform with Ireland's public administration, including recent innovations in performance budgeting, stakeholder engagement and an explicit call from government for the Houses of the Oireachtas to engage more effectively within a "whole-of-year" budgetary cycle. Against this background, taking account of insights from key stakeholders and relevant international experiences, and based upon certain principles for enhancing parliamentary engagement, the OECD outlines a number of proposals for continued reform. These proposals update the existing model of parliamentary interaction, which can be characterised as a disconnected series of annual set-piece events, with an **ongoing engagement by the Houses of the Oireachtas and its committees throughout the course of the budget cycle**. The focus of attention would accordingly be re-balanced from the formal authorisation of financial allocations, where the powers of committees remain tightly circumscribed, towards ongoing and *ex ante* interactions on policy priorities and performance, where there is real scope to exercise influence and accountability. The key proposals are summarised below.

A. Procedural changes to promote parliamentary engagement

1. **Conduct *ex ante* parliamentary hearings on fiscal planning** in February/March, under the Joint Committee on Finance, Public Expenditure & Reform, to inform the government's draft Stability Programme Update, setting out Ireland's medium-term fiscal plan. The draft medium-term fiscal plan should then be submitted to the *Dáil* for approval before its presentation to the European Commission. Such a process would signal that the input of the Houses of the Oireachtas is welcomed and expected from the very outset of the budget cycle.
2. **Conduct pre-budget parliamentary hearings on budget priorities** in July, under the sector-specific joint committees, involving ministers and societal stakeholders. The hearings should be aligned effectively with (and may subsume) the newly-instituted National Economic Dialogue; and should culminate in the submission of a summary report to government. These inputs would in turn form an effective point of reference for committees during the subsequent stages of the budget process.

3. The annual Estimates should be considered and **voted on by the Dáil before the start of the budget year**, broadly within the same timeframe that Supplementary Estimates for the current year are being considered.
4. The committee space freed up in the early part of the (following) year should be allocated to **performance hearings** with joint committees to discuss outturn performance information with "accounting officers".
5. An **Estimates Committee** should be instituted, composed of the Committee on Finance, Public Expenditure & Reform augmented with the chairs of the various other select committees *(a)* to co-ordinate the summary pre-budget report to government in July (under 2 above) and *(b)* to consider the individual Estimates in advance of the Dáil vote (under 3 above).

B. Enhanced information to support parliamentary engagement

6. Enhance the **annual Stability Programme Update** with realistic "no-policy-change" budgetary projections as a basis for the pre-budget parliamentary hearings.
7. Re-introduce **Pre-Budget Estimates** with an accompanying White Paper in July, consistent with the "no-policy-change" projections, as core reference documents to inform *ex ante* budget scrutiny and hearings.
8. Produce full relevant budgetary information in the **October Budget Estimates** and discontinue the December Revised Estimates.
9. Conduct a **systematic review of existing performance metrics** drawing on international guidance and resulting in a streamlined set of approved output measures, suitable for purpose.
10. Introduce standardised **Estimates Performance Reports** prepared by departments/agencies, amplifying and updating the Estimates programme pages with material currently presented in separate briefing documents, to inform the performance hearings in the early part of the year (under (4) above).
11. Introduce a **National Performance Framework** (NPF), under the authority of the centre of government, articulating the high-level outcomes that the government seeks and for which it will be accountable, along with associated output indicators. The NPF should in time become the authoritative frame of reference for all budgetary performance information.
12. Develop, re-purpose and re-brand the **IrelandStat website** to realise its potential as a national performance portal.

C. Institutional supports for effective parliamentary engagement

13. Introduce an **Irish Parliamentary Budget Office** to equip parliamentarians to engage more effectively on budgetary matters, including through analysis of information on taxation, expenditure and performance, as well as policy costings.
14. **Professional development for parliamentarians and officials** to provide a foundation for informed and rigorous budget scrutiny.
15. Convene a **National Performance Quality Panel**, drawing on experts from across the public service and beyond, as an authority for selecting outcome and output benchmark indicators, which in turn would be approved for inclusion in the NPF (under 11 above) and budget documentation.

16. The Office of the **Comptroller & Auditor General** is an expert, trusted resource which can critique issues of performance in line with international standards. The Appropriation Accounts should include selective audit of performance information to help the Dáil's Public Accounts Committee exercise its accountability role in a more comprehensive manner.

The Houses of the Oireachtas is well placed to lead on co-ordinating the refinement and delivery of the OECD proposals. To be effective, the measures proposed above will need to be underpinned by a **renewed commitment by government**, at political and administrative levels, to engage with the Houses of the Oireachtas as a partner throughout the budget process. Through the above measures, the annual and multi-annual budget cycle should be **structured around, and predicated upon, active and critical engagement** with the Houses of the Oireachtas and its committees, so that parliamentarians can influence and critique budget allocations and priorities, making budgetary debate and discussion in Ireland more realistic, informed and effective.

1. Role of the Houses of the Oireachtas in the budget process: background and context

1.1. Ireland's parliamentary framework

Ireland is a constitutional parliamentary democracy, with a bicameral parliament, a directly elected President (the non-executive head of state) and an executive government led by the Taoiseach (prime minister). Ireland's system of government is laid down in a written constitution (Bunreacht na hÉireann, Constitution of Ireland) dating from 1937, which may be modified only by referendum. All laws must comply with the constitution, a test which the judicial branch has ultimate authority to determine. Laws introduced prior to the 1937 constitution – a category which includes important budget-related laws – remain valid, unless repealed or determined to be incompatible with the constitution.

Dáil Éireann (the lower chamber of directly-elected deputies), Seanad Éireann (the upper chamber or senate) and the President comprise the national legislature or Oireachtas. Only the Oireachtas may pass laws, although government ministers may be granted (by law) some powers to introduce "secondary legislation" or regulations within prescribed boundaries. The executive branch – generally referred to simply as "the government" – has special prerogatives to bring forward draft legislation dealing with budgetary matters. In practice, much of the day-to-day deliberative work of the Houses of the Oireachtas is handled by committees, either select committees (Dáil members only) or joint committees (members of both Dáil and Seanad).

More generally, Ireland uses a highly proportional voting system (single transferable vote in multi-seat constituencies) for electing deputies to Dáil Éireann. This lower chamber is composed of 166 deputies (although this will be reduced to 158 members after the next general election). The Seanad is composed of 60 senators, who are selected from three streams: (a) 43 senators are elected by various sectoral or "vocational" panels; (b) 11 senators are appointed directly by the Taoiseach, and (c) 6 senators are elected by the graduates of certain Irish universities.

In keeping with most other "Westminster style" models of government, the executive is drawn from members of the Dáil (although in principle, up to two members of the government may be members of the Seanad) and must command the support or "confidence" of that

chamber in order to govern effectively. The passage of the government's budget proposals by the Dáil is regarded as a principal test of that support.

1.2. Constitutional aspects of budgeting

Unlike several other OECD countries, the constitution of Ireland does not contain a special chapter dealing with public financial management (PFM), nor is there an "organic budget law" setting out budgetary rules and procedures in a comprehensive manner. Instead, the constitution lays down or re-states some fundamental principles, and references some (pre-existing) financial management procedures (see Box 1.1). The essential constitutional elements of this PFM framework are as follows:-

- All State revenues accrue to a single fund (the "Central Fund") and all allocations from this fund must be governed by law.
- Each year, the government brings forward estimates of expenditures and receipts, and presents these estimates to Dáil Éireann for consideration.
- The government alone has the authority to move forward legislative proposals which affect the public purse, such as budget-related proposals.
- The Oireachtas alone may implement these proposals in law; and in budget-related matters, the Dáil (as the chamber directly elected by the people) has pre-eminence over the Seanad.
- "Financial Resolutions" (whereby the Dáil adopts budgetary measures for the year on an interim, provisional basis in advance of legislation) must in general be effected in legislation within the same year.
- The Comptroller and Auditor General (supreme audit institution) audits public accounts and reports to the Dáil.

Box 1.1. **Budgeting and Ireland's Constitution**

Bunreacht na hÉireann (the Constitution of Ireland) includes a number of explicit references to matters of public financial management, distributed under various Articles. The key constitutional references are set out below. The title of the Article, or relevant set of Articles, is shown in parentheses for reference.

ARTICLE 11 ("THE STATE")

All revenues of the State from whatever source arising shall, subject to such exception as may be provided by law, form one fund, and shall be appropriated for the purposes and in the manner and subject to the charges and liabilities determined and imposed by law.

ARTICLE 17 ("THE NATIONAL PARLIAMENT – DÁIL ÉIREANN")

1. 1° As soon as possible after the presentation to Dáil Éireann under Article 28 of this Constitution of the Estimates of receipts and the Estimates of expenditure of the State for any financial year, Dáil Éireann shall consider such Estimates.

   2° Save in so far as may be provided by specific enactment in each case, the legislation required to give effect to the Financial Resolutions of each year shall be enacted within that year.

2. Dáil Éireann shall not pass any vote or resolution, and no law shall be enacted, for the appropriation of revenue or other public moneys unless the purpose of the appropriation shall have been recommended to Dáil Éireann by a message from the Government signed by the *Taoiseach*.

Box 1.1. **Budgeting and Ireland's Constitution** *(Cont.)*

ARTICLE 21 ("THE NATIONAL PARLIAMENT – LEGISLATION")

1. 1° Money Bills shall be initiated in Dáil Éireann only.

   2° Every Money Bill passed by Dáil Éireann shall be sent to *Seanad* Éireann for its recommendations.

2. 1° Every Money Bill sent to *Seanad* Éireann for its recommendations shall, at the expiration of a period not longer than twenty-one days after it shall have been sent to *Seanad* Éireann, be returned to Dáil Éireann, which may accept or reject all or any of the recommendations of *Seanad* Éireann.

ARTICLE 22

1. 1° A Money Bill means a Bill which contains only provisions dealing with all or any of the following matters, namely, the imposition, repeal, remission, alteration or regulation of taxation; the imposition for the payment of debt or other financial purposes of charges on public moneys or the variation or repeal of any such charges; supply; the appropriation, receipt, custody, issue or audit of accounts of public money; the raising or guarantee of any loan or the repayment thereof; matters subordinate and incidental to these matters or any of them.

ARTICLE 28 ("THE GOVERNMENT")

4. 1° The Government shall be responsible to Dáil Éireann.

   4° The Government shall prepare Estimates of the Receipts and Estimates of the Expenditure of the State for each financial year, and shall present them to Dáil Éireann for consideration.

7. 1° The *Taoiseach* [prime minister], the *Tánaiste* [deputy prime minister] and the member of the Government who is in charge of the Department of Finance must be members of Dáil Éireann.

ARTICLE 33 ("THE COMPTROLLER AND AUDITOR GENERAL")

1. There shall be a Comptroller and Auditor General to control on behalf of the State all disbursements and to audit all accounts of moneys administered by or under the authority of the Oireachtas.

4. The Comptroller and Auditor General shall report to Dáil Éireann at stated periods as determined by law.

Source: Office of the Attorney General, Ireland (2015).

1.3. Legal and Administrative aspects of budgeting

The reference to Financial Resolutions, which are not defined or described in the constitution itself, indicates a pre-existing corpus of established PFM rules and procedures. That PFM corpus is described authoritatively in the official guide *Public Financial Procedures* which is maintained by the Department of Public Expenditure & Reform[1]. A detailed outline of Ireland's budgeting system is beyond the scope of this review. However, key elements of Ireland's system of budgeting, which are relevant to the theme of this review, may be summarised by tracing the typical budget cycle as set out below. The financial year is January to December, and the year to which the budget relates is referred to below as the "budget year".

A. Before the budget year

a) **April – the Stability Programme Update:** The government publishes a Stability Programme Update (SPU) and submits it to the European Commission in accordance with the provisions of the European Union (EU) Stability and Growth Pact (SGP). The SPU sets out the government's medium-term forecasts and fiscal policy programme, at aggregate level, and the intention is that the subsequent annual budget (in October) will implement and detail the first year of that programme. There is no formal requirement for the SPU to be submitted to the Houses of the Oireachtas, but this has been the practice over recent years (see Section 1.4(b)).

b) **Early October – the "White Paper":** On the weekend before the budget, the Department of Finance publishes a "White Paper on Receipts and Expenditure" for the budget year. The White Paper is presented to the Dáil and is formally regarded as meeting the requirements of Article 28 of the Constitution (see Box 1.1). The White Paper is however purely a "pre-budget" reference document prepared on a technical "no-policy-change" basis, and its figures are soon displaced by the budget documents which contain new policy measures (see below).

c) **The October budget:** By no later than 15 October, the government presents its budget to the Dáil. Since 2011, a separate budget statement is presented by the Minister for Finance, in respect of general economic management and taxation policy, and by the Minister for Public Expenditure & Reform, in respect of expenditure policy. The expenditure budget is presented in an "Expenditure Report" which includes **Budget Estimates** showing financial allocations per "programme" (a broad functional or strategic area) within each of approximately 40 individual Estimates (areas of public spending).

d) **The budget debate:** The budget is the subject of political statements and responses within the Dáil but it is not itself put to a vote. However, any revenue-raising measures that are intended to have immediate effect, in advance of the passage of enabling legislation, may be effected on an interim basis by way of a Financial Resolution, i.e. a vote of the Dáil authorising the measure. Failure of the government to carry such a resolution in the Dáil is a confidence matter.

e) **October - December – the Finance Bill:** Within ten days or seven working days after the budget, the Finance Bill is published by the Minister for Finance. The Bill, which is considered in the Dáil and Seanad and typically subjected to detailed scrutiny in the relevant select committee, is enacted before the end of the year. It implements in law the tax policy and related matters announced in the budget, including matters that were the subject of a budget-day Financial Resolution, but may (and generally does) include measures not announced in the budget also.

f) **October - December – the Social Welfare Bill:** Likewise, policy changes in the area of social protection (e.g. weekly and monthly rates of payment, and changes in eligibility rules for various programmes) are brought forward by the Minister for Social Protection in a Social Welfare Bill, which is enacted before the end of the year, before the changes take effect in the new year.

g) **Mid December – the Revised Estimates:-** The Department of Public Expenditure & Reform publishes a Revised Estimates Volume (REV), a more detailed book of estimates which includes line items of expenditure as well as performance data for each "programme" within the individual Estimates. The REV is presented to the Dáil which promptly refers the individual Estimates to various sector-specific "select committees" for consideration.

B. During the budget year

a) **January – provisional authority for spending:** The Estimates will not be voted upon by the Dáil for several months; however, technical "reversionary measures" are in place to authorise continued spending within the new year, pending the approval of the Estimates. The Central Fund (Permanent Provisions) Act of 1965 provides authority for this interim spending, which is limited to four-fifths of the amount spent on existing services in the previous year, as set out in the annual Appropriation Act for that year.

b) **Early spring – consideration of Estimates by select committees:** In early spring of the incoming year, the select committees meet to consider the relevant Estimates. Each meeting on an Estimate or Estimates group typically lasts 2-3 hours and the relevant Minister and senior officials are present. The committees, whose activities are prescribed in their specific "Orders of Reference" and in the official procedures or "Standing Orders" of the Houses of the Oireachtas, do not make recommendations or proposals regarding the Estimates.

c) **Late spring – voting of the Estimates by the Dáil:** After the Estimates have been considered in committee, the Dáil decides on each of the individual Estimates on motion made. A decision in the affirmative results in a Financial Resolution within the meaning of Article 17.1.2 of the constitution.

d) **November-December – Supplementary Estimates:** Towards the end of the financial year, the Dáil may be asked to decide on Supplementary Estimates, usually to cater for higher-than-anticipated spending in particular areas.

e) **December – the Appropriation Act:** All of the Estimates that have been voted by the Dáil for this year (i.e. the budget year) must be implemented in legislation, and this happens via the annual Appropriation Act which is usually one of the last pieces of legislation to be enacted each year. Statutory confirmation of the appropriation of moneys, pursuant to Article 17.1.2 of the Constitution, therefore takes place after these moneys (or almost all of them) have been spent.

C. After the budget year

a) **January to March – the** Appropriation Accounts: By virtue of the Exchequer and Audit Departments Act of 1866 and the Comptroller & Auditor General Act of 1993, each government department must prepare an Appropriation Account detailing how the appropriated funds have been spent, and these accounts must be certified by an "Accounting Officer" (typically the head of the relevant department).

b) September – Audit of the Appropriation Account: The Comptroller & Auditor General (C&AG) publishes the "Report on the Accounts of the Public Services" giving the audits of the Appropriation Account for the preceding financial year and submits it to the Public Accounts Committee (PAC) of the Dáil, which will go on to conduct hearings on these accounts over the subsequent months.

c) Ad hoc – Value for Money Reports: One of the functions of the C&AG, under the Comptroller & Auditor General Act of 1993, is to conduct reviews of whether public funds have been used economically and efficiently, and the results of these reviews are published in "Value for Money Reports". These reviews are conducted at the discretion of the C&AG.

1.4. Recent and ongoing reforms to the budget process

When the current government assumed office in early 2011, it undertook a reorganisation of government functions which aimed at accentuating and advancing an agenda of public service reform. Of most relevance to the theme of this report, the functions of the former Department of Finance were split between two bodies: the Department of Finance which continues to deal with aggregate fiscal policy as well as tax policy and the financial services sector; and the Department of Public Expenditure & Reform (D/PER) which deals with public expenditure policy, the management of the civil and public service, and a broad range of related reform themes. Some issues of public service management reform, which had previously been handled by the Department of the Taoiseach (prime minister's department), were also centralised within D/PER.

