

PART III Reform of the Public Expenditure Framework

III.1 Overview of Expenditure Reforms

Ireland needs a new and modern system of budgeting.

Our traditional budgetary framework has been criticised as overly secretive and opaque. On the spending side, it has not been the practice to consult the Dáil before major decisions are taken by the Government. Instead, Dáil Committees have been asked to consider and vote upon Estimates of Expenditure for each year, sometimes half-way through the year in question – when the money being voted on has been largely spent.

Under these circumstances, there has been relatively little space for good advance planning, open and transparent resource allocation, and critical scrutiny of Value-for-Money and effective performance. These are the benefits that come from a strong process of parliamentary oversight in any modern democracy. These benefits are lacking from the traditional way of allocating and overseeing public funds in Ireland.

Under its Programme, *Government for National Recovery 2011-2016*, the Government is committed to bringing about a major transformation of Ireland's old-fashioned budget system. The key elements of the reform agenda have been outlined in the *Public Service Reform Plan* announced by the Minister for Public Expenditure & Reform on 17 November 2011. Now, in this *Comprehensive Expenditure Report*, the specific public expenditure reform measures are introduced that will bring our budgetary procedures into the 21st century.

The principal features of the new budgetary architecture, as it affects public expenditure management in Ireland, can be summarised as follows:-

- **Planning for Sustainable Public Expenditure** – The old 'bottom up' processes of expenditure growth – whereby the total expenditure allocation for a year only became apparent once all of the demands had been catered for – is being replaced with sensible, advance planning by Government based on the resources that are available. The Medium-Term Fiscal Statement represents a first decisive step in this regard.
- **Multi-annual expenditure framework** – The annual Estimates 'campaign,' conducted privately within the system of public administration, is being replaced by a modern, multi-annual framework which will allow for full transparency about the allocations available to each Department over the coming three-year period. This will open the way for structural, medium-term planning and prioritisation within each area, with full public input and parliamentary oversight.
- **Evidence-based Expenditure Policy** – In a time when resources are exceedingly scarce, old expenditure lines are no longer sacrosanct, and all areas of spending should be subject to rigorous scrutiny. This year's *Comprehensive Review of Expenditure (CRE)* is a good start – all areas of spending have been examined, and all of the background documents from the CRE are being released for public inspection. A tough, clear new

VFM Code is also being launched on a dedicated new website – a VFM Portal for the whole of the public service. Under this VFM Code, the Government will re-double the processes for ongoing scrutiny and evaluation of public expenditure; and all Departments will work to demanding new timetables in this regard each year, answerable to their Oireachtas Committees for progress and action.

- **Performance-based budgeting** – This year, for the first time, most Departmental Estimates are being presented in a new format, organised on the basis of “strategic programmes” rather than the old accounting “subheads.” This allows for a joined-up approach, linking the Estimates process directly with the Statements of Strategy, and allowing for performance information to be scrutinised by Dáil Committees at the same time that public money is being requested.
- **Accountability to the Oireachtas and the Public** – All of the above reforms allow greater opportunities for the Oireachtas members, as representatives of the public, to play a more substantive role throughout the entire budgetary process, from initial allocation of funds, through to holding Ministers and public service managers to account for the achievement – or non-achievement – of stated performance targets. Moreover, the Government is moving to a new *‘whole of year’ budgetary timetable* that allows for greater, more meaningful engagement by Oireachtas Committees in contributing to Estimates discussions in advance of the allocations being finalised.

In summary, the Government Programme commitment to reform Ireland’s budgetary system is now being implemented across all fronts. The overall aim is to have an open and transparent process, whereby public funds are allocated to areas where they can be used – and seen to be used – to good effect, improving the lives of citizens.

Designing these reforms in a coherent and workable way, and introducing them without delay, is itself one of the key outcomes of this year’s Comprehensive Review of Expenditure (CRE). As demonstrated in Parts I and II of this Report, the CRE has also facilitated the Government in achieving its budgetary targets for 2012, and has laid the foundation for the 2013 and 2014 targets to be delivered. For these reasons, the Government has decided that a fresh CRE-type exercise should be conducted periodically, approximately every 3 years, to re-set the multi-year expenditure ceilings in line with emerging Government priorities, and informed by new evaluations of which expenditure programmes are delivering value-for-money. **The next CRE has therefore been scheduled for the period between autumn 2013 and spring 2014.**

Further details on all of these public expenditure reform measures are set out in the following sections.