In December 2011, D/PER published a *Comprehensive Expenditure Report (CER) 2012-2014* which mapped out a number of specific budgetary reforms. Since then, these themes have been developed and built upon in various ways, and the Department of Finance has also continued to reform legal and procedural aspects of the budgetary process. Taken together, the broad areas of budgetary reform can be summarised under the headings set out below.

a) **The budget calendar:** In light of EU-wide reforms to economic and fiscal governance, the annual budget day was moved forward in 2013 from December to mid-October. Part of the rationale for this EU-wide change is to give the European Commission an opportunity to review and comment upon national budgetary plans in advance of their implementation before the year-end. There is also an opportunity for national parliaments to comment on the budgetary plans during this period.

b) **The Stability Programme Update (SPU) and Spring Economic Statement (SES):** It has long been an EU requirement that members of the euro area produce an SPU, showing the aggregate fiscal plans and related macroeconomic projections for the forthcoming budget year and into the medium term. Prior to 2011 the SPU was published as part of the Budget day documentation (in December at that time), but since that year the SPU has been brought forward to April, again in keeping with EU-wide reforms. In principle, the earlier publication date allows for clearer visibility about the fiscal parameters for the subsequent budget, and hence a more informed debate about priorities. In recent years, the government has sought to facilitate such a debate by publishing the SPU in draft form prior to its finalisation and submission to the European Commission, allowing some time for discussion at the relevant joint committee.

   In 2015 this process was taken a step further by publishing a new, more politically-elaborated SES alongside the draft SPU and allowing a week in the Dáil (the full chamber rather than committee) for policy statements on these documents. Importantly, the SES set out the level of "fiscal space" which the government committed to utilise in the subsequent October budget, as well as an indication of how this space would be split between tax and expenditure measures.

c) **Multi-annual budgeting and medium-term expenditure framework (MTEF):** The CER 2012-14 introduced a "top-down" approach to medium-term fiscal planning, with three-year spending ceilings set out for each department (ministry), in a manner that would allow for "*constructive, creative input from the public and the democratic system on how these resources should be prioritised in each area over the coming years.*"

d) **Performance budgeting:** Separate documents which set out output targets and results for public bodies were integrated within the Estimates book, so that financial allocations and performance information are now presented together before the select committees. The structure of the Estimates information was also streamlined into a "programme" format, aligned with the format of Statements of Strategy prepared by public bodies.

e) **Accessibility of budget information – IrelandStat:** Much of the newly-streamlined financial and outcome-related performance information has been made available in a more user-friendly format via the IrelandStat website (*www.irelandstat.gov.ie*).

f) **Enhanced accountability to the Oireachtas and to the public – "Whole-of-year budgeting":** The CER 2012-14 committed the government to *"opening up the budgetary process to the full glare of public and parliamentary scrutiny"*, noting that *"in a democracy, better decisions are made when policy-makers are held to account, and when the entire policy-making process is subject to parliamentary oversight, scrutiny and active participation. This involves every stage of the budgetary process and the policy-making cycle."* To give effect to this principle, the government introduced a "whole of year" approach to budget development, intended to allow for stronger *ex ante* input. Under this process, *"Dáil committees will be able to engage in constructive dialogue and input their views on which areas of spending should be prioritised. These viewpoints can then inform the government in bringing forward its detailed Estimates for the year in question."*

g) **National Economic Dialogue:** In the 2015 SES, the government instituted a new process of National Economic Dialogue (NED), a formalised process of consultation and debate with societal interests to enhance the whole-of-year budget development process. The NED was conducted on 16-17 July 2015[2]: the mid-year timing was chosen so that *"the discussions during the Dialogue about where our resources should best be allocated, and how to accommodate the many demands and pressures for increased resources, can then inform the work of the government in deciding on Budget measures, and the work of the* Oireachtas *in considering the Budget later in the year."*

h) **Evidence-based expenditure policy:** A new "Public Spending Code" has been put in place to update and streamline the processes for evaluation of expenditure programmes, both *ex ante* and *ex post*. A new professional staffing stream has been put in place, the Irish Government Economic and Evaluation Service (IGEES), to promote and develop capacity for evidence-based policy development within the civil and public service. In the 2016 Budget (October 2015), the government announced the intention to establish an "Irish Government Statistical Service" to develop corresponding professional capacity in the area of data analysis and use.

i) **Irish Fiscal Advisory Council (IFAC):** IFAC, an independent fiscal institution, was established on a provisional basis in July 2011 in advance of its statutory establishment under the Fiscal Responsibility Act of 2012. IFAC's role is to endorse (if appropriate) the government's macroeconomic forecasts; to provide an independent assessment of the government's fiscal objectives; and to assess compliance with the statutory fiscal rules (see below). It also contributes to the national debate by producing *ad hoc* analytical notes, such as its note on the EU Expenditure Benchmark (2015a). Since its establishment, IFAC has been called upon by the Joint Finance Committee to present and discuss its findings.

j) **Fiscal Rules:** In keeping with the requirements of the EU Fiscal Compact, the Fiscal Responsibility Act of 2012 set out a "budgetary rule" requiring that the public finances be in balance or in surplus, unless exceptional circumstances apply. Other rules set out at EU level, notably the "expenditure benchmark" (broadly requiring that

public expenditure growth should not exceed medium-term economic growth, unless financed by additional tax-policy measures), have direct legal effect in Ireland. The expenditure benchmark should act to constrain unduly sharp increases in public spending (which can pose a risk to fiscal sustainability, especially during the upward phase of an economic cycle), and should therefore serve to promote greater stability and certainty regarding the budgetary aggregates over the course of the year (from the April SPU to the October budget).

k) **More timely Finance Bill:** Since 2014, the annual Finance Bill is published and submitted to the Dáil within seven working days of the October budget, and it is debated and enacted before the end of December. Previously, the Finance Bill would not have been enacted until the following March or April, so the new schedule marks a significant expediting of the process which allows parliamentarians to engage promptly on these important budgetary matters, and to authorise them in law in advance of the financial year.

l) **"Independent Budget Office":** The government announced in the 2015 SES that it will examine the possibility of establishing an Independent Budget Office, which would prepare independent costings of policy proposals from political parties and groups in the Oireachtas, taking into account second-round economic effects as well as looking over a multi-year horizon. Given the need for consultation, the government acknowledged that this proposal would not be implemented in the short term.

m) **Continuous improvement:** In the CER 2012-14, the government noted that, having set out its agenda of budgetary reform, *"It is now up to all participants in the budgetary process – Departments, Ministers and most of all parliamentarians – to make the process work. […] All players in the policy-making process must work this new system, and must invest effort and energy into realising its potential and making it better."*

For their part, Oireachtas committees and the staff supporting them have since then sought to modify and update their approach to budgetary scrutiny in order to realise the opportunities presented by the government's CER 2012-2014 commitments in relation to transparency and accountability. The successes and challenges of these activities to date are set out in the remainder of this review, along with some suggestions and proposals for how the effectiveness of the Houses of the Oireachtas in this regard may be advanced.

2. Enhancing engagement of the *Dáil* in the budget process

2.1. General considerations on parliamentary engagement in budgeting

The OECD *Recommendation on Budgetary Governance* (2015a) is one of a number of instruments that have been adopted by OECD members to facilitate the rebuilding of trust in government, to promote open government, and to ensure transparency in policy making. The Recommendation recognises that:

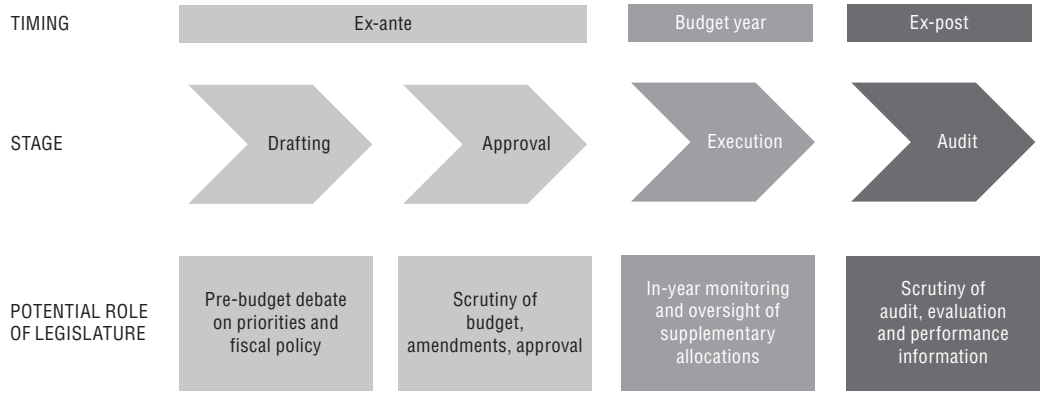
> *"…the national parliament has a fundamental role in authorising budget decisions and in holding governments to account"*

and that governments should:

> *"…provide for an inclusive, participative and realistic debate on budget choices, by offering opportunities for the parliament and its committees to engage with the budget process at all key stages of the budget cycle, both* ex ante *and* ex post *as appropriate"*.

Figure 2.1 presents the different stages of the annual budget cycle, and may be useful in considering the potential "entry points" where the legislature could engage with this process.

Figure 2.1. **The basic sequence of an annual budget cycle**



The increasingly multi-annual nature of budgeting, whereby governments give greater detail and clearer commitments on medium term resource strategy, also provides opportunities for parliamentarians and other stakeholders to follow and influence the course of policy issues and impacts over a number of years.

2.2. Principles guiding parliamentary reform

The relationship between the legislature and the executive is a fundamentally important national concern, lying at the heart of issues such as transparency, inclusiveness and democratic accountability. Citizens themselves and the broad range of societal interests – political, social and institutional – have an interest in how effectively the Houses of the Oireachtas functions as an effective forum of democratic authority. Therefore, in putting forward suggestions regarding ways in which the Houses of the Oireachtas might adapt long-standing practices, it is appropriate to shape and weigh these suggestions by reference to clear principles. Such a principles-grounded approach will enable stakeholders to assess the factors informing the various OECD suggestions, and to come to their own view on how, and to what extent, to move forward with the proposals. The key principles as identified by the OECD can thus be identified in the following terms:

I. **Respect for established national traditions: The** OECD *Recommendation on Budgetary Governance* (2015a) explicitly recognises that:

> *"…national practices on budgeting vary widely across Members in light of distinct legal, constitutional, institutional and cultural practices, and […] it is appropriate for countries to determine and manage their national frameworks in light of these country-specific circumstances, while taking due cognisance of the higher-level principles and guidelines regarding budgetary governance".*

The starting point for an analysis of Ireland's parliamentary system must be recognition of the country's tradition of free and vigorous parliamentary debate, regulated primarily by the Houses of the Oireachtas itself through its own rules of procedure. In the view of the OECD, there is no "one size fits all" model of parliamentary engagement, and the challenge for each country is to consider and adapt a package of reforms tailored to build upon its own circumstances and traditions. At the same time, the OECD is in a position to bring forward ideas and experiences from other peer countries, including those with similar "Westminster-style" parliamentary models, and to assess how these models might be of interest in an Irish context.

II. **Focus upon issues identified by stakeholders:** In the absence of any "normative" or ideological template for how a parliament should function, it is appropriate to take a pragmatic approach that is geared to *(a)* identifying the chief concerns raised by parliamentarians themselves and by other stakeholders, and *(b)* bringing forward practical suggestions to address these concerns. Accordingly, each of the OECD's suggestions starts from a recognition of existing norms and procedures within the Houses of the Oireachtas, and proposes to modify these only to the extent necessary – no more, but also no less – to tackle the underlying issues that have been raised.

III. **Consistency with the ongoing trajectory of national reform:** As outlined in section 1.4, Ireland's traditions of budgeting – in their procedural and institutional aspects – have been subject to a comprehensive, inter-connected series of reforms over recent years. Suggestions for further parliamentary reform should be designed to be consistent with the thrust and trajectory of these reform efforts. In practical terms, this includes adapting parliamentary procedures to respond to key reforms (such as performance budgeting and the new annual and multi-annual budgetary calendar) to best effect.

IV. **Promotion of an active, engaged, effective parliament**: In any democratic society, parliament has a unique authority and legitimacy in representing the interests, concerns and ideals of citizens. An active, responsive parliament, which is facilitated in engaging in the policy-making cycle in a responsible and critical manner, can directly promote the quality, transparency and inclusiveness of public policies, and thus underpin trust in the institutions of government and help improve government performance (see e.g. OECD 2015c). Conversely, the other end of this spectrum – the model of a facile or "rubber stamp" parliament – is inimical to these objectives.

V. **Respect for constitutional constraints and the prerogatives of the executive:** In Ireland's constitutional and legal system of government, the executive has the duty of bringing forward budget proposals, which are in turn subject to parliamentary debate and authorisation. Reform should be aimed at facilitating a constructive, critical engagement with the proposals of the executive, within the limits and constraints of the budget; and should avoid the risk of introducing a new contentiousness or obstructionism in parliamentary debate. "Enhanced parliamentary engagement" does not entail simply displacing the views of the executive branch with the views of parliamentarians; but rather ensuring that the legitimate views and insights of parliamentarians are brought to bear upon budget deliberations.

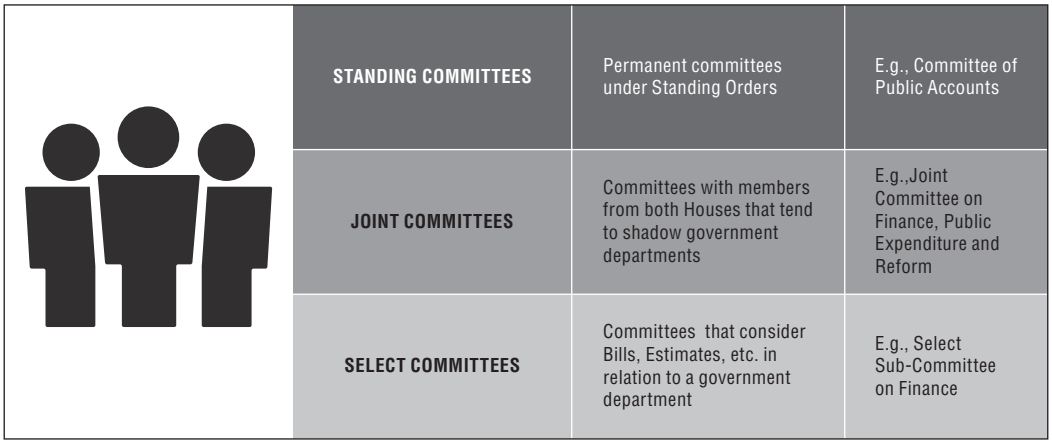
VI. **Balanced, proportionate and focused approach:** The Houses of the Oireachtas is composed of 166 Dáil deputies and 60 senators, and its various committees have a full, intensive agenda of dealing with legislative business and related policy discussions. While budgeting is a very important policy process, it is not the only vehicle for policy scrutiny and debate, and there are natural limitations on the scope for further innovations and steps in the parliamentary calendar. By leveraging and streamlining existing interventions, a reformed process can avoid "crowding out" the valuable work done through the various other parliamentary processes. Likewise, budgeting itself is primarily concerned with managing within limited resources, and any reform proposals in this area should avoid or minimise any significant new expenses.

VII. Cognisance of the importance of changing behaviour as much as formal rules and structures: Where the parliamentary process is not working as effectively as it should, it is important to consider the incentives facing individuals and institutions involved in that process. Enhancing parliamentary engagement requires that stakeholders understand and see the direct benefits that this can bring, as only then will a reform agenda be capable of changing behaviour and attitudes.

2.3. Ireland's framework for parliamentary engagement: the committee system

Committees are the engine of a legislature. Indeed, the Dáil committee system is one of the main vehicles for budgetary oversight. According to Norton (1998), *"Legislatures exhibiting the greatest capacity to determine policy outcomes have highly developed committee structures"*. A simplified overview Houses of the Oireachtas committees currently involved in budget oversight is outlined in Figure 2.2.

Figure 2.2. **Houses of the Oireachtas committees currently involved in budget oversight**



The Houses of the Oireachtas committees have been re-structured and streamlined over recent decades, and most observers and stakeholders regard the committee system as an effective means of focusing parliamentary attention on particular policy issues, and allowing parliamentarians to develop specific areas of expertise. Apart from scrutiny of departmental accounts and matters arising, financial scrutiny is undertaken by sectoral committees. As a general rule, Oireachtas committees are supported by staff in a secretariat, the majority of whom are assigned to a specific committee. In practice this means that, with a limited number of exceptions, the staff complement available to individual sectoral committees ranges from one clerk and one clerical staff member to a clerk, a policy analyst, an administrator and a clerical staff member. Very frequent meetings with a wide range of business are a feature of sectoral committee activity. As a result, the focus of individual teams necessarily tends to be short term and operational in nature.

The Library and Research Service (LRS) is generally well-regarded among stakeholders as an institutional support, which aims to promote well-informed parliamentary debate and scrutiny on the broad range of policy issues. The key to the service is its multi-disciplinary approach and impartiality. The staff of the LRS includes 26 researchers focusing on legislative analysis, members' research and committees' research.

There have also been a number of specific reforms in recent years aimed at increasing the quality of committee engagement on various policy areas. One example is the increased work that committees are undertaking in relation to **EU scrutiny**. Since 2011, consideration of EU matters in the Oireachtas has been mainstreamed across all joint committees. Committees may consider EU draft legislative acts, other proposals for EU legislation and related policy issues and consultation documents such as Green and White Papers. Each committee will decide which proposals to scrutinise in depth, e.g. by engaging with relevant stakeholders, considering the implications of the measures, and setting out their conclusions and any recommendations in committee reports. The Joint Committee on European Union Affairs now performs its oversight function in relation to EU Affairs more generally, as distinct from becoming engaged in sector-specific issues.

Another example is the **pre-legislative scrutiny** on specific policy topics undertaken by joint committees. A number of joint committees – notably those of Finance, Public Expenditure & Reform; Justice, Defence & Equality; and Health & Children by virtue of the volume of legislation being drafted by those departments – have been increasingly involved in carrying out detailed pre-legislative scrutiny. In carrying out pre-legislative scrutiny, the committee concerned may undertake public consultation, review submissions, hold public meetings with stakeholders and present a report to the Dáil and/or Minister with recommendations. Stakeholders report that the committees themselves have reaped benefits from their growing role in pre-legislative scrutiny. In particular, parliamentarians have developed an increased familiarity with the policy issues dealt with in the Bill and, as a result, tend to show more effective engagement as the Bill progresses through its various legislative stages and particularly the committee stage. The LRS has introduced specific research products and services to support committees with their pre-legislative scrutiny role.

There are instances of committees undertaking their oversight and engagement role particularly effectively. A recent example was provided by a number of joint committees which used hearings with government Ministers on departmental performance to pursue improved performance reporting. A team from across the Oireachtas, brought together to support the scrutiny function, helped committee staff prepare briefing papers and suggested lines of questioning and provided private briefings for individual members and pre-meeting briefings to committees on request. The meetings resulted in specific commitments by a number of Ministers to improve performance information provided with the annual Estimates. In general terms, these meetings demonstrated the potential for specialist support to improve the effectiveness of committees in undertaking their oversight function.

A further notable example is the series of hearings conducted in January 2013 by the Joint Committee on Health & Children on how Ireland should legislate for highly sensitive and contentious issues relating to health during pregnancy. The hearings took evidence from a wide range of medical professionals and other interested parties over three full days and attracted members from a number of other committees who wished to ask questions. The overall exercise and the manner in which committee members engaged in the process, was viewed as reflecting favourably on the ability of the Houses of the Oireachtas to lead public discourse and policy development (see e.g. TheJournal.ie (2013), *IrishTimes.com* (2013)).

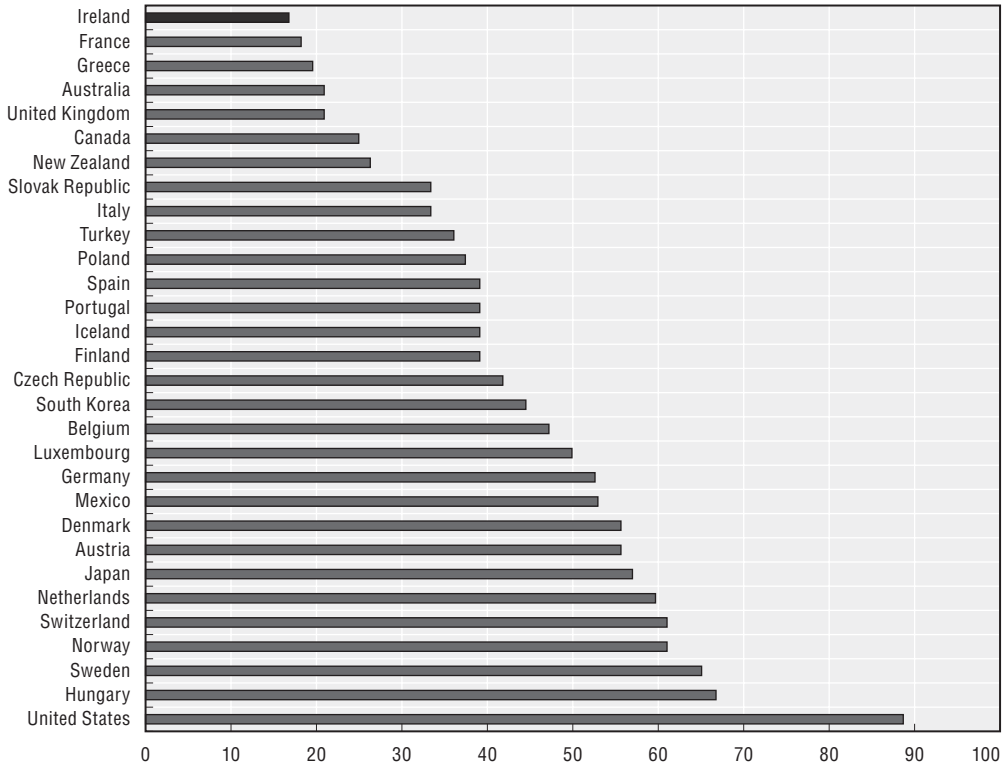
Turning to the question of how Oireachtas committees engage with the budget process, however, reveals a much less impactful level of engagement, and a distinct set of challenges, as outlined in the following sections.

2.4. Specific issues in parliamentary engagement in Ireland

Ireland's budgetary process is long-established, has proven effective in facilitating marked fiscal correction and economic recovery (see e.g. OECD 2015b), and – as outlined in section 1.4 – is subject to a range of ongoing reform efforts. At the same time, the level and nature of engagement of the Houses of the Oireachtas with the budgeting process is very low by international standards.

The "Index of Legislative Budget Institutions" is a composite metric that compares legislative budget engagement across countries, based on a range of objective criteria. The results, shown in Figure 2.3 below, show that the level of budget engagement by the Houses of the Oireachtas is the lowest observed in any OECD country.

Figure 2.3. **Index of Legislative Budget Institutions**



Source: Wehner (2010).

This finding is supported by the views expressed to the OECD across the broad range of budget practitioners, observers and stakeholders within Ireland. Based upon their opinions and insights, the challenges and perceived shortcomings facing parliamentary engagement in budgeting can be summarised as follows.

a) **Lack of engagement with parliament as a partner throughout the budget process:** While recognising the government's openness, in principle, to increasing the role of parliament and parliamentarians in the budget process, many observers consider that existing procedures serve to keep the Dáil at a remove from the substance of the budget process, and there is not a sense that the input of parliamentarians is particularly expected or welcomed. Instead, the Houses and their committees are called upon for "set piece" events, such as the discussion of individual Estimates or *ad hoc* committee hearings on budget-related topics, rather than engaged as a valued partner – or even as a forum of challenge and accountability – throughout

the course of the budgetary cycle. Some observers identify this fundamental issue as lying at the root of many of the other perceived shortcomings listed below.

b) **Lack of parliamentary input to medium term fiscal planning:** The SPU and the SES set out government policy on resource generation and allocation over a 3-4 year period, and are thus critical in determining the shape of future budgets. In Ireland's system, decisions on these issues are properly the prerogative of the executive, but they do not benefit from advance consultation, discussion and debate within the Dáil. Reforms of recent years have opened a window for parliamentary engagement shortly before the SPU is finalised and submitted to the European Commission, but realistically this is too late for the government to take account of the inputs of parliamentarians on the shape of policy. In the opinion of some observers, it is more difficult for parliamentarians to engage and identify with a budgetary process from which their views are "by-passed" from the outset.

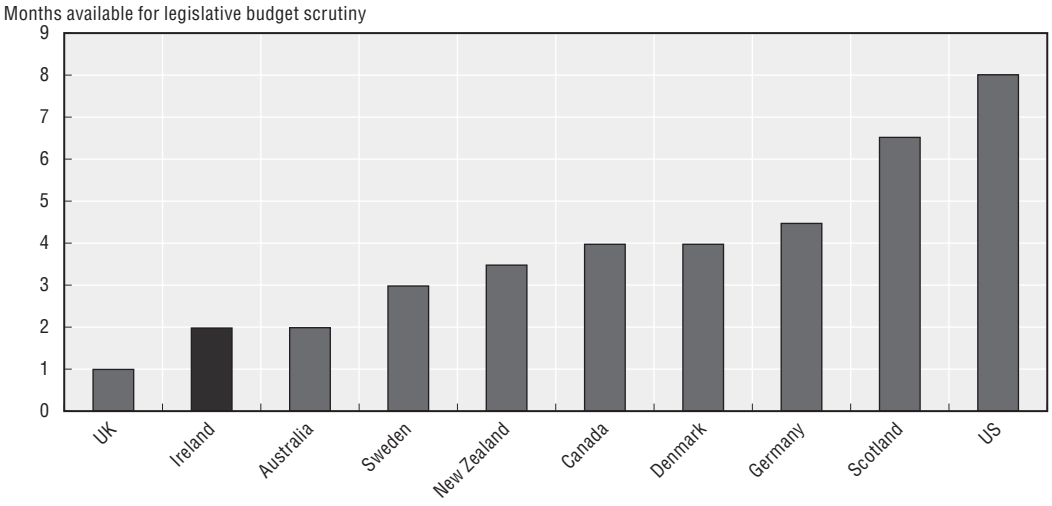
c) **Lack of *ex ante* parliamentary debate on budget priorities:** *Ex ante* budget scrutiny by the *Dáil* and its committees is limited in both scope and effect. Historically, key decisions have been taken within the executive branch of government without input from the legislature, and presented as *faits accomplis* to the Dáil on Budget day.

   By launching the National Economic Dialogue (NED), the government has indicated its willingness to strengthen transparent stakeholder participation in the *ex ante* budget phase, an objective which is very much in keeping with the international principles of "open government" advocated by the OECD and to which the Irish government has subscribed. However, some stakeholders consider that the format and nature of the NED risks marginalising the role of the Houses of the Oireachtas as the natural democratic forum for debate on such national policy issues. Some civil society stakeholders, while recognising the value of the NED as a transparent, round-table event discussing policy priorities, retained anxieties about the continuing parallel processes of access to government by influential lobby groups, and about the lack of transparency and potential for "policy capture" associated with that process[3].

d) **Lack of adequate "no policy change" pre-budget information:** The April SPU provides information on the fiscal space based on existing policy in line with EU requirements. However, the technical approach to constructing this baseline provides limited information about what would be required to maintain the existing level of public services in the medium-term and future spending commitments are not systematically reflected in the projections (IFAC 2015b). Past experience has shown that the level of fiscal space can still change significantly up until the publication of the White Paper the weekend before the Budget. This renders the pre-budget information provided in the SPU out of date and gives parliamentarians less than a week to consider how the actual fiscal space might be allocated and how alternative budgetary proposals might be formulated or adapted. There can also be short-term uncertainties and revisions between the SPU and the budget. Some observers noted that the former practice of publishing "pre-budget" or "abridged" Estimates of Expenditure several weeks before the budget has been discontinued since the onset of the financial crisis, and that this has left an information gap in the pre-budget phase.

e) **Limitations in legislative scrutiny of Budget Bills:** The time available for legislative budget scrutiny subsequent to the publication of the budget proposal is low in Ireland relative to international norms, as illustrated in Figure 2.4. The time available for budgetary scrutiny is, however, a proxy for the quality, intensity and impact of parliamentary engagement, topics that are explored more directly in this report.

Figure 2.4. **Time available for legislative budget scrutiny across comparator countries**



Source: OECD (2012).

Figure 2.5 provides details of the documents usually made available by the government on Budget day. It can be seen that the key Budget Bills (the Finance Bill and the Social Welfare Bill) are not part of this package. The Finance Bill is published within ten days or seven working days of Budget day. The Social Welfare Bill is usually published later than this. These Bills have to be passed before the end of December and so this gives the Dáil a matter of weeks to scrutinise this legislation (containing complex sets of information). This compounds what would be an already challenging timescale for meaningful analysis and scrutiny of the Budget Bills, and puts a premium on the need for orderly, well-focused and well-sequenced Committee debates.

Figure 2.5. **Documents usually made available on Budget day**

TYPICAL BUDGET DAY DOCUMENTS

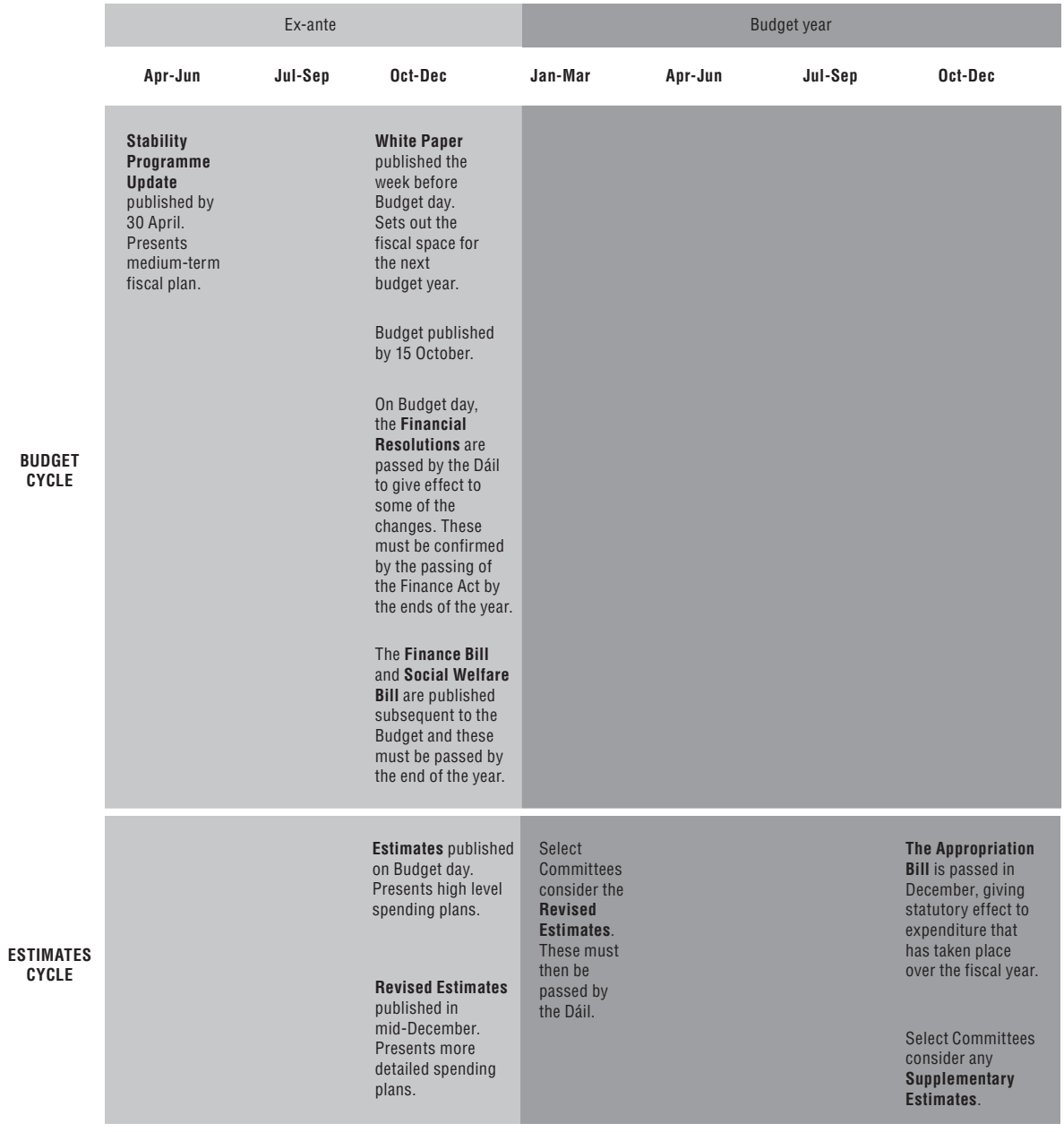
1. Financial statement (Minister for Finance's speech)
2. Expenditure statement (Minister for Public Expenditure and Reform's speech)
3. Expenditure report or the Comprehensive review of expenditure (detailed spending plans)
4. Summary of budget measures
5. Economic and fiscal outlook

f) **Lack of detailed Estimates and performance information at the time of the Budget:** Some discussants observed that the Estimates information published alongside the budget is too highly aggregated to allow for meaningful scrutiny by the Dáil and other stakeholders. Detailed Estimates and performance information are only provided when the REV is

published two months after Budget day. This limits the usefulness of the budget day documentation for parliamentarians and other policy stakeholders.

g) **Lack of timeliness of Estimates discussion:** As outlined in Figure 2.6 and Section 1.3, consideration of the Estimates within select committees takes place in the early months of the budget year, after spending has already got underway. The Dáil vote on the Estimates does not take place until late spring or early summer. Indeed, the formal legislative appropriation of moneys for the budget year (via the Appropriation Act) does not take place until the very end of the budget year, after the money has been spent. This is different from practice throughout other OECD countries, where early or advance appropriation in law is the norm.

Figure 2.6. **Mis-match between the Budget cycle and the Estimates cycle at the *Dáil***



h) **Lack of meaningful debate and discussion on the Estimates:** The Standing Orders of the Dáil provide that the Estimates are referred to select committees for their "consideration" (see Box 2.1 for further details), but the committees have no power to accept or reject the Estimates, nor to make or recommend changes (as happens, for example, when draft laws or Bills are considered at committee stage of the parliamentary legislative process).

Box 2.1. **Dáil Standing Orders in relation to amendments**

The Dáil Standing Orders state that when a Bill is referred to committee "Any section of a Bill may be amended in committee, and new sections may be inserted" with the proviso that amendments which could have a charge upon the people "may not be moved by any member, save a member of the Government or Minister of State". The position in relation to Estimates is more constrained: Estimates are to be "considered" by committee and are not amenable to amendment, whether to increase or decrease the sum proposed to be granted (Standing Orders of the Dáil 2011).

Many stakeholders characterise the process as tantamount to a "rubber-stamping" of the government's budget proposals. In such circumstances, there are clear difficulties in motivating parliamentarians to engage in the Estimates oversight function.

As outlined above, both tax policy and aspects of social protection policy are effected through legislation enacted before the start of the budget year and parliamentarians thus have an opportunity to engage more actively with those areas of budget policy.

i) **Lack of willingness and/or capacity of parliamentarians to engage in the budget process:** Committees can struggle to achieve a quorum for Estimates hearings. It can prove challenging for the chair to keep the committee discussion focused upon the scrutiny of the Estimates, and the discussion may sometimes turn to constituency matters and general critiques of government policy – a shift that is perhaps not surprising, given the presence of the relevant government Minister during the Estimates committee hearing. With the exception of those committees involved in the pilot scheme on performance budgeting, few questions tend to be asked in relation to the Estimates themselves, much less to the performance information also included. This can prove frustrating for witnesses and other officials who have prepared extensive briefing material for members.