III.2 Public Expenditure - A Plan for Sustainability

In the past, expenditure growth was allowed to run far ahead of the economy's underlying ability to finance it. Arising from this, value-for-money tended to suffer, along with the efficiency of delivering services to the public and the effectiveness of public expenditure in achieving its objectives.

The Government has determined that all of this must now change, to put an end to poorly-planned, unsustainable spending and wasteful, inefficient practices. Instead, the Government has decided to introduce a completely new way of fiscal planning. On 4 November 2011, the Government produced its *Medium-Term Fiscal Statement*. That document spells out, for the first time, the total quantum of public expenditure that will be available for allocation in 2012, showing the levels of both current and capital spending. The expenditure allocations for 2013 and 2014 are also laid out clearly, again broken down between current and capital, along with the overall contribution from taxation.

This marks a decisive shift away from the old way of doing business. Now, the Government is setting out its plans clearly in advance. The overall spending allocations are – and must be – in line with the overall Fiscal Statement. This modern, 'top down' approach to budgeting is quite distinct from the old 'bottom up' method, whereby successive demands from various quarters were acceded to, up to – and indeed far beyond – the limits of sustainability. The new approach will underpin confidence, at home and overseas, about the soundness of the Government's overall budgetary plans, which are designed to restore Ireland's public finances to a strong and sustainable position within the coming years.

Table III.a Expenditure Consolidation Plans in the Medium Term Fiscal Statement

<i>Year:</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>
	<i>€ billion</i>				
<i>Fiscal Consolidation from:</i>					
<i>Net Current Expenditure</i>	-	1.45	1.70	1.90	1.30
<i>Net Capital Expenditure</i>	-	0.75	0.55	0.10	-
<i>Total allocation for:</i>					
<i>Gross Voted Current Expenditure</i>	53.24	51.75	50.40	48.69	47.28
<i>Gross Voted Capital Expenditure</i>	4.69	3.94	3.37	3.25	3.25

* Figures refer to net consolidation. Table II.a provides the corresponding information for current expenditure on a gross expenditure basis.

A similar approach has been taken on capital spending. The Government published its *Infrastructure & Capital Investment 2012-2016: Medium-Term Exchequer Framework* on 10 November 2011. This document sets out the overall levels of capital spending available, in line with the *Medium-Term Fiscal Statement* and based upon the needs of the economy as a whole, and will anchor Departmental capital allocations into the medium term.

As a result, a clear over-arching strategy for expenditure policy is now in place, and all subsequent annual spending plans will have to be determined within this overall framework. The key expenditure figures for 2012-2015 are summarised in [Table III.a](#) above.

III.3 Medium Term Expenditure Framework

It is not enough to lay down the overall aggregates of expenditure in advance. If these allocations are to be adhered to by Government Departments and made 'real,' they must find expression in clear, specific Departmental allocations and upper spending limits (ceilings) for the three-year period ahead.

In the past, the Estimates process has been an annual event. Limits were set from the centre regarding the totality of funds available for expenditure, and these were countered by demands and bids from the spending Ministries. After protracted and confidential discussions, the eventual outcome would be made known in the Estimates document, usually on Budget day. Soon afterwards, the whole annual cycle would start afresh, with little regard to medium-term plans or constraints upon overall allocations.

The Government has determined to do away with this old-fashioned approach and move to a new model, based on transparency, openness and clear structural planning. Ireland will now adopt a modern Medium-Term Expenditure Framework with the following characteristics:

Three-year Ministerial Expenditure Ceilings

Rather than just set out the expenditure level for the coming year - 2012 – each Department now has a fixed current spending allocation for 2012 and 2013 as well an upper limit or indicative ceiling for 2014. This makes clear the level of savings that need to be planned for in each Department, to ensure that the allocations are adhered to each year. This approach builds upon the success of Ireland's long-standing multi-annual capital expenditure framework, and applies it to the current spending area. Of course, the first year's allocation – 2012 – is today fully specified in the 2012 Estimates. Since the total quantum of spending available to each Department is now known for 2013 and (on an indicative ceiling basis) for 2014, this allows 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. Special arrangements will apply to certain demand-driven blocks of expenditure, notably the Live Register, which are related to the economic cycle and are less amenable to multi-annual planning and control.

Incentives for Responsible Expenditure Management

Under the existing processes for current expenditure, managers have little or no incentive to be prudent and to make savings with their allocation in a given year. Indeed, if a saving appears to be in prospect at the end of a year, the incentive for a manager is to spend all of that money, rather than see it 'lost.' To change these incentives, the Government is introducing a new range of measures to help managers make the right decisions in the public interest. In particular:

Carryover of Current Spending: As an extension of an initiative introduced in 2004 for capital budgets, in the case of capital spending, Departments may now be allowed to carry over unspent current funds from one year to the next. This will be subject to some safeguards:-

- Subject to conditions, a Department may **carry over 80% of its savings**, with the remaining 20% going to help the Exchequer.
- The carried-over funds can be spent on any once-off projects or structural measures approved by the relevant Minister, but may not be used to create an ongoing liability to the Exchequer.
- If the level of savings rolled into the following year across all Departments poses a risk to the overall Government targets for the public finances, then the savings may have to be capped and the remainder rolled forward. As a rule, there would be no intention to extinguish carryover savings that have accrued from sound management and responsible budgetary behaviour.

Smart management of surplus properties: Ministers / Departments wishing to make structural efficiency gains in property management within their portfolio may do so, and may retain up to 50% of the proceeds of resulting property sales within their envelope for once-off initiatives, with the remainder returning to help the Exchequer position. Again there will be safeguards, including ceilings and conditions that will be laid down by the Department of Public Expenditure & Reform. This facility does not apply to proposed disposals of major State assets or key 'backbone' infrastructure (which would naturally require Government authorisation), but is rather to facilitate cost-effective portfolio management in the context of public service staffing reductions and agency rationalisation.

Recoupment of Overruns: As a *quid pro quo* for the carryover entitlements outlined above, any Departments which fail to manage within their expenditure ceiling in any given year would be subject to an offsetting adjustment in the envelope for the following year, and would need to devise policy measures to live within the reduced allocation. (This would not apply to Live Register overruns arising from economic / cyclical factors.) In circumstances where a Department cannot absorb the full required adjustment in its forward expenditure ceiling, including its contingency reserve, it may be necessary to allocate the balance of reductions across other Departments so that the overall expenditure path remains on target.

Transparency and enforcement: The multi-annual Departmental cash ceilings will not be secret internal documents, but will be open from the outset to public scrutiny and assessment. Moreover, the detailed understandings between the Department of Public Expenditure & Reform and the other Departments as to their allocations, and the associated conditions in regard to areas targeted for priority spending and for efficiencies, may also be set down in formal *Expenditure Settlement Letters*. This approach, building upon the existing *Administrative Budget Agreements* and

Employment Control Frameworks that govern these blocks of spending, will allow for a clear understanding by all parties about expectations for management, delivery and performance.

Periodic Review of Priorities

The Government instituted the 2011 Comprehensive Review of Expenditure (CRE) in order to examine every area of spending, to enable the Government to meet its overall budgetary objectives, to maximise the scope for reform and restructuring across our public services, and to realign the allocations with the Government's new priorities. The CRE has achieved all of these goals, and has had a major bearing upon the setting of the expenditure ceilings for 2012-2014. The Government intends that a fresh, "zero-based" CRE exercise should be conducted approximately every 3 years so that the multi-year Ministerial expenditure ceilings can be re-set to reflect developing Government priorities.

Streamlining of Processes

The multi-annual expenditure management mechanisms currently in use – namely the Employment Control Frameworks (ECFs) for controlling staff numbers and the Administrative Budget Agreements (ABAs) which apply to the Civil Service – are being completely subsumed into the new Medium Term Expenditure Framework. Public service managers should have one coherent set of budgetary rules and objectives, with the elimination of unnecessary paper-filling, overlapping procedures and other administrative overheads.

This ambitious new model represents a transformation in the way that budgets are decided in Ireland. The legislative underpinning for the new arrangements will be provided as part of the *Fiscal Responsibility Bill* to be published in the first quarter of 2012. The operational details of the above procedures will also be specified in full in a new Circular to be issued from the Department of Public Expenditure & Reform.

III.4 A New Value for Money Code

Maximising the impact of finite public resources is a central concern in the prioritisation, planning and delivery of Government policy. While this should always be the case, the need for careful evaluation and appraisal is all the more acute during times of relative scarcity, such as these. This section sets out a number of important reforms to the State's approach to securing the best value for money in order to reduce waste, maximise impact of public spending and meet the requirements of the Medium-Term Expenditure Framework set out in Section III.2.