In part this issue may relate to the limited powers of the legislature in the budget process (providing little incentive to engage). The formal amendment powers of the *Dáil* are at the low end of international practice, as highlighted in Table 2.1. Against this background, some stakeholders expressed doubt that a re-structuring of the committee scrutiny procedures would result in a tangible change in parliamentary engagement. Others, however, were hopeful that a move to focus and underscore the role of the legislature – in keeping with the thrust of government reform initiatives – would in turn lead to a more lively engagement on the part of committee members.

Table 2.1. **Formal budget amendment powers of the legislature across comparator countries**

Country	Formal amendment powers of the legislature:				
	Unrestricted powers to amend the budget	Amendment powers but cannot change totals proposed by government	May amend to decrease existing expenditure/ revenues	May not make any changes; it can only approve or reject the budget as a whole	Other
Denmark	•				
Germany	•				
Sweden	•				
US	•				
New Zealand	•				
Scotland		•			
UK			•		
Ireland				•	
Australia					•*
Canada					•**

Notes: * By convention, the Australian Legislature approves the annual appropriation bills without amendment (these are for the ordinary operations of government). It has unrestricted powers to amend new policies proposed by government, which are outlined in separate appropriation legislation.

**The Canadian Legislature must approve a portion of the Expenditure estimates before the start of the budget year with the remainder approved within 3 months of the start of the budget year. If the legislature is not sitting because of an election, other interim measures are available to provide payment authority. Approval of the Budget does not provide line ministries with payment authority.

Source: OECD (2012).

j) **Lack of specialist analytical support for parliamentarians to engage in budget scrutiny:** Compared to the situation in other legislatures, the parliamentarians at the Dáil have very limited access to specialised analytical support. Dáil committees can draw some support from clerking staff and also, to a very limited extent, from the Oireachtas LRS. However, clerking staff are not financial scrutiny experts. Likewise the LRS concentrates its expertise on broader policy matters, and recruits policy generalists rather than 'financial specialists' or 'accountancy, tax and financial specialists'. The LRS proactively provides Bill Digests (research briefings) to inform parliamentary debate of all draft legislation – with the single and notable exception of the budget-related legislation and Estimates for public services.

k) **Delay in the presentation and debate of audited Appropriation Accounts:** The Oireachtas role in *ex post* scrutiny is based on the C&AG's report on the audited Appropriation Accounts. After the PAC has considered the C&AG's report on a Vote it is possible for sectoral committees to consider it if they choose. The long time-lapse can lead to a lack of "follow-through" across the budget cycle from *ex ante* through to implementation and accountability stages. As a result, the PAC discussion invariably focuses on specific issues of probity and inefficiency in the use of resources. These are indeed important areas which are proper to the role of the PAC and which command high levels of public interest. However, the issues of effectiveness in policy delivery, and value-for-money across the totality of public expenditure, do not necessarily get a uniform level of attention and scrutiny.

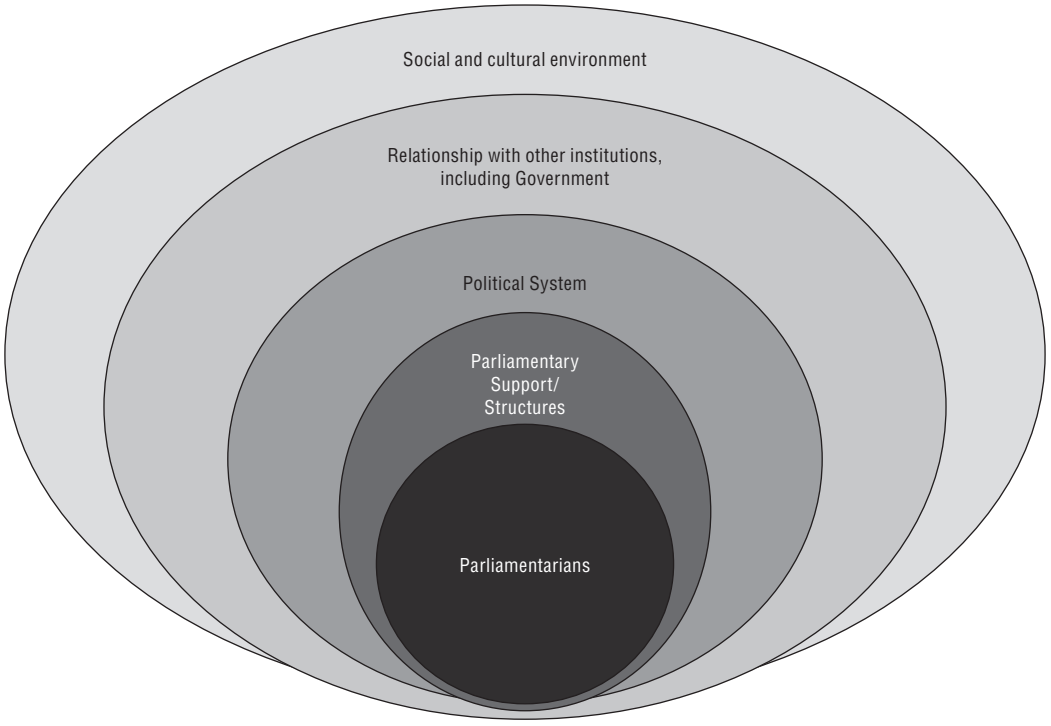
The remainder of this section will elaborate some proposals and suggestions for how the various issues set out above might be addressed, including by reference to practices in other OECD countries. Issues relating to the use of performance information in budgeting are set out separately in Section 3.

2.5. Approaches to improving Dáil engagement in the budget process

Each of the issues identified in the preceding section can be addressed through the steps set out below. It is important to underline that the measures below are not designed to be "piecemeal" but form part of an inter-connected, and mutually supporting, series of actions. These actions have – as their common and unifying principle – the potential to enhance the Parliament's role in the budget process and, as a result, to improve the evidential basis and quality of budgetary policy development, decision making and accountability.

To be effective, the measures proposed below will need to be underpinned by **a renewed commitment by government, at political and administrative levels, to engage with the Oireachtas as a partner throughout the budget process**. The legislature's relationship with the government is one of a range of factors which impact its effectiveness, as shown in Figure 2.7. The desire for a more meaningful engagement by the Houses of the *Oireachtas* with the budget process should be cemented through an improved partnership between government and parliament. The starting point should be a shared understanding of the gains that can be achieved from engagement of and by the legislature in the budget process, particularly in relation to the quality and responsiveness of policy development, and the rebuilding of public trust in the institutions of government as a whole. Putting such a shared understanding into effect will require practical manifestations across a broad range of areas as outlined in the following paragraphs.

Figure 2.7. **Factors influencing the effectiveness of the legislature**



Source: Author.

2.5.1. *Procedural changes to promote parliamentary engagement*

a) *Ex ante* parliamentary input to medium-term fiscal planning

The April SPU – in 2015 accompanied by the government's SES – nowadays marks the commencement of the annual budgetary cycle, and the principle of *ex ante* engagement of parliament could usefully be brought to bear upon this process. This approach could be facilitated if the government brought forward the publication of its draft SPU to allow the Houses of the Oireachtas committee to express their views on medium-term fiscal strategy, drawing on the input of IFAC as appropriate. The draft SPU could also be enhanced with the inclusion of realistic "no policy change" budgetary projections incorporating up-to-date information about the future cost of providing the current level of public services. In the context of such an engagement, the Joint Committee for Finance, Public Expenditure & Reform would be in a position to consider evidence and formulate a series of recommendations on the medium-term fiscal strategy for the government, at least every 2-3 years when such a strategy is established and revised during the course of the political cycle. While the preparation of economic and budgetary strategy is ultimately the prerogative of government, there is nothing to prevent the government from considering such recommendations and from providing feedback in the final SPU on the extent to which these recommendations have been taken into account. A further step, which would build on the reform momentum of recent years, would be to submit the medium-term fiscal plan to the *Dáil* for its formal approval before it is submitted to the European Commission. Such a process would send a powerful signal to the Houses of the Oireachtas that their input to the budget process is welcomed and expected from the very outset, and would set the scene for continued engagement throughout the stages of the budget cycle.

b) *Ex ante* parliamentary input on budget priorities

As indicated above, the National Economic Dialogue (NED) is an initiative in civic participation that is in keeping with OECD principles of good budgetary governance and open government more generally. However, the risk of a perceived side-lining of parliament should be avoided through aligning the NED, to a greater extent, with the deliberations of parliament, and though anchoring the process of *ex ante* budgetary engagement within the Houses of the Oireachtas and its committees.

In the near term this should involve ensuring that the Houses of the *Oireachtas* are a key partner in the NED. Over the medium or longer term, it may be advisable for the NED process to be effectively subsumed within more open, participative hearings of the Houses of the *Oireachtas*. In this context, the Committees could set aside one week in early- to mid-July each year as "Pre-Budget Week" with a series of open hearings, drawing views from a wide range of experts and stakeholders. The evidence received should inform a series of recommendations for government in relation to budget priorities. In turn, the government should be invited to explain the extent to which it has been able to take these recommendations into consideration when presenting the Budget later that year (see (d) below).

To underpin this model, a new "Estimates Committee" should be constituted, essentially made up of the Joint Committee on Finance, Public Expenditure & Reform alongside the chairpersons of the other joint committees as well as the PAC. The role of this committee would be to act as a plenary forum for the pre-budget hearings, and to submit a single, co-ordinated report to government outlining the results of the hearings in the various joint committees.

Over time, the Oireachtas committees should be accepted as the primary forum through which societal stakeholders input into budgetary decision-making. There should be an understanding that these issues should not ordinarily be discussed in separate

private meetings between stakeholders and the government, although of course the government will maintain dialogue with representative bodies on matters of detail, technical streamlining etc. The proposed Irish Parliamentary Budget Office (see (g) below) would naturally be an invaluable resource for the committees in undertaking these tasks.

c) Early publication of full budgetary information and legislative proposals

Publishing the Finance Bill and the Social Welfare Bill on budget day (ideally) would maximise the time available for legislative scrutiny and debate. Likewise the full detailed Estimates of Expenditure (including financial allocations and performance information), not currently published until December, should in principle be published on budget day. This would allow the separate Revised Estimates Volume to be discontinued.

d) Timely consideration of the Estimates of Expenditure

Dáil select committees should bring forward consideration of the Estimates to the October-December period, and the Dáil vote on the Estimates should occur before the start of the budget year. The committee hearings could be scheduled to take place alongside any Supplementary Estimates for the year just ending, as the issues involved in both cases will likely be relevant to one another. This move would reinforce the immediacy and relevance of the Dáil's involvement at this important juncture in the budget process.

As an institutional innovation to support this accelerated procedure, it may be appropriate to augment the multiple hearings across various select committees with one single hearing, over one or two full days, of the "Estimates Committee" that is proposed under (b) above. The purpose of this hearing would be to obtain an explanation from the relevant ministers, and in particular from the two budget ministers (the Minister for Public Expenditure & Reform and the Minister for Finance), on the extent to which the recommendations from the *ex ante* stage have been carried through to the budget itself. This streamlined approach would reflect the constitutional limitations regarding the latitude of the Dáil in influencing budgetary reallocations, while maintaining continuity and engagement from the pre-budget through to the budget stages.

e) Performance Dialogue with joint committees in early year

Rather than spend time in the early months of the year in conducting Estimates hearings which are constrained from having any real impact, it would be more worthwhile for committees to complete scrutiny of the Estimates before the end of the previous year (as per (d) above), and to engage with the Departments and Agencies instead on a focused dialogue upon issues of performance and impact. The question of performance is explored in more depth in the following chapter. However, through such an overall approach, a systemic engagement could be created between Oireachtas committees and the key stages of the budget calendar.

2.5.2. *Enhanced information to promote parliamentary engagement*

f) Re-introduce "Pre-Budget Estimates" showing "no policy change" expenditure baselines

It would be helpful if the government published Pre-Budget Estimates and an accompanying White Paper in July as core reference documents to inform the NED and *ex ante* budget scrutiny. The documents should be based upon the updated "no-policy-change" position – at least to the same level of broad detail as currently appears in the Budget Estimates, but ideally showing updated baseline figures for key aspects of each programme, as reflected

also in the SPU (see under (a) above). Preparation of this document should be made easier by, and in turn will reinforce, the multi-annual character of the Estimates allocations and their continuity from year to year. Such an approach will also add to the credibility of the NED / parliamentary hearings as being based upon official figures, rather than being concerned purely with abstract policy arguments.

2.5.3. *Institutional supports for effective parliamentary engagement*

g) Establish an Irish Parliamentary Budget Office to support parliamentary engagement and budget scrutiny

The Houses of the Oireachtas should set up an Irish Parliamentary Budget Office (IPBO) to provide specialist analytical support to parliamentarians and to facilitate effective scrutiny throughout all stages of the budget cycle. The IPBO could take various different forms (see Box 2.3 for some comparative international examples), but should in any event reflect the OECD principles in this area (OECD, 2014). The proposed IPBO would address a notable lacuna in the support currently available to parliamentarians. A suggested structure is provided in Box 2.2 below.

Box 2.2. **Suggested establishment of the IPBO**

The IPBO should be responsible for providing parliament with:

- technical and non-partisan analysis and briefing to support committee scrutiny at all key stages of the budget process
- confidential budget analysis to support the work of individual parliamentarians
- training to develop the capacity of parliamentarians in relation to financial scrutiny, and
- independent pro-active research in relation to the budget and performance budgeting.

In the short-term the IPBO might first be built upon the Clerking Financial Scrutiny team and be resourced by a small number of persons with appropriate skills seconded from other areas of the Oireachtas, other oversight bodies or the government. However, in the longer-term, it is envisaged that resources would be released and the IPBO would be set up as a specialised stand-alone unit in the Oireachtas, staffed by at least five to seven persons. While retaining their independence of function, IPBO staff could also form part of, and/or have rolling secondees from, the IGEES (see section 1.4(h) above) for professional development purposes.

The IPBO could also incorporate the Independent Costings Office that has been proposed by the government (see section 1.4(k)), given the broad overlap of skills and functions in the area of budget scrutiny and policy costings.

The functions of the IPBO should complement and not overlap with those of IFAC, although the IPBO's role could help to enhance the ongoing liaison between the Houses of the Oireachtas and the work of IFAC. The IPBO should also act as a focal point for liaison with the executive in the interests of making available the most appropriate budgetary and fiscal information for members.

In addition to the specialist support from the IPBO, Committees may also benefit from the use of temporary advisers during the budget process whose particular skills or expertise are compatible with the key area of focus in that year. Advisers are used by many other Parliaments across the OECD and can be a useful way of bringing in technical expertise to aid the committee in their deliberations.

Box 2.3. **Examples of Parliamentary Budget Offices (PBOs)**

The Canadian Parliamentary Budget Officer

Canada's PBO position was established in 2008 in the context of a perceived need to enhance the parliament's capacity to scrutinise macro-fiscal and other projections from the executive. The PBO is responsible for providing parliament with independent analysis on the nation's finances, trends in the Canadian economy, as well as the government's estimates and to provide policy costings at the request of parliamentarians or parliamentary committees. The Canadian PBO's work focuses on *ex ante* budget analysis, complementing the Auditor General's *ex post* audits. PBO's work comes in three forms: committee requests, regular products and independent research. The office produces an economic and fiscal forecast twice per year, an annual long-term fiscal sustainability forecast and undertakes policy costings. Policy costings are commonly "reasonableness tests" of Ministry of Finance costings. The office does not make normative policy recommendations nor does it have a role in costing election platforms. The entirety of PBO work is made available to all parliamentarians and the general public. The Canadian PBO has 17 staff, with an annual budget of CAD 2.8 million.

The Austrian Parliamentary Budget Office

Austria has both a Fiscal Advisory Council and a Parliamentary Budget Office. The PBO was set up in 2012 and has a mandate to support the parliament in the budgetary process, in debating and approving the budget and exercising its oversight role. PBO staff attend Budget Committee meetings and the head of the PBO appears before the committee. The creation of a PBO has been an important step in providing additional independent know-how and expertise to the parliament – thus reducing information asymmetries and strengthening the position of the parliament to engage effectively with the government in budgetary matters. The PBO also provides the Parliament with a vital link to the Fiscal Advisory Council where previously only a very weak relationship existed. The Austrian PBO is expected to have a full staffing complement of six academic experts and two assistants. The academic experts have backgrounds as budget experts, economists and lawyers. The PBO is funded from the budget of the parliament administration.

The Australian Parliamentary Budget Office

Australia's PBO was established under a perceived need for greater fiscal transparency and accountability regarding the cost of election promises. The office was established in legislation in 2011, and is responsible for election-time policy costings, budget impact estimates for election commitments and research on budgetary and fiscal policy issues at the initiative of the PBO. The PBO's enabling statute provides the exclusive mandate to provide these services to all parliamentarians. Functionally, the PBO is designed to complement existing specialised financial and economic expertise available to parliamentarians. The PBO's ex ante analysis regarding the cost of contemplated and proposed expenditure and revenue measures is distinct from the ex post analysis of the National Audit Office. The Australian PBO has 38 staff, with a budget of AUD 29.7 million four years.

Source: OECD.

h) Continuing Professional Development of parliamentarians and officials

For effective budget scrutiny, parliamentarians need to be equipped with the skills and capacities to understand how the budget process works, including the budgetary timetable, the role and responsibilities of the Houses of the Oireachtas at the various stages, and the rules and procedures governing amendments during the budget process. In the short-term, professional development for effective budget scrutiny should be incorporated into the induction programme for new members at the start of the next parliamentary session. An interesting example that could be drawn from is the induction offered to newly elected members of the US Congress (see Box 2.4).