The Case for Reform: Existing VFM Arrangements

The current procedures for securing value for money (VFM) in public expenditure have evolved over time, with new rules and requirements overlaid on top on previous guidelines. Among the core elements are:

- The *Value for Money and Policy Review Process* – launched in 1997 as the Expenditure Review Initiative, with various amendments in 2006 and 2009.
- The *Capital Appraisal Guidelines* – most recently revised in 2005, but subsequently updated by a number of Circulars.
- The *Circular Letter on Value for Money* – sent to Heads of Government Departments and Offices in January 2006.
- The *Working Rules for Cost Benefit Analysis* – published in 1999 in order to bring a greater degree of uniformity to the appraisal of public projects.

Other ancillary procedures also form part of the broader VFM procedures currently in force.

These existing procedures are subject to a number of shortcomings. One significant failing is that evaluations have not been sufficiently connected to decisions on the allocation of resources to particular programmes, and have not generally informed improvements to the delivery of Government services. While some Value for Money and Policy Reviews have yielded positive results, a number of problems have been encountered in others, notably the following:

- there have been very considerable delays in the commencement, drafting, completion and publication of some reviews;
- there has been an uneven level of quality across reviews; and
- there has been inconsistency in terms of the approach to evaluations and the analytical output produced.

These factors prevent the reviews from informing spending decisions in a meaningful way, or from assisting Ministers and Dáil Committees in critically assessing the overall expenditure allocations.

Because of the manner in which these arrangements have evolved – changing to respond to particular developments and in order to reflect emerging best practice – the State’s approach to VFM has become somewhat unstructured and is not user-friendly. This has the effect of limiting the usefulness of these arrangements as an aid to evaluators and appraisers and does little to encourage adherence to the various requirements.

Our approach to appraising capital projects needs to be kept in line with real-world conditions. As pointed out in the Government’s recently published *Infrastructure and Capital Investment 2012-16*, economic and social developments determine the type of investment required over the medium-term. Such developments also inform elements of our approach to the appraisal of investment. Cost-benefit analysis in particular is predicated on a number of technical economic assumptions. These parameters must also be updated to take account of the various relevant developments.

The present major reform of the expenditure framework represents an opportunity to address the shortcomings in the VFM process by updating and streamlining procedures and embedding rigorous evaluation and appraisal into the heart of the budgetary process.

Maximising Impact: The Revised Value for Money Code

The revised Value for Money Code brings together best practice in evaluation and appraisal and consolidates what has become an unwieldy approach. In particular it introduces administrative changes that embed the completion of Value for Money and Policy Reviews into the budgetary timetable.

Making Value for Money Relevant

In order to ensure the relevance of evaluations, the annual cycle of Value for Money and Policy Reviews will be aligned more closely within the new, ‘whole-of-year’ approach to setting expenditure allocations, as discussed in section III.5 below. Under this approach, the relevant Oireachtas Select Committees will also have a stronger role in setting the agenda of topics and programmes to be reviewed, and holding Departments to account for timely progress. This reform addresses the twin failings of delay, and poor linkage with the policy-making process, which have characterised aspects of the Value for Money and Policy Review Process.

In addition, greater uniformity and standardisation will be applied to each evaluation by including a ‘Balanced Scorecard’, assessing the programme against a range of criteria of use to decision-makers (see Box III.a below). This standard approach will represent one key, recognisable output of the VFM Reviews for all programmes, and will to some extent facilitate performance comparisons across programmes and across Departments.

Under the new arrangements, these comprehensive evaluations will also be complemented by sharper and more narrowly focused assessments designed to answer specific issues of policy configuration and delivery. The experience of the Comprehensive Review of Expenditure –

including the major analyses conducted by each Department, and the cross-cutting and thematic evaluations undertaken by Central Expenditure Evaluation Unit (CEEU) in the Department of Public Expenditure & Reform – showed that it is possible to get a quicker turnaround, to high standards of quality, when specific timelines and specific policy questions are set.

The dual approach of comprehensive evaluations, supplemented by targeted assessments, will significantly add to our understanding of the effectiveness and efficiency of the whole spectrum of Government activities and will complement the move to Performance Budgeting set out in Section III.5. The result of these reforms is that there will be a much expanded body of evidence available in time for the preparation of the next Comprehensive Review of Expenditure in late 2013 / early 2014.