Box 2.4. **Induction programme for newly elected members of the US Congress**

Founded in 1972, and hosted every two years by the Harvard Institute of Politics at the John F. Kennedy School of Government, the Bipartisan Program for Newly-Elected Members of Congress is a comprehensive training programme for new legislators. It provides intensive seminars on major public policy issues. It also offers workshops to help new Representatives make the most of their first weeks and months on Capitol Hill. Programme topics generally include: The Economy, Globalization, White House/Congressional Relations, Inside Congress, The Federal Budget, Foreign Policy, Appropriations, Making an Impact. Workshops focus on the «how» of getting things done in Washington, and are led by current and former senior officials from Congress, the White House, cabinet departments, regulatory agencies, and the national media.

Source: Harvard Institute of Politics (2015).

In the longer-term, a more structured system of parliamentary engagement in budgeting, as proposed in this report, will need to be accompanied with strengthened processes of Continuing Professional Development. Technical aspects should be delivered by the combined efforts of a number of bodies including the proposed Irish Parliamentary Budget Office and IFAC as well as academic and professional institutions. However, this Continuing Professional Development should also cover non-technical aspects, such as a specific programme for committee chairs so as to provide a foundation for streamlined and rigorous budget scrutiny.

Further examples of professional development programmes provided in other parliaments are provided in Box 2.5.

Box 2.5. **Further examples of professional development for members**

Northern Ireland Assembly

The Northern Ireland Assembly established an Effective Finance Scrutiny Project Team "to increase the financial and economic scrutiny capacity available to the Assembly, i.e. the Assembly Members, the Assembly Commission and the committees, and thereby facilitate the Assembly in fulfilling its scrutiny role and responsibilities". The Assembly's Public Finance Scrutiny Unit developed and delivered a series of financial scrutiny workshops for Members, political parties, the Secretariat and committees. Assistance was also sought from the Scottish Parliament's Financial Scrutiny Unit. Feedback received on the workshop series showed a marked improvement in understanding among attendees. Based on their experience, the Assembly would like to make these workshops part of formal committee meetings in the future.

New Zealand

The New Zealand Parliament offer financial scrutiny workshops for new members as part of their induction, and for existing members in the weeks before the budget. Sessions are offered directly to the whips office, although open door sessions are also held if requested. In 2015, 15 MPs and some support staff attended this open door pre-budget workshop.

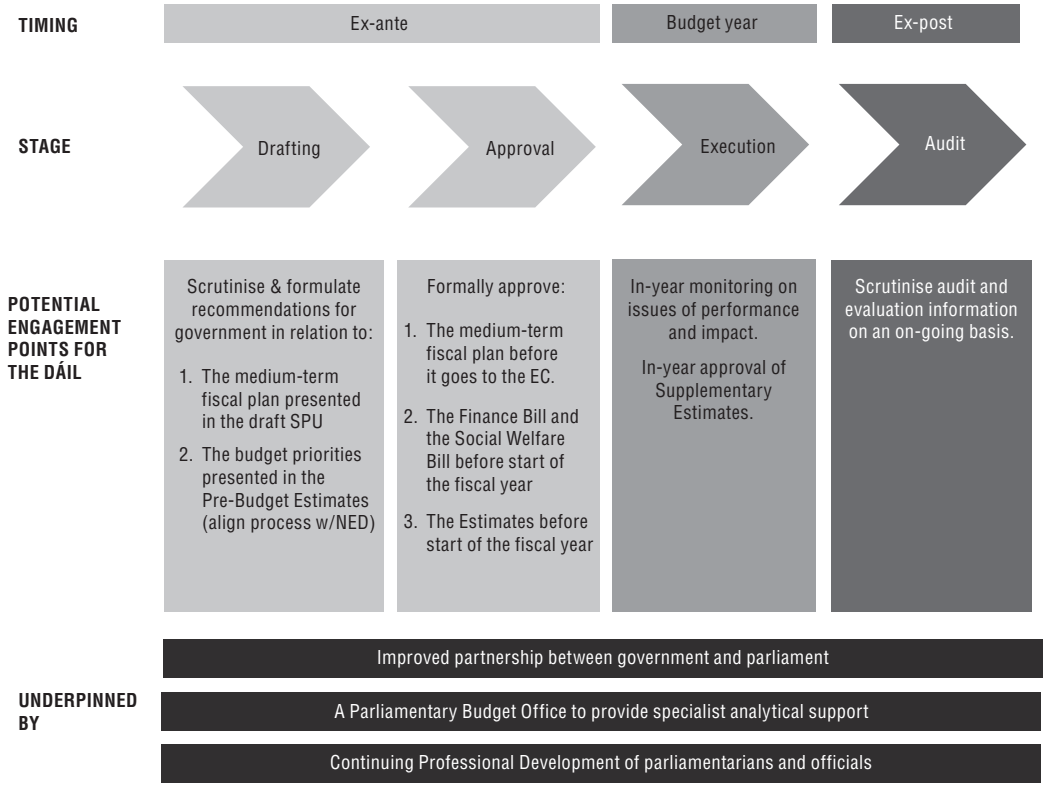
UK House of Commons

The House of Commons Scrutiny Unit co-ordinated a programme of training for new members after the UK election in 2010. This included specific training sessions on Finance for Members as well as sessions for committees if requested. In addition, the Scrutiny Unit published a new edition of the booklet called Financial Scrutiny Uncovered which is intended to give Members a sound and up-to-date knowledge of how the government manages its finances and the role of parliamentary scrutiny.

Source: OECD.

Taken together, these recommendations provide a number of new opportunities for the Dáil to engage in a more substantive manner with the budget process as a whole. These opportunities are summarised in Figure 2.8, alongside the key developments which will underpin their success.

Figure 2.8. **Potential engagement points for the *Dáil* in the budget process**



3. Performance-based scrutiny of the Estimates

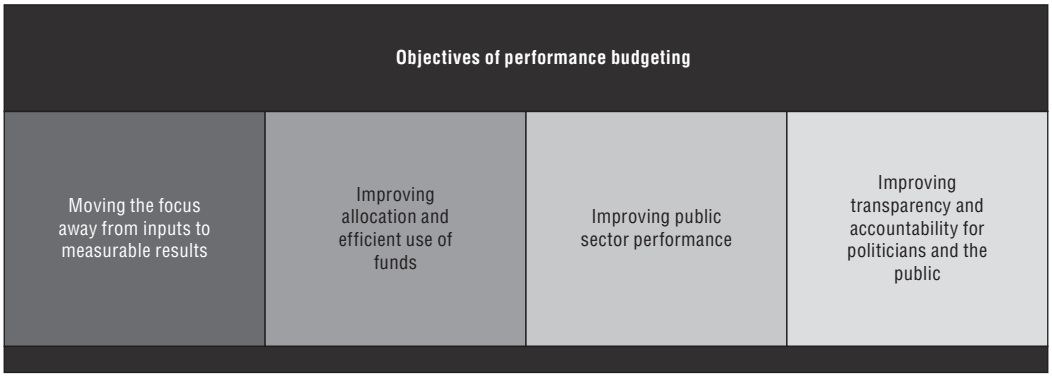
3.1. General considerations on performance budgeting

Over recent years, many OECD countries have taken a closer look at how performance information can be integrated into the budget process to improve decision making. This performance information has the potential to move the focus of budget scrutiny away from inputs ("how much money will this department get?") towards measurable results ("what can this department achieve with this money?"). The attempt to strike the right balance between the consideration of inputs and results in this way is generally referred to as "performance budgeting".

OECD countries have reported a number of benefits from performance budgeting. The practice provides a better understanding of government goals and priorities and how different programmes contribute to them. It also improves transparency, by providing more information to legislatures and the public.

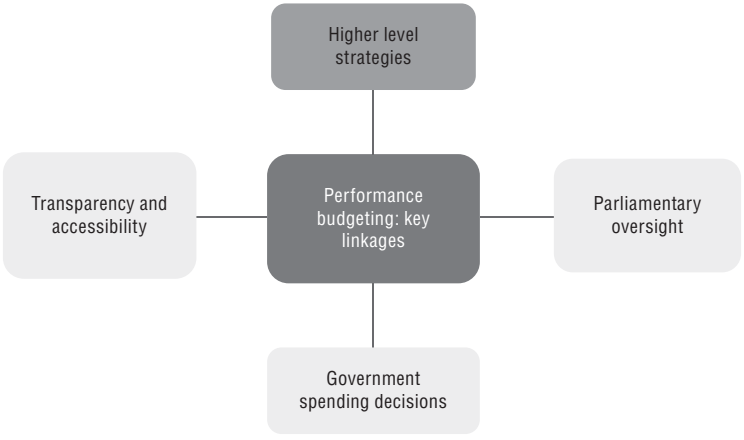
In addition, if the government and stakeholders exercise their roles in monitoring the performance information, then it can help improve accountability and ensure that there are appropriate checks and balances on government activity and improvements in the efficiency of allocations.

Figure 3.1. **Common objectives of performance budgeting**



Any framework of performance budgeting will only achieve these objectives if the appropriate linkages are in place between the performance information and higher level strategies (such as key national indicators or government programme commitments), parliamentary scrutiny of the budget and government spending decisions (see Figure 3.2). It also needs to be transparent and accessible to the public.

Figure 3.2. **Linkages necessary for performance budgeting to deliver benefits**



There is no single, standard international model of performance budgeting, and national systems need to be developed in light of country-specific traditions, legal frameworks and administrative / political cultures. The OECD *Recommendation on Budgetary Governance* (2015a) provides guidance on good practice. The Recommendation calls on governments to:-

Ensure that performance, evaluation and value for money are integral to the budget process, in particular through:

a) helping parliaments and citizens understand not just what is being spent, but what is being bought on behalf of citizens – i.e. what public services are being delivered, to what standards of quality and with what levels of efficiency

b) routinely presenting performance information in a way which informs, and provides useful context for, the financial allocations in the budget report; noting that such information should clarify, and not obscure or impede, accountability and oversight;

c) using performance information, therefore, which is *(i)* limited to a small number of relevant indicators for each policy programme or area; *(ii)* clear and easily understood; (iii) allows for tracking of results against targets and for comparison with international and other benchmarks; *(iv)* makes clear the link with government-wide strategic objectives. *[…]*

This section will examine the current practice regarding parliamentary engagement in the performance aspects of budgeting in Ireland, and suggest some avenues for ongoing review and reform.

3.2. Ireland's framework for performance budgeting

Performance budgeting was introduced in Ireland as one element of the government's broader programme of public service reform (see Section 1.4). Following a pilot exercise in 2011, the annual Estimates of Expenditure were introduced in the new format for almost all of the individual "votes" (expenditure allocations for government departments and other key agencies) in 2012. The key features of the new structure can be summarised as follows:

- long lists of detailed "line items" of expenditure were removed, mainly to make room for new performance information;
- the subheads of expenditure were rationalised and re-grouped into "programme" areas, corresponding to those used in the Statements of Strategy;
- the block of administrative subheads, which were managed separately as part of a parallel "administrative budget" arrangement, were allocated to each programme;
- each programme was associated with output indicators (for the budget year and the previous year) as well as "context and impact indicators" showing the 3-year historical trend in the overall outcomes which the programme supports;
- each programme was restricted to a single page, to encourage conciseness.

As part of this reform, the parallel "Annual Output Statement" – a separate document showing a range of output indicators for each programme area – was discontinued.

In addition, the performance budgeting approach has also been extended beyond the Estimates procedures to include a new public web platform called IrelandStat (see *www.irelandstat.gov.ie*). The IrelandStat initiative, introduced as a pilot for selected programmes initially, aims to present a government-wide "dashboard" of indicators showing progress in delivering on public objectives, supplementing the financial and performance information from the Estimates with a wealth of data from various annual reports, statistical databases and international benchmarks.

The introduction of performance budgeting, together with the IrelandStat initiative, has laid the foundation for a more systematic engagement by parliamentarians and public on the impact of public policies and on resource allocation decisions. Most Votes now give details of expenditure programmes, objectives, outputs and financial and human resources; and the details are not restricted to the technical Estimates documentation, but are presented in a public-facing platform. On this basis, it should be easier than before to get an overview of what is being spent, what are the targets and what are the outputs and impact of spending.

3.2.1. Use of the new performance Estimates by the select committees

Committees should be using the new performance Estimates to hold the government to account on its performance to ensure that it is allocating resources efficiently and effectively. However, stakeholders report some deficiencies in the implementation and the practical impact of the new performance tools, in ways which impair effective parliamentary scrutiny. Given this situation, supplementary briefing material supplied by government departments is heavily relied upon by Dáil committees in exercising their oversight role. These additional briefing notes provide a means by which committee members can identify issues that they may wish to pursue, but can also vary in consistency. As a result, there remain deficiencies with regard to the quality and uniformity of the performance information presented and this undoubtedly hinders committee scrutiny.

Staff from the clerking secretariat and the Library & Research Service have been undertaking a programme of work to improve the quality of output targets presented in the Revised Estimates in order to facilitate better committee scrutiny. As part of this, the project team have assessed the existing quality of output targets presented in the Revised Estimates. Their work shows that approximately 50% of measures reviewed were not considered relevant in a performance budgeting context. Of the remaining targets, not all of them were specific. Select committees are currently using this information to push for improved performance information from government Departments.

Overall, as a relatively recent innovation in public policy, it is fair to say that the performance budgeting framework is still being "bedded in". The next section identifies ongoing issues that prevent the framework from operating and being scrutinised effectively.

3.3. Specific issues with performance budgeting in practice

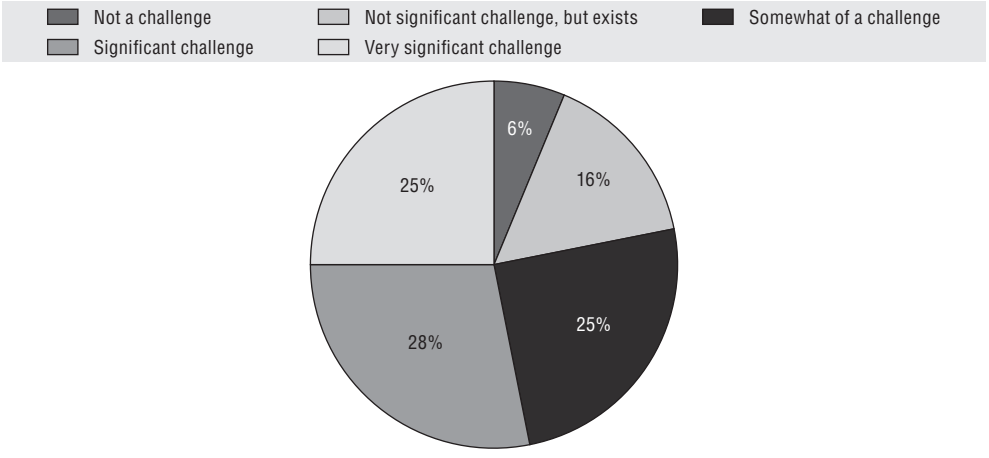
Based on the views expressed across the broad range of budget practitioners, observers and stakeholders within Ireland, the key challenges and perceived shortcomings in relation to performance budgeting can be summarised as follows.

a) **Lack of systematic linkages between performance indicators and higher-level strategies:** Selection of indicators in the Estimates document is largely the responsibility of the Departments concerned, and some stakeholders note that the indicators – which are limited in number – can seem arbitrary, and not anchored in an overall vision of departmental (and government-wide) priorities and strategies. Some civil society stakeholders criticised the lack of transparency in selection of indicators, which in their view undermined their credibility and their effective role in accountability.

b) **Lack of consistency in the quality of performance measures:** Analysis of the 2012 Revised Estimates Volume undertaken by the Institute for Public Administration (IPA) found that the number of output targets per vote ranged from 1 to 27 (this compares to an international norm of around five measures) (IPA 2013). Of these output targets, the IPA determined that only half could be described as "targets" in any meaningful sense (i.e. specific and potentially measurable or assessable objectives). The remainder were found to be general statements of intent. Furthermore, roughly one-third of the output targets related to one-off discrete events, which did not allow for monitoring of trends over time. These findings have been largely echoed in the views expressed to the OECD by various stakeholders, who report some dissatisfaction with the operational relevance of many of the performance indicators used.

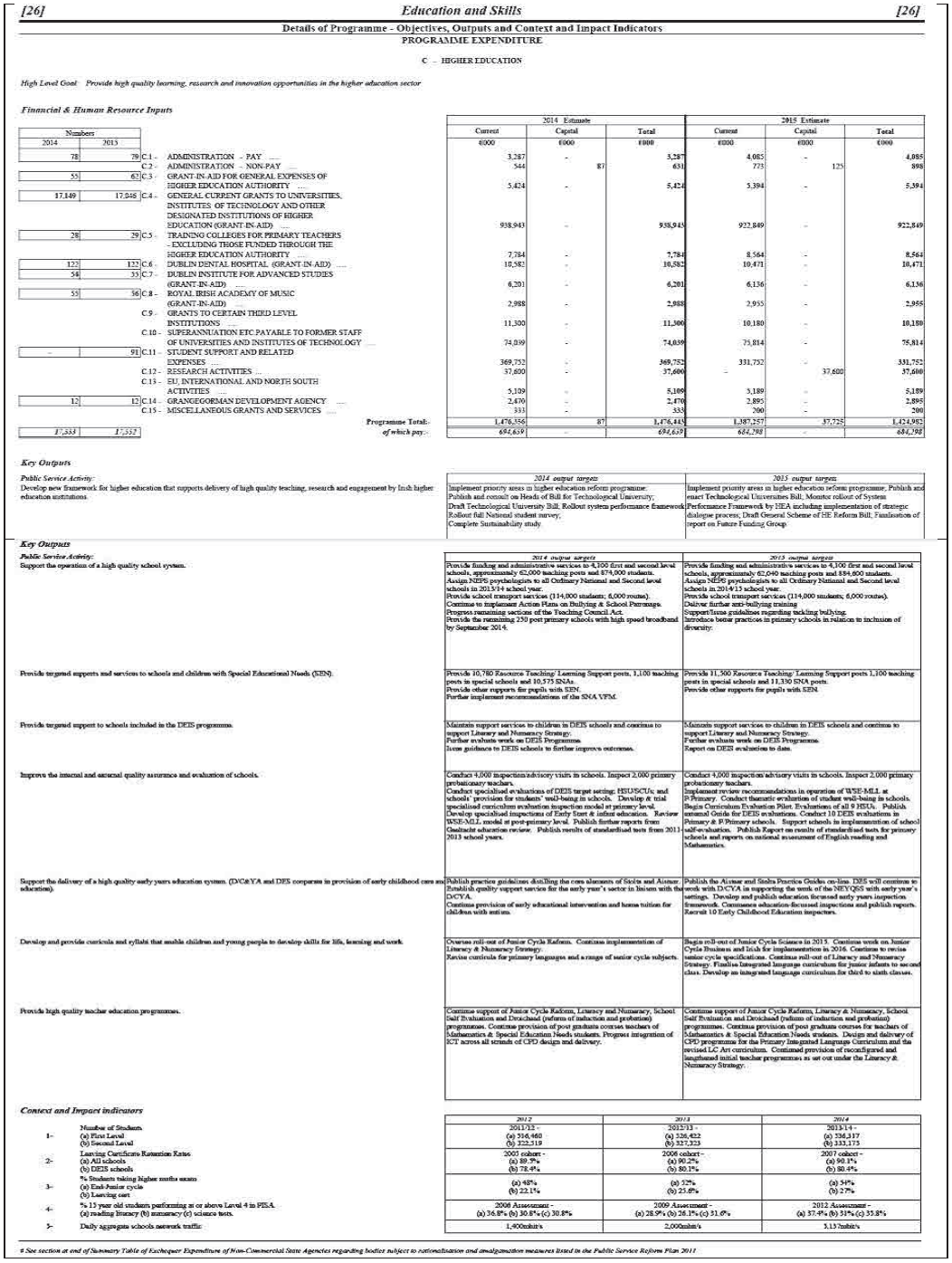
c) **Poor presentation of performance information:** The way in which performance information is presented significantly hinders its accessibility. In response to the "one-page rule" applied by the Department of Public Expenditure & Reform, intended to promote conciseness, some public bodies have responded by maintaining a lot of detail in a very small font size, rendering it all-but-illegible for many users (a criticism raised by a wide range of stakeholders). Moreover, the insistence of some bodies on using narrative explanations of their outputs, rather than simple facts and figures, aggravates the difficulty. Figure 3.4 provides a specimen page from the *Revised Estimates* to illustrate the point. For international context, it should be added that the issue of "information overload" is by no means specific to the Irish case. Figure 3.3 shows that over half of OECD countries find that information overload is a significant or very significant challenge for performance budgeting.

Figure 3.3. **Percentage of OECD countries that view "information overload" as a challenge in relation to performance budgeting**



Source: OECD International Database of Performance Budgeting 2011.

Figure 3.4. **(overleaf). Specimen page from the Revised Estimates showing performance information**



[26] *Education and Skills* *[26]*

Details of Programme - Objectives, Outputs and Context and Impact Indicators

PROGRAMME EXPENDITURE

C – HIGHER EDUCATION

High Level Goal: Provide high quality learning, research and innovation opportunities in the higher education sector

Financial & Human Resource Inputs

Numbers 2014	Numbers 2015			2014 Estimate Current €000	2014 Estimate Capital €000	2014 Estimate Total €000	2015 Estimate Current €000	2015 Estimate Capital €000	2015 Estimate Total €000
78	78	C.1 -	ADMINISTRATION - PAY	3,287	-	3,287	4,085	-	4,085
		C.2 -	ADMINISTRATION - NON-PAY	544	87	631	773	125	898
55	67	C.3 -	GRANT-IN-AID FOR GENERAL EXPENSES OF HIGHER EDUCATION AUTHORITY	5,424	-	5,424	5,394	-	5,394
17,149	17,048	C.4 -	GENERAL CURRENT GRANTS TO UNIVERSITIES, INSTITUTES OF TECHNOLOGY AND OTHER DESIGNATED INSTITUTIONS OF HIGHER EDUCATION (GRANT-IN-AID)	938,943	-	938,943	922,849	-	922,849
28	29	C.5 -	TRADING COLLEGES FOR PRIMARY TEACHERS - EXCLUDING THOSE FUNDED THROUGH THE HIGHER EDUCATION AUTHORITY	7,784	-	7,784	8,564	-	8,564
122	122	C.6 -	DUBLIN DENTAL HOSPITAL (GRANT-IN-AID)	10,582	-	10,582	10,471	-	10,471
34	33	C.7 -	DUBLIN INSTITUTE FOR ADVANCED STUDIES (GRANT-IN-AID)	6,201	-	6,201	6,136	-	6,136
55	56	C.8 -	ROYAL IRISH ACADEMY OF MUSIC (GRANT-IN-AID)	2,988	-	2,988	2,955	-	2,955
		C.9 -	GRANTS TO CERTAIN THIRD LEVEL INSTITUTIONS	11,300	-	11,300	10,180	-	10,180
		C.10 -	SUPERANNUATION ETC PAYABLE TO FORMER STAFF OF UNIVERSITIES AND INSTITUTES OF TECHNOLOGY	74,039	-	74,039	75,814	-	75,814
-	91	C.11 -	STUDENT SUPPORT AND RELATED EXPENSES	369,752	-	369,752	331,752	-	331,752
		C.12 -	RESEARCH ACTIVITIES	37,600	-	37,600	-	37,600	37,600
		C.13 -	EU, INTERNATIONAL AND NORTH SOUTH ACTIVITIES	5,109	-	5,109	5,189	-	5,189
12	12	C.14 -	GRANGEGORMAN DEVELOPMENT AGENCY	2,470	-	2,470	2,895	-	2,895
		C.15 -	MISCELLANEOUS GRANTS AND SERVICES	333	-	333	200	-	200
			Programme Total:	1,476,356	87	1,476,443	1,387,257	37,725	1,424,982
17,555	17,557		*of which pay:*	684,639	-	684,639	684,798	-	684,798

Key Outputs

Public Service Activity:	*2014 output targets*	*2015 output targets*
Develop new framework for higher education that supports delivery of high quality teaching, research and engagement by Irish higher education institutions.	Implement priority areas in higher education reform programme: Publish and consult on Heads of Bill for Technological University; Draft Technological University Bill; Rollout system performance framework Rollout full National student survey; Complete Sustainability study	Implement priority areas in higher education reform programme; Publish and enact Technological Universities Bill; Monitor rollout of System Performance Framework by HEA including implementation of strategic dialogue process; Draft General Scheme of HE Reform Bill; Finalisation of report on Future Funding Group

Key Outputs

Public Service Activity:	*2014 output targets*	*2015 output targets*
Support the operation of a high quality school system.	Provide funding and administrative services to 4,100 first and second level schools, approximately 62,000 teaching posts and 874,000 students. Assign NEPS psychologists to all Ordinary National and Second level schools in 2013/14 school year. Provide school transport services (114,000 students; 6,000 routes). Continue to implement Action Plans on Bullying & School Patronage. Progress remaining sections of the Teaching Council Act. Provide the remaining 250 post primary schools with high speed broadband by September 2014.	Provide funding and administrative services to 4,100 first and second level schools, approximately 62,040 teaching posts and 884,000 students. Assign NEPS psychologists to all Ordinary National and Second level schools in 2014/15 school year. Provide school transport services (114,000 students; 6,000 routes). Deliver further anti-bullying training Support/issue guidelines regarding tackling bullying. Introduce better practices in primary schools in relation to inclusion of diversity.
Provide targeted supports and services to schools and children with Special Educational Needs (SEN).	Provide 10,780 Resource Teaching/ Learning Support posts, 1,100 teaching posts in special schools and 10,575 SNAs. Provide other supports for pupils with SEN. Further implement recommendations of the SNA VFM.	Provide 11,500 Resource Teaching/ Learning Support posts 1,100 teaching posts in special schools and 11,330 SNA posts. Provide other supports for pupils with SEN.
Provide targeted support to schools included in the DEIS programme.	Maintain support services to children in DEIS schools and continue to support Literacy and Numeracy Strategy. Further evaluate work on DEIS Programme. Issue guidance to DEIS schools to further improve outcomes.	Maintain support services to children in DEIS schools and continue to support Literacy and Numeracy Strategy. Further evaluate work on DEIS Programme. Report on DEIS evaluation to date.
Improve the internal and external quality assurance and evaluation of schools.	Conduct 4,000 inspection/advisory visits in schools. Inspect 2,000 primary probationary teachers. Conduct specialised evaluations of DEIS target setting; HSUSCUs; and schools' provision for students' well-being in schools. Develop & trial specialised curriculum evaluation inspection model at primary level. Develop specialised inspections of Early Start & infant education. Review WSE-MLL model at post-primary level. Publish further reports from Gaisbaisti education review. Publish results of standardised tests from 2011-2013 school years.	Conduct 4,000 inspection/advisory visits in schools. Inspect 2,000 primary probationary teachers. Implement review recommendations in operation of WSE-MLL at P/Primary. Conduct thematic evaluation of student well-being in schools. Begin Curriculum Evaluation Pilot. Evaluations of all 9 HSUs. Publish national Guide for DEIS evaluations. Conduct 10 DEIS evaluations in Primary & P/Primary schools. Support schools in implementation of school self-evaluation. Publish Report on results of standardised tests for primary schools and reports on national assessment of English reading and Mathematics.
Support the delivery of a high quality early years education system. (DCE&YA and DES cooperate in provision of early childhood care and education).	Publish practice guidelines distilling the core elements of Síolta and Aistear. Establish quality support service for the early year's sector in liaison with the DCYA. Continue provision of early educational intervention and home tuition for children with autism.	Publish the Aistear and Síolta Practice Guides on-line. DES will continue to work with DCYA in supporting the work of the NFVQES with early year's settings. Develop and publish education focussed early years inspection framework. Commence education-focussed inspections and publish reports. Recruit 10 Early Childhood Education inspectors.
Develop and provide curricula and syllabi that enable children and young people to develop skills for life, learning and work.	Oversee roll-out of Junior Cycle Reform. Continue implementation of Literacy & Numeracy Strategy. Revise curricula for primary languages and a range of senior cycle subjects.	Begin roll-out of Junior Cycle Science in 2015. Continue work on Junior Cycle Business and Irish for implementation in 2016. Continue to revise senior cycle specifications. Continue roll-out of Literacy and Numeracy Strategy. Finalise Integrated language curriculum for junior infants to second class. Develop an integrated language curriculum for third to sixth classes.
Provide high quality teacher education programmes.	Continue support of Junior Cycle Reform, Literacy and Numeracy, School Self Evaluation and Droichead (reform of induction and probation) programmes. Continue provision of post graduate courses teachers of Mathematics & Special Education Needs students. Progress integration of ICT across all strands of CPD design and delivery.	Continue support of Junior Cycle Reform, Literacy & Numeracy, School Self Evaluation and Droichead (reform of induction and probation) programmes. Continue provision of post graduate courses for teachers of Mathematics & Special Education Needs students. Design and delivery of CPD programme for the Primary Integrated Language Curriculum and the revised LC Art curriculum. Continued provision of reconfigured and lengthened initial teacher programmes as set out under the Literacy & Numeracy Strategy.

Context and Impact indicators

		2012	*2013*	*2014*
1-	Number of Students (a) First Level (b) Second Level	2011/12 - (a) 516,460 (b) 322,519	2012/13 - (a) 526,422 (b) 327,323	2013/14 - (a) 536,317 (b) 333,173
2-	Leaving Certificate Retention Rates (a) All schools (b) DEIS schools	2005 cohort - (a) 89.5% (b) 78.4%	2006 cohort - (a) 90.2% (b) 80.1%	2007 cohort - (a) 90.1% (b) 80.4%
3-	% Students taking higher maths exam (a) End-Junior cycle (b) Leaving cert	(a) 48% (b) 22.1%	(a) 52% (b) 25.8%	(a) 54% (b) 27%
4-	% 15 year old students performing at or above Level 4 in PISA (a) reading literacy (b) numeracy (c) science tests.	2006 Assessment - (a) 36.8% (b) 30.8% (c) 30.8%	2009 Assessment - (a) 28.9% (b) 26.1% (c) 31.6%	2012 Assessment - (a) 37.4% (b) 31% (c) 35.8%
5-	Daily aggregate schools network traffic	1,400mbit/s	2,000mbit/s	5,137mbit/s

 # See section at end of Summary Table of Exchequer Expenditure of Non-Commercial State Agencies regarding bodies subject to rationalisation and amalgamation measures listed in the Public Service Reform Plan 2011

Source: 2015 Revised Estimates Volume.

d) **Lack of accountability for meeting performance targets:** Some stakeholders noted that the new Estimates format omits some useful information which was included in the former Annual Output Statements (see Section 3.2) – notably the list of performance targets initially proposed for the previous year, alongside the performance outputs

actually attained for that year. While it may be argued that considering the Estimates of Expenditure is a forward-looking exercise rather than an accountability exercise *per se*, these stakeholders pointed out that the missing information does not readily appear anywhere else, and questioned how credibility can be sustained in a process that so easily "forgets" commitments entered into from one year to the next. This differs from the situation in a number of other OECD countries where performance outputs and targets are published at the time of the Budget. For example, in New Zealand the Performance Information for Appropriations is published concurrently with budget financial information. The performance targets of the previous year are listed, alongside information on whether they were achieved/not achieved as well as new targets being set.

e) **Lack of impact on budgetary decisions:** Notwithstanding some progress in re-structuring the Estimates scrutiny process to highlight the performance dimension, the new arrangements do not yet command the interest and attention of Oireachtas members or of the media; and there is little sense among stakeholders that the process engenders a meaningful dialogue around how resources are used, and around impacts for citizens. In the three years that the information has been presented as part of *Revised Estimates*, there has been little indication that the performance information is read systematically by members and there has been limited dialogue on whether targets have been hit and why. Indeed, the number of questions related to performance has been very few, with members preferring to focus on broader policy discussion.

- Some observers attribute this tendency to the presence of the relevant Minister, with the Estimates discussion gravitating towards a politically-charged debate, as distinct from a performance-focused discussion based on indicators and results.
- Observers also point to the limited time available for performance scrutiny, noting that it may be unrealistic to expect deputies to consider all of the performance indicators – and to tease out the key policy messages underlying the data – in the space of a 2-3 hour discussion which must also consider the financial allocations.
- Finally on this point, performance scrutiny in the Houses of the Oireachtas occurs after the budget year begins, and the committee members do not have the opportunity to demand alternative performance metrics or targets. More generally, there is no structured process for other performance information, such as that provided in Value-for-Money & Policy Reviews and in reports of the Comptroller & Auditor General, to feed into the budget process.

f) **Lack of dedicated resources to support scrutiny of performance in the Houses of the Oireachtas:** At present, Houses of the Oireachtas staff support the scrutiny of performance information, in the context of their support for other committee activity. There are no dedicated resources available to support the scrutiny of performance budgeting (or of budgeting as a whole, as discussed in the previous section). This situation contrasts with international models, which involve a recognition that parliamentarians need support in dealing with, and making sense of, the often technical and complex aspects of budgetary information, including performance information (see Box 3.1).

Box 3.1. **Examples of dedicated resource to support scrutiny of performance within parliaments across the OECD**

The House of Commons Scrutiny Unit at the UK Parliament

The House of Commons' Scrutiny Unit supports Select committees in examining the expenditure and performance of government, and the relationships between spending and delivery of outcomes. It does this by promoting the value of linking examination of spending with examination of outcomes, by helping committees analyse spending patterns alongside performance and by pressing the government to improve the information available and promoting Parliament's interests of holding the executive to account. For instance, the Scrutiny Unit has:

- produced a guide to committees on Better Financial Scrutiny which encourages examination of spending and outcomes throughout a programme's lifespan, and sets out good practice
- contributed financial and performance material to committee inquiries, including briefings, questions, reports, and analysis of impact assessments
- analysed and briefed committees both on spending and trends in performance, using published indicators, when committees hold their hearings with Ministers on Government departments' annual reports and accounts
- followed up a committee recommendation for government departments to produce annual mid-year reports, and
- engaged with government in developing proposals to improve and simplify Government accounts for the benefit of Parliamentary users.

The Parliamentary Budget Office at the Austrian Parliament

The Austrian Parliamentary Budget Office has a mandate to support Parliament in the budgetary process, in consulting and enacting budget laws and exercising its oversight role. As part of this, it provides Parliament with information on the performance budgeting framework, maps all outcome objectives, advises how to read documents efficiently and provides analysis on each budget chapter, including performance goals/tasks/indicators. It also makes recommendations to the Government on how budget documents (including performance information) can be improved from a parliament user's perspective and pushes for better and earlier access to information.

3.4. Improving parliament's role in performance budgeting in Ireland

Each of the issues identified in the preceding section can be addressed through the steps set out below. As in the case of the more general budget-related issues set out in Section 2, several of these proposed approaches would require government-wide and public-administration-wide support, while others are more directly within the powers of the Houses of the Oireachtas itself.