Streamlining Our Approach

The new Value for Money Code draws together, in one authoritative location, all of the standard guidance for appraising, planning, implementing and evaluating public expenditure programmes – current as well as capital. Apart from consolidating the material that is at present set out in a range of disparate documents, eliminating duplication and redundant requirements, the VFM Code modernises and updates the pre-existing guidelines. The new Code will therefore facilitate a unified, coherent accounting for VFM in the design and evaluation of projects and programmes, while respecting the prerogative of Government and Ministers to make final decisions by reference to the broader assessment of social and economic considerations that are also relevant to these issues. To maximise user-friendliness, all relevant guidance material and requirements are presented together, through a unified web-portal – <http://VFM.per.gov.ie>.

Harnessing Expertise

As part of the new VFM arrangements, a Public Service Evaluation Network will be established. The Network will be led by the Department of Public Expenditure and Reform and will bring together officials from across Government Departments and Agencies to pool expertise and experience and improve the quality and coverage of evaluations.

Ireland has a wide community of experts in academia and beyond engaged in research and analysis, much of which is policy-relevant. In the past there has been insufficient engagement between experts and Government Departments. The Network will go some way to addressing this weakness by harnessing outside expertise for the improvement of policy outcomes.

Staying within the expenditure ceilings set out in Part II of this Report will be a challenge for all Departments. It will require scrutiny of existing programmes, careful choices and inevitable trade-offs. It is imperative to have a deep base of evidence on which to draw in achieving these targets.

Box III.a – ‘Balanced Scorecard’: A New Standard for Programme Evaluation

A criticism of the VFM & Policy Reviews is that they are each conducted differently, the various Reports are presented differently from one another, and it is hard for policy-makers to form a common view of how particular programmes rate relative to other programmes.

As part of the new process, all Reviews will have to include a standard report – a ‘balanced scorecard’ – based upon a number of important criteria that are common to all evaluations. These criteria include:-

Quality of Programme Design

- Are the programme objectives clearly specified?
- Are the objectives consistent with stated Government priorities? Is there a clear rationale for the policy approach being pursued?
- Are performance indicators in place from the outset, to allow for an assessment of programme success or failure in meeting its objectives? If not, can such success/failure indicators be constructed *ex post*?
- Have alternative approaches been considered and costed, through cost-benefit analysis or other appropriate methodology?
- Are resources (financial, staffing) clearly specified?

Implementation of Programme / Scheme

- To what extent have programme objectives been met? In particular, what do the success/failure indicators show?
- Is the programme efficient in terms of maximising output for a given input and is it administered efficiently?
- Have the views of stakeholders been taken into account?

Cross-cutting aspects

- Is there overlap / duplication with other programmes?
- What scope is there for an integrated cross-departmental approach?
- Are shared services / eGovernment channels being used to the fullest extent?
- Can services be delivered more cost-effectively by external service providers?

This approach allows for an overall, standardised quality score to be put in place, providing a programme rating that is of use to policy-makers and to those – including Oireachtas Committees and the general public – scrutinising the cost-effectiveness of spending. In other countries, more general programme ratings using the ‘traffic light’ system are found to be useful:-

HIGH Score (Green light) – the programme is well-specified, achieving its objectives, and cost-effective in general terms.

INTERMEDIATE Score (Amber light) – the programme scores highly in some areas, poorly in others: scheme re-design or efficiency improvements must be considered.

LOW Score (Red light) – poor evidence of delivery of objectives; scheme funding should be available for reallocation to other priority areas.

Quality Assurance

Finally in this regard, the Central Expenditure Evaluation Unit (CEEU) will play an enhanced role in ensuring the quality and consistency of programme evaluations and project appraisals. In particular, the CEEU will be involved in reviewing and commenting on cost benefit analyses prepared by Departments and Agencies.

III.5 Performance Budgeting

Ireland's traditional system for setting Estimates of Expenditure dates back to the *Exchequer & Audit Departments Act* of 1866. Under this system, all of the emphasis is on the cash allocations to a Department, with accounting on a detailed subhead basis. While this system has worked well for keeping control of the purse-strings, and for tracking how much money is spent in each area, it falls down on the basic issue of performance: how can the public assess whether these cash allocations are achieving any worthwhile results? How can Dáil Committees be informed, when it comes to considering the proposed Estimates allocations, about how effectively and efficiently Departments and their managers are operating, in terms of delivering upon public service objectives?