A key focus of these proposals is on **making space in the budget cycle for a "performance dialogue" between committees and public bodies**. A fundamental difficulty faced by parliamentarians is the lack of dedicated time to have an in-depth discussion with departments and other public bodies about the performance information that has been selected, its relation to higher-level strategic outcomes, and the linkage between results and resources. Despite the goodwill of departments and the helpful re-structuring of committee briefing material, it is an onerous challenge for parliamentarians to maintain familiarity with disparate performance measures, and to track progress in achievement or

non-achievement, particularly when this information is brought to their attention once a year at the Estimates hearings, and when this discussion must compete for limited time with the formal consideration of financial allocations.

In keeping with the thrust of our findings in Section 2, the OECD considers there is merit in moving the thrust of parliamentary scrutiny from an annual set-piece event towards a more systematic, sustained parliamentary engagement throughout the course of the budget cycle. Realistically, this will involve some separate time for dedicated discussion on performance matters as proposed below. Handled properly, such a separation would not be a 'retrograde' step, stripping the performance dimension from the budget documents and debates; but would instead enrich and inform discussion from one phase of the budget cycle to the next, and indeed from one annual cycle into the next.

3.4.1. *Procedural changes to promote parliamentary engagement*

a) "Performance hearings" with joint committees in early part of the year (February-March)

Section 2 proposes that the annual Estimates be voted by the Dáil before the end of the year, i.e. within three months of the budget, broadly in the same time period currently allotted to Supplementary Estimates. The space in the early part of the following year, currently allotted to Estimates hearings before select committees, could instead be allotted to dedicated sessions before joint committees with the focus on scrutiny of performance information provided in the Estimates Performance Reports (see (d) below). The Minister in question need not be present for these sessions, the principal purpose of which would be to allow committees the opportunity to discuss with the relevant Accounting Officer how performance measures have fared over the past year, as well as putting the committees in a better position to "feed forward" recommendations on the selection of performance measures to the next stage of the policy cycle.

b) Power for joint committees to recommend changes to performance information

Under the existing arrangements, select committees are constrained from making any conclusion, recommendation or approval arising from their consideration of the Estimates. This constraint, which originates in the constitutional prerogative of the government to bring forward spending and tax proposals, removes any significant incentive for parliamentarians to seek to "make their mark" in contributing to overall policy around the budget. The constitutional constraint need not, however, preclude committees from making recommendations regarding the quality and clarity of the performance information that should be included in the Estimates document (see (g) below). Explicitly conferring such a function upon committees, by way of amendment to Standing Orders and Orders of Reference, would be likely to improve the quality and relevance of discussion in this forum. To the extent that such a recommendation might be construed as an implied criticism of the quality of information supplied by a department to the committee, this measure would also "raise the stakes" for department "Accounting Officers" in engaging with the committee.

3.4.2. *Enhanced information in support of parliamentary engagement*

c) Systematic review of existing performance metrics

Given the practical challenges committees have faced in working with the existing performance information and to facilitate continuous improvement, it would seem appropriate to conduct a full review of existing performance information provided in the annual Estimates, and to assess its suitability for purpose. Pending the establishment of a

National Performance Quality Panel (see (g) below), the Department of Public Expenditure & Reform, as the senior ministry responsible for the annual Estimates process, would be best-placed to co-ordinate the key stakeholders involved in conducting this review, notably including the Houses of the Oireachtas, the Comptroller & Auditor General (see Box 3.2 for analogous recent experience in Australia) and civil society stakeholders. On the basis of such a review, which should be presented and discussed at the relevant Houses of the Oireachtas committees, the Department and key stakeholders would be in a clearer position to insist upon certain standards in the selection of such information in

Box 3.2. **Australian National Audit Office review of performance indicators**

In 2011 the Australian National Audit Office (ANAO) undertook an independent performance audit across agencies. The objective of this audit was to assess how effectively entities had developed and implemented appropriate Key Performance Indicators (KPIs) to support stated programme objectives. To address the audit objective, the ANAO:

- undertook a desktop review of the published effectiveness KPIs for 89 programmes across 50 Financial Management and Accountability Act and Commonwealth Authorities and Companies Act entities within the General Government Sector;
- supplemented this desktop review with more detailed analysis of four entities — the Australian Customs and Border Protection Service; Fair Work Australia; the National Film and Sound Archive; and the Department of Resources, Energy and Tourism — including the reporting of performance in each entity's annual report; and
- assessed the role of Finance in administering the Outcomes and Programmes Framework, including the preparation of guidance material for entities.

The audit identified that many performance indicators did not enable an assessment to be made as to whether desired results were achieved, as the indicators did not incorporate targets, benchmarks or other details of the extent of achievement expected. These findings suggested that it would be timely for entities to refocus efforts to improve the quality and relevance of performance information and reporting for the benefit of the Government and the Parliament.

Source: Australian National Audit Office 2011.

future budget documents. The overall test of such a review is to ensure that performance information is set at a standard that meets the needs of its key stakeholders and facilitates effective committee scrutiny and accountability.

d) Estimates Performance Reports

The integration of key performance information within the annual Estimate is, in principle, a welcome development that cements the linkage between resources and results. In practice however, the Estimates programme pages do not currently serve as a basis for Oireachtas scrutiny, which instead relies on separate briefing documents.

In order to facilitate structured discussion in the performance hearings proposed at (a) above, it would be useful for each department/public body to prepare Estimates Performance Reports, which would take the Estimates programme pages as their starting point, supplemented to show *(i)* original performance targets for the previous year *(ii)* actual performance out-turns for that year *(iii)* corresponding performance targets for the year ahead *(iv)* supplementary/ancillary performance metrics omitted

from the "one-page" programme in the Estimate and *(v)* summary material explaining the selection of indicators and their connection with high-level goals.

This approach would have the advantage of preserving familiarity with the common Estimates format, while making good some information gaps in the existing documentation, and also doing away with the need for separate background briefing documents. The format of the Estimates Performance Reports should be standardised by the Department of Public Expenditure & Reform, in consultation with the Houses of the Oireachtas in order to build upon the useful experience of the pilot projects of recent years. In particular, there should be a strong focus on streamlining information, making it easier to read and making trends more easily identifiable (examples of similar exercises undertaken in other countries are provided in Box 3.3).

Finally, this proposed approach would be in keeping with a long-standing government programme objective regarding the desirability of annual performance reporting (see (f) below).

Box 3.3. **International approaches to improving the presentation of performance information**

The development of a better practice guide in Australia

There was wide variation in the quality of reports and the information contained in them. In an effort to encourage improvement, the Department of Finance and the Australian National Audit Office jointly published a better practice guide for performance information in annual reports (ANAO and Department of Finance and Administration, 2004). The guide contained practical advice on the main areas for improvement, including the performance reporting framework, data management and measurement, and explanation of results. The guide also contained a large number of good practice examples for agencies to consider and emulate where appropriate.

The creation of a working group in Sweden

Sweden developed an interesting approach to improve performance information given to the Parliament. An informal working group of approximately ten civil servants from the Ministry of Finance and the parliament's Finance Committee was set up in 2000 and met over a period of several years. At times, when they were discussing specific budget areas relevant to them, representatives from various line ministries and parliamentary sectoral committees also participated in the group's discussions, thus ensuring that the group's advice and conclusions were available to a broader audience. The group served as a catalyst, spreading good ideas to governmental and parliamentary actors by identifying the types of performance information most useful to parliament in its deliberations on the budget, as well as how and when such information should be presented. In doing so, the group highlighted examples of best practice and brought them to the attention of the Ministry of Finance and line ministries where appropriate.

e) Promotion of IrelandStat as an authoritative portal for public performance

The IrelandStat website (*www.irelandstat.gov.ie*) provides a useful "dashboard" of performance indicators for the Irish public service. Since it draws primarily from the Estimates material, the dashboard has the advantage of showing resource information alongside performance information, thereby making technical budget data accessible to the wider public. Moreover, the site performs an additional useful function of collecting

performance metrics from a wide range of public sources (annual reports, strategy statements etc.) which might otherwise prove burdensome to find.

However, despite some improvements since its launch in 2012, the coverage of data in the website remains patchy, reflecting some remaining large gaps in the extension of performance budgeting to all government departments in the Estimates. It is notable, for example, that performance metrics in the important area of health policy are currently largely absent from the website, even though a large databank of health statistics has been available elsewhere for several years (Healthstat). In addition, although the site publishes outturn performance information, it does not include associated targets and output-related information. In general, the site has not established a clear role for itself as a national performance portal: few stakeholders reported any familiarity with it. While the website has potential, with information grouped under broad policy themes, the quality and significance of the indicators currently shown vary significantly.

In the medium term, as the performance budgeting framework develops in Ireland, it would help to improve the impact of IrelandStat as an authoritative portal for national public performance by drawing upon international experiences in countries such as the USA (*www.performance.gov*) and Canada ("How Canada Performs", *www.conferenceboard.ca/hcp*). It seems likely that a re-branding of the website, to emphasise the "performance" rather than the narrower "statistical" dimension, could be helpful in this regard.

f) Linkages to higher level strategies and articulation of a "National Performance Framework"

At the root of many of the issues outlined in Section 3.3 is the lack of a coherent overall framework for setting out national objectives for the performance of government and of the country as a whole. This is not to say that Ireland lacks any such targets at present: on the contrary, Ireland's public policies are often linked to and motivated by specific targets (see Box 3.4). However, these targets are not yet grounded within a single, politically-validated framework, to which citizens and policy-makers alike can refer as the authoritative frame of reference for policy planning, resource prioritisation and accountability.

A number of other OECD countries have national performance frameworks to serve such a purpose. From the point of view of performance budgeting in Ireland, such a step would make clear how departmental performance measures link to higher strategic goals; and would enhance the status of the performance indicators shown in the Estimates. Within Ireland's context, it is notable that the government has already set out its vision of a performance-led public service, with a central role for the Houses of the Oireachtas in terms of accountability for results and of linkage to the budget:

> *"Performance indicators will be identified to monitor progress on high level priorities. Annual reports of departments and agencies will include output statements and audited financial accounts prepared on generally accepted accounting principles. […] Performance and progress will be published in a new, audited annual Public Service Delivery Reports. Oireachtas committees will expose any failure to hit milestones and targets. Each sectoral Committee will take on new powers, similar to those wielded by Public Accounts Committee, to hold Ministers and public servants to account for value for money. This will feed into Oireachtas consideration of the next Budget." (Government of Ireland 2011b)*

Box 3.4. **Examples of national targets in Ireland**

Although there is no single document presenting key national indicators, Ireland has some national targets. Examples in relation to European Union objectives are provided below:

Research and Development: Ireland's R&D policy framework is governed by the overarching Europe 2020 target of achieving a level of expenditure on R&D of 3% of EU-wide GDP by 2020. Within this framework Ireland has a target of 2.5% of GDP.

National Poverty Reduction Target: Ireland's poverty reduction targets are governed by the overarching Europe 2020 targets for poverty reduction. Within this framework, Ireland has a target to lift a minimum of 200 000 people out of the risk of poverty or exclusion by 2020, from a 2010 baseline. The re-named 'national social target for poverty reduction' is to reduce consistent poverty to 4% by 2016 (interim target) and to 2% or less by 2020, from a 2010 baseline of 6.2%.

Renewable Energy: Ireland's renewable energy targets are government by the overarching Europe 2020 targets outlined in the 2009 Renewable Energy Directive. As part of this, Ireland has legally binding targets for renewable energy which must be met by 2020. Ireland's target for energy from renewable sources in gross final energy consumption is 16% by 2020, and 10% for the transport sector. The National Renewable Energy Action Plan (NREAP) sets out the interim targets to be achieved by Ireland in order to meet its obligations under the Renewable Energy Directive.

The development by the Irish government of a National Performance Framework would be one means of putting such a vision fully into effect, in keeping with the thrust of budgetary reform over recent years. As regards the choice of indicators to be included within the National Performance Framework: the selection of "key national indicators" is ultimately for political determination, with the government of the day articulating its vision for economic performance, national development and wellbeing outcomes in line with its electoral mandate. It would, nevertheless, enhance the legitimacy and impact of such a framework to solicit the input of civil society and the approval of parliament before being formally laid down.

The OECD report on *Public Governance for Inclusive Growth* (OECD 2015c) points to the advantages of a national framework for wellbeing and performance, as a guiding force for orienting public policy. That report also notes that national frameworks in some OECD countries group key national indicators around three broad headings – economic progress, social progress / inclusiveness, and environmental progress / sustainability – to provide a holistic, balanced picture of national performance. For illustrative purposes, Table 3.1 gives some examples of national and international performance benchmarks that might usefully be considered within a National Performance Framework for Ireland.

Table 3.1. **Examples of national and international performance benchmarks that might be considered for Ireland**

Policy dimension	Performance benchmarks	Data source	Indicator currently on IrelandStat?
Economic progress	GDP/GNP per capita	Central Statistics Office	No
	Employment/unemployment	Central Statistics Office	No
	Ease of doing business	World Bank, Ease of Doing Business Index	Yes
Social progress/ inclusiveness	Life expectancy	WHO, Life expectancy at birth	No
	Income distribution	OECD, Income distribution and poverty statistics	No
	Educational attainment	OECD, PISA findings	Partly
	Government effectiveness	World Bank, government Effectiveness Indicator	No
Environmental progress/ sustainability	CO^2 emissions	Dept. Environment, Community and Local government	Yes
	Renewable energy production	Sustainable Energy Authority	No

3.4.3. Institutional support for effective parliamentary engagement

g) Establishment of a "National Performance Quality Panel"

For a National Performance Framework to be effective, it should ideally be informed by expert, professional advice from the public service and beyond regarding the appropriate indicators to translate national performance goals into organisational performance targets. The establishment of a National Performance Quality Panel would bring together the key stakeholders and experts to make common cause in identifying realistic, challenging objectives which are aligned with the national outcome goals, and which can form the basis for reporting and accountability. In this way, the Panel could buttress the role of the Department of Public Expenditure & Reform in laying down uniform, public-service-wide standards and in setting performance metrics as suitable for inclusion in the annual Estimates. The proposed role of the National Performance Quality Panel in the administration of the performance framework is set out in Figure 3.5. It is important that the Panel is open to receiving the informed feedback of parliamentarians, who are primary "consumers" of public performance data in their accountability and oversight role.

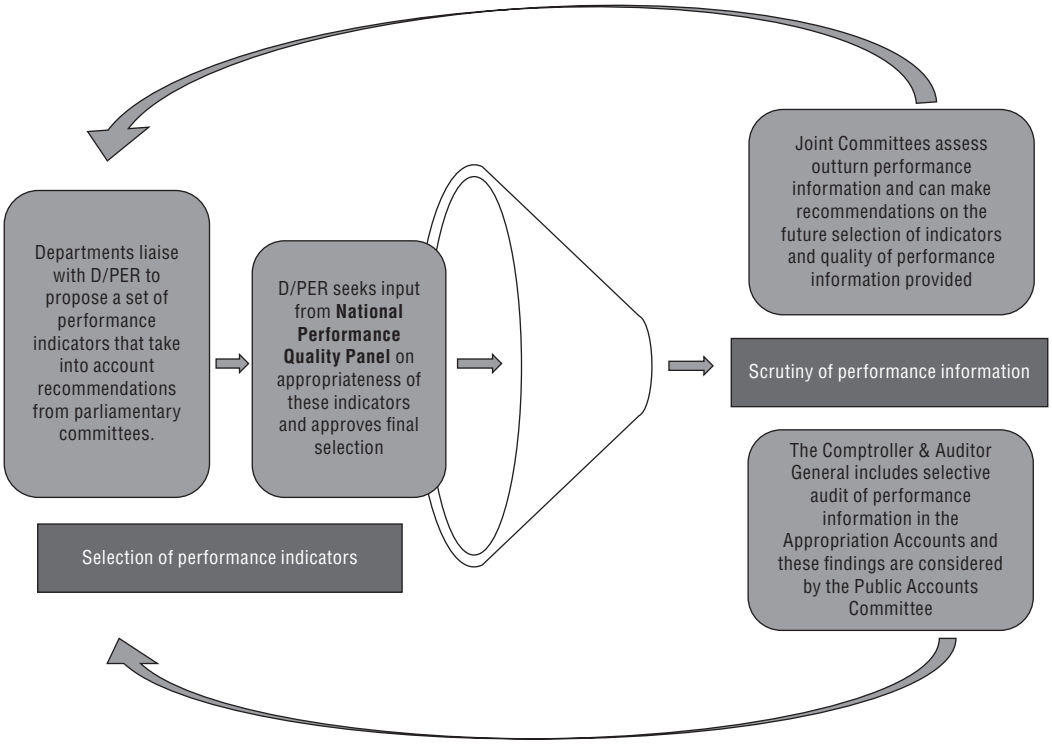
Ireland already has in place a well-developed institutional architecture that could be mobilised to house and/or support a National Performance Quality Panel. In particular:

- The **National Economic and Social Council (NESC)** is a long-established professional body that advises the Taoiseach (prime minister) on strategic policy issues relating to sustainable economic, social and environmental development in Ireland. Given its strategic focus, coupled with its locus close to the centre of government, NESC may be a natural point of authority for developing professional standards for politically-relevant output and outcome indicators.
- The **Comptroller & Auditor General (C&AG)**, as the constitutionally-mandated "supreme audit institution", should be in a good position to provide a constructive critique of the quality of output and outcome indicators. The C&AG already services the Public Accounts Committee of the Dáil in its high-profile work of accountability for use of public funds. The OECD is currently leading international work on how the role of national audit institutions can be leveraged to promote quality in public governance, including as regards the quality of performance information (OECD 2015d). As a general rule, a useful

test of performance data is whether it is "auditable" – i.e. capable of being measured and verified (see also recommendation (f) above).

- The **Central Statistics Office (CSO)** already compiles useful factual data on Ireland's comparative performance across a broad range of measures ("*Measuring Ireland's Progress*").
- The **Institute of Public Administration (IPA)** has previously undertaken a critical review of Ireland's use of performance information (IPA 2013). It also produces a "State of the Public Service" research series, which provides performance metrics relating to the quality, efficiency and performance of the public sector.
- The **Irish Government Economic & Evaluation Service** co-ordinates the professional stream of evaluators and economists working in the Irish public service, with expertise in programme appraisal and evaluation, and is well-placed to provide input on the design of performance indicators.
- The **Irish Parliamentary Budget Office**, which is proposed in Section 2, would also be a key stakeholder in a National Performance Quality Panel, given the role of the Houses of the Oireachtas in authorising and scrutinising the performance-related Estimates.

Figure 3.5. **The role of the National Performance Quality Panel in the administration of the performance framework**



Box 3.5 provides some other examples from around the OECD of how national performance frameworks and expert performance panels can improve the effectiveness of performance budgeting.

Box 3.5. **OECD experiences of National Performance Frameworks**

Performance budgeting at federal level in the **USA** is governed by the Government Performance & Results Act (GPRA) Modernization Act of 2010, which requires all public agencies to identify formally a small number of **"Agency Priority Goals"** for which they are accountable. All of these agency goals comprise a standard, national framework for public performance and are publicly tracked on a website (*www.performance.gov*). In support of this work, the legislation also established a **Performance Improvement Council** (*www.pic.gov*) to share knowledge and establish best-practice standards for performance measurement in government.

Scotland's National Performance Framework **"Scotland Performs"** measures and reports on progress of government in Scotland in creating a more successful country, with opportunities for all to flourish through increasing sustainable economic growth. On the question of development and improvement of performance indicators, Scotland also takes a collaborative approach and has established a **"Performance Indicators Sub-group"**. The sub-group works to ensure that the National Performance Framework is robust and that the composition of the indicator set is based upon a rigorous, impartial and balanced view of the available data. It works to an established set of principles and practices for changes to any performance indicator. The group is chaired by the Scottish Government Chief Statistician and a number of civic groups also sit on the group (e.g. Scottish Environmental Link, Oxfam Scotland) as well as some academics with an interest/expertise in societal wellbeing and measurement. In its annual Draft Budget, the Scottish Government outlines how spending plans contribute towards achieving the Government's Purpose across the range of performance indicators.

New Zealand's Living Standards Framework is designed to support the mission of the Treasury "to promote better living standards for New Zealanders" by identifying goals for progress around the themes of prosperity, inclusiveness and sustainability. The Framework also serves as an analytical tool for conducting broad-based, holistic assessment of policy proposals in various sectors, e.g. welfare reform.

France's over-arching budget law (Loi organique relative aux lois des finances or LOLF) provides for the systematic use of performance objectives and indicators. France has also enacted a law in 2015 requiring the government to present wealth and well-being indicators other than GDP when tabling the annual budget to promote a debate on policy impacts. The French authorities are planning to implement a "strategic dashboard" of indicators drawn from international benchmarks.

h) Role for Irish Parliamentary Budget Office in supporting performance scrutiny

The proposed Irish Parliamentary Budget Office (see Section 2) would also serve as a resource to support the Houses of the Oireachtas in its scrutiny of performance information. In particular, the Office should:

- provide regular briefings to parliamentarians on performance information
- provide specialist support to committees in assessing the performance information submitted to them and in informing the process of parliamentary scrutiny
- provide training for members on performance budgeting and on the effective scrutiny of performance information
- provide research notes on alternative performance metrics, and inform a critique on how existing performance information might be improved
- act as a focal point for ongoing improvement in the agenda of enhanced oversight of performance information by parliament.

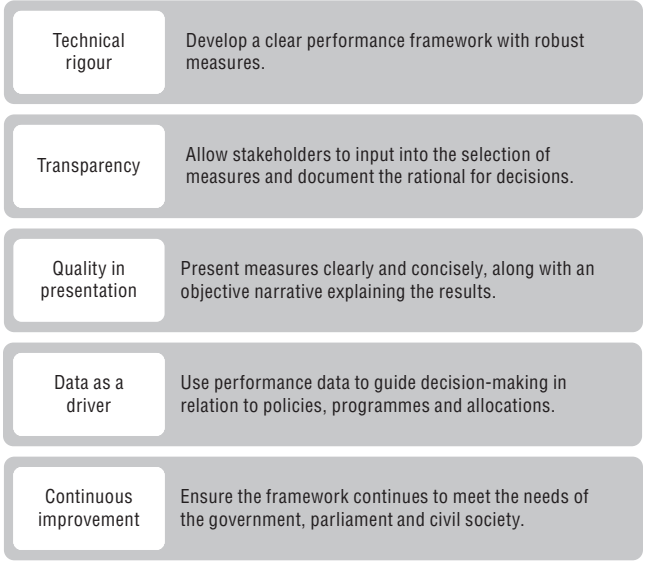
i) Selective Audit of Performance Information by the Office of the Comptroller & Auditor General in reports to the Public Accounts Committee and other committees

In the annual Appropriation Accounts, the Office of the Comptroller & Auditor General (C&AG) presents the audit of the financial accounts of public bodies, by reference to the Estimates subheads, in line with the reformed programmatic structure. The performance information provided by the departments, in the context of their annual Estimates, is not audited – either as to the quality and usefulness of the performance information selected, or as to the achievement of the performance targets set out. It would be supportive of the move towards meaningful, performance-informed Estimates if, where resources allowed, some such auditing took place as a routine part of the accountability framework within the Houses of the Oireachtas. While probity in the use of public funds and avoidance of waste are primary considerations for audit, the actual achievement of the purposes for which the funds are appropriated – i.e. performance – is the other side of the "value for money" equation, and should thus be of interest to the Public Accounts Committee (PAC) which is the principal accountability forum of the Dáil. Given the need for prioritisation of resources within the Office of the C&AG, a highly selective approach should be taken to the conduct of performance information audits, with selection informed by the views of committee members both in the PAC and in the joint committees responsible for conducting performance hearings.

Bringing the performance discussion more formally into the remit of the PAC would help to "close the loop" in the budget policy and performance cycle and enhance the standing and relevance of performance data within the Houses of the Oireachtas.

Taken as a whole, these proposals are intended to provide the means by which the overall quality and use of information presented to the Dáil in relation to performance budgeting can be improved. Figure 3.6 below outlines some guiding principles that can inform this process, drawn from OECD experience.

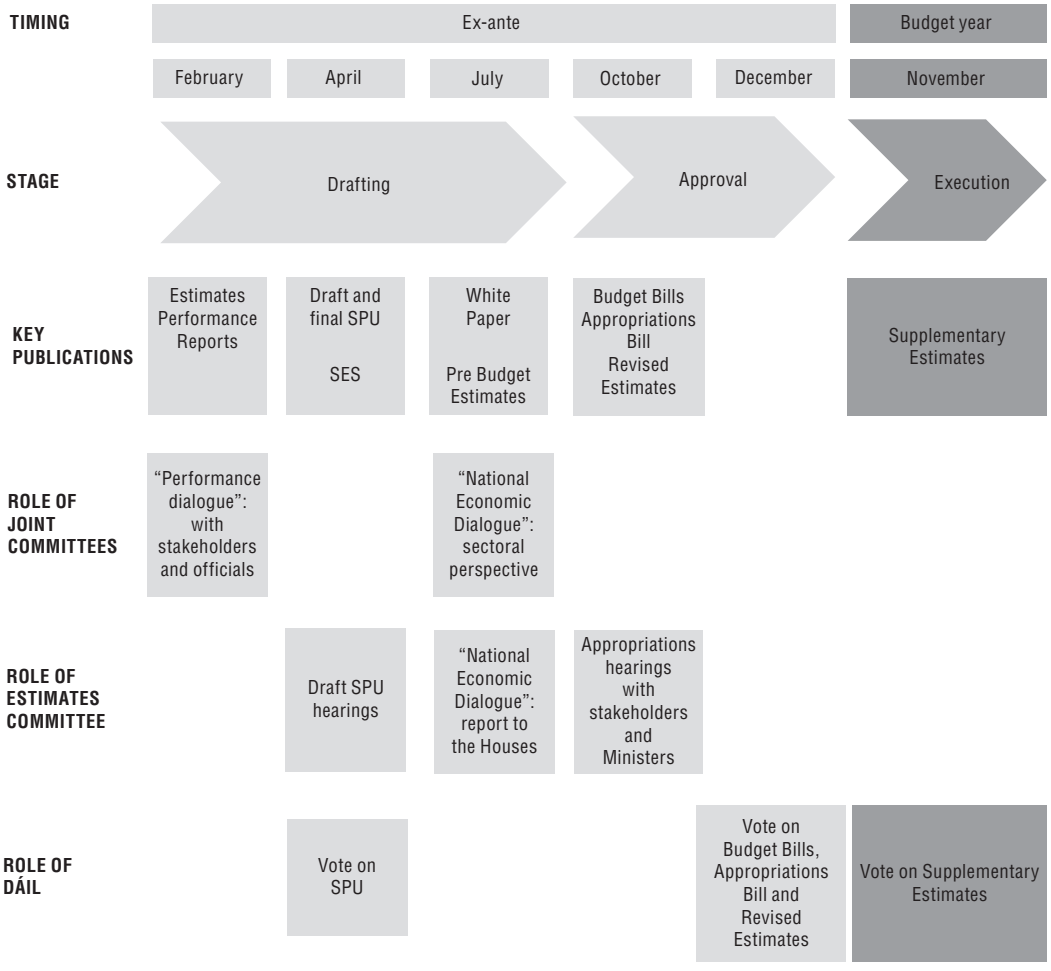
Figure 3.6. **Potential guiding principles for performance budgeting in Ireland**



The recommendations also present new opportunities for the Dáil to engage in a more substantive manner in scrutinising performance budgeting. These opportunities are summarised in Figure 3.7. As illustrated, performance scrutiny should be embedded into the whole-of-year budget process. A more continual approach to performance scrutiny not only allows expertise to be built up and develops a culture of using performance information, but it also adds value to the budget process.

More generally, effective performance information can also inform the non-budget work of committees. It can be used to help set the committee work programme, or it can be considered alongside other evidence in committee inquiries. This information can also help bring about a cultural shift, mainstreaming the use of budget and performance information in day to day work of committees.

Figure 3.7. **Whole-of-year budget process incorporating performance budgeting**



4. Implementation

This report has provided a package of inter-connected and mutually supporting actions which have, as their unifying principle, the potential to enhance the Dáil's engagement in the budget process leading to greater accountability and transparency.

The proposals reflect the scale of response that the OECD considers appropriate to support stronger, more effective engagement by the Houses of the Oireachtas in budgetary scrutiny. Putting such a package of measures into effect will require clear leadership from within the Houses of the Oireachtas, as well as a shared understanding and commitment on the part of the executive branch, at political and administrative levels, to engage with the Oireachtas as an implementation partner. The starting point should be a common appreciation of the gains that can be achieved from engagement of and by the legislature in the budget process, particularly in relation to the quality, transparency and responsiveness of policy development, and the underpinning of public trust in the institutions of government as a whole.

For its part, the Houses of the Oireachtas is well placed to lead on the co-ordination and delivery of its reform agenda, although a number of measures will require the government to take the lead role.

From a position of shared commitment, some of the actions can be put into effect relatively quickly. Others will require more detailed and deliberate planning. However, incremental steps can be taken in the short-term which will help the realisation of these reforms in the longer term. The subsequent Annex provides a summary of the recommendations, split into short and more medium- and long-term deliverables, as envisaged by the OECD. Finer details of the measures will inevitably be developed over the course of the implementation process.

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ANNEX

Summary of recommendations

Budget oversight recommendations	Short term	Long term
Overarching: Renewed political commitment to engagement with parliament as a partner throughout the budget process		
Theme 1: Procedural changes to promote parliamentary engagement		
a) *Ex ante* parliamentary input to medium-term fiscal planning	The government presents an enhanced draft SPU to parliament in sufficient time so as to allow it to provide a view.	The medium-term fiscal plan is submitted to the Dáil for its formal approval before it is submitted to the European Commission.
b) *Ex ante* parliamentary input on budget priorities	The Houses of the Oireachtas and its committees are made a key partner in the National Economic Dialogue.	1. The Houses of the Oireachtas lead pre-budget hearings, setting aside one week in early- to mid-July each year as "Pre-Budget Week" with joint committees holding a series of open hearings, drawing views from a wide range of experts and stakeholders. 2. The Houses of the Oireachtas *c*onstitute a new "Budget Committee" or "Estimates Committee", made up of the Joint Committee on Finance, Public Expenditure & Reform alongside the chairpersons of the other joint committees as well as the PAC, to act as a forum for these Pre-Budget hearings.
c) Early publication of full budgetary information and legislative proposals	1. The government bring forward the publication of the Finance Bill and the Social Welfare Bill to budget day. 2. The government brings forward publication of the full detailed Estimates of Expenditure to budget day.	
d) Timely consideration of the Estimates of Expenditure	1. Dáil select committees bring forward consideration of the Estimates to the October-December period, and the Dáil vote on the Estimates is brought forward to before the start of the budget year. 2. The multiple Estimates hearings across various select committees are augmented with one single hearing of the "Estimates Committee" recommended in (b).The purpose would be to obtain an explanation from ministers on the extent to which the recommendations from the *ex ante* stage (b) have been carried through to the budget itself.	The publication and vote on the Appropriation Bill is brought forward from the end of the budget year (i.e. after the money has been spent) to the end of the current year (i.e. before the money is spent), for consideration within the same broad time frame as the Finance Bill and the Social Welfare Bill.
e) Performance Dialogue with joint committees in early year	Committees complete scrutiny of the Estimates before the end of the previous year (as per (d) above) and instead use the early part of the budget year to engage with the Departments and Agencies on a focused dialogue upon issues of performance and impact.	
Theme 2: Enhanced information to support parliamentary engagement		
f) Re-introduce "Pre-Budget Estimates" showing "no policy change" expenditure baselines	The government re-introduces Pre-Budget Estimates and publishes an accompanying White Paper in July as core reference documents to inform *ex ante* budget scrutiny.	
Theme 3: Institutional supports for effective parliamentary engagement		
g) Establish an Irish Parliamentary Budget Office to support parliamentary engagement and budget scrutiny	In the short-term the IPBO could first emerge from the Clerking Financial Scrutiny team and be resourced by a small number of persons with appropriate skills seconded from other areas of the Oireachtas, other oversight bodies and the government.	In the longer-term, it is envisaged that resources would be released and the IPBO would be set up as a specialised stand-alone unit in the Houses of the Oireachtas, staffed by at least five to seven budget specialists.
h) Continuing Professional Development of parliamentarians and officials	The Houses of the Oireachtas ensure that professional development for effective budget scrutiny is incorporated into the induction programme for new members at the start of the next parliamentary session.	The Houses of the Oireachtas implement a strengthened programme of Continuing Professional Development for members and committee chairs to enable more effective budget scrutiny.

Performance budgeting recommendations	Short term	Long term
Overarching: New opportunities are created within the budget cycle for a "performance dialogue" between committees and public bodies		
Theme 1: Procedural changes to promote parliamentary engagement		
a) "Performance hearings" with joint committees in early part of the year (February-March)	The space in the early part of the year, currently allotted to Estimates hearings before select committees, is instead allotted to dedicated joint committee session focussing on the scrutiny of Estimates Performance Reports (see recommendation (d)).	
b) Power for joint committees to recommend changes to performance information	Joint committees have powers to make recommendations to government and the National Performance Quality Panel (see recommendation (g)) regarding the quality and clarity of performance information included in or published with the Estimates document, arising from their consideration, by way of amendment to Standing Orders and Orders of Reference.	
Theme 2: Enhanced information to support parliamentary engagement		
c) Systematic review of existing performance metrics	Key stakeholders undertake a systematic review of existing performance metrics based on standards to be agreed between the Houses of the Oireachtas and the D/PER.	
d) Estimates Performance Reports	Each department / public body prepares Estimates Performance Reports to facilitate structured discussion in the performance hearings proposed above (a).	
e) Promotion of IrelandStat as an authoritative portal for public performance	Outturn performance data and government evaluations are routinely published on IrelandStat.	IrelandStat becomes the authoritative portal for national public performance.
f) Linkages to higher level strategies and articulation of a "National Performance Framework"	The government develops a National Performance Framework to make it clear how departmental performance measures link to higher strategic goals and enhance the status of the performance indicators shown in the Estimates.	
Theme 3: Institutional supports for effective parliamentary engagement		
g) Establishment of a "National Performance Quality Panel"		A National Performance Quality Panel is established to bring together the government, the Irish Parliamentary Budget Office (see Section 2 recommendations), civic society and recognised experts to make common cause in identifying realistic, challenging objectives which are aligned with the national outcome goals, and which can form the basis for reporting and accountability.
h) Role for Irish Parliamentary Budget Office in supporting performance scrutiny	The proposed Irish Parliamentary Budget Office (see Section 2 recommendations) serves as a resource to support the Houses of the Oireachtas in its scrutiny of performance information.	
i) Selective Audit of Performance Information by the Office of the Comptroller & Auditor General in reports to the Public Accounts Committee and other committees		The Public Audit Committee and joint committees recommend selected areas of performance information for the Comptroller & Auditor General to consider for inclusion as part of its ongoing audit programme, where resources allow.

Notes

1. Public Financial Procedures, available at: *http://govacc.per.gov.ie/accounting/*.
2. The proceedings and conclusions of the 2015 National Economic Dialogue can be consulted at *http://budget.gov.ie/Budgets/2015/NED.aspx*.
3. The OECD (2010) has laid down clear guidance on how to meet expectations of transparency and accountability in the context of lobbying, and on supporting a level playing field in public policy-making.

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