Spotlight on Performance

The Government Programme puts a new emphasis upon performance and delivery across public administration. The Government intends to modernise the Estimates process by building performance information right into the heart of the budgetary documentation. Through performance budgeting, Dáil Committees will in future know what public service outputs and outcomes are being delivered with public funds. Ministers and public service managers can for the first time be held accountable against these targets.

Under the new Performance Budgeting approach, the key information needed by decision-makers, and by those who scrutinise public policy, is available at a glance:-

Financial and Human Resource Inputs – The amount of money going to each spending area is laid out, even more clearly and succinctly than under the old system. The money is broken down between Administration Costs – both Pay and Non-pay – and the actual costs of programme delivery. In this way, areas of relative efficiency and inefficiency can be identified.

Outputs and Public Service Activities – The tasks and work-steps that transform financial inputs into services are spelled out. Every Department should be able to list clearly key outputs that the public is 'buying', alongside the amount of money they are 'spending'. It will be up to each Department to explain, in its parallel Statement of Strategy document, the rationale for how these outputs influence the outcomes or impacts which are being targeted.

Context and Impact Indicators – The impacts or outcomes that public policy is aiming to influence – health outcomes, public safety, standards of literacy and higher education, energy sustainability, social inclusion and so on – will also be set out clearly in the Estimates documentation. While some of these measures are not directly or fully controlled by Government – a whole variety of social and economic factors have a

bearing upon labour market participation and competitiveness, for example – it is important that the public and the Dáil have a clear sense of the broad ‘direction of travel’ in order to see whether progress is being made. By their nature, the impact indicators should be retrospective – forward-looking targets are more relevant for outputs, at least in the context of the annual Estimates material.

Box III.b – Performance Indicators: Useful and not useful

“Performance indicators” or PIs are measures of how well, or how poorly, a particular programme or scheme is achieving its objectives. The indicators may relate to effectiveness (“are the stated objectives being achieved?”), efficiency (“what are the unit costs associated with the programme?”) and may be expressed in absolute terms (“how many grants for programme X were processed in year 2011?”) or in comparative terms (“what is the international competitiveness ranking of Ireland’s public service?”).

For any programme, there are many different PIs that might be chosen. The challenge is to select indicators that are useful to policy-makers, and to those whose role is to scrutinise the effectiveness and efficiency of public spending. Less useful are indicators of mere activity or process, or “qualitative” measures that are hard to verify (e.g. “continue to provide high quality advice to Minister”).

Examples of potentially useful PIs include the following:-

Sector	Output Indicator	Context and Impact Indicator
Environment	Metres of water pipe remediated	Percentage reduction of water lost in the system
Energy Sustainability	No. houses grant-aided to retrofit	Energy savings over 2010 levels in gigawatt hours
Innovation	Number of Research and Innovation projects supported by IDA & EI	Percentage improvement in international innovation scoreboard performance
Arts & Culture	Number of Irish films produced	Export earnings from Irish films
Sport	Number of sports projects supported	Enhanced participation in sporting activities as measured in CSO survey
Education	Number of full time undergraduate and post graduate places	Participation rate for post leaving cert age groups in higher education
Social Protection	Percentage of clients in education or training following engagement with Department	Percentage of long-term unemployed
Justice	Court Cases disposed	Public attitudes or public concern about crime

Following a successful pilot exercise for the 2011 Estimates, the [Central Expenditure Evaluation Unit \(CEEU\)](#) in the Department of Public Expenditure and Reform is leading the full roll-out of performance budgeting and will play a particular role in advising on the appropriate indicators to use in measuring outputs and assessing progress against objectives. Section III.6 proposes an enhanced level of parliamentary scrutiny of public policy. In particular it is envisaged that, in line with good practice internationally, Oireachtas Committees will play a role in refining indicators and seeking other types of performance information.

Joined-Up Government: Streamlining for Efficiency and Performance

Over the past decade and more, a whole host of documents have been generated by the various public management and modernisation initiatives – Strategy Statements, Mission Statements, Annual Reports, Output Statements and so on. These documents come on top of the traditional Estimates, Appropriation Accounts, Exchequer Returns and various other reporting requirements between central and line Departments.

The Government's view is that the focus of public service managers should be on public services, not form-filling and needless bureaucracy. That is why the Government is streamlining all internal documents on the basis of the Performance Budgeting framework.

- In this framework, the [Statement of Strategy](#) remains a key 'anchor' document, showing how each Department and Office intends to implement the Government's high level policy objectives over the medium term. The Strategy Statement will also specify goals and objectives which will allow for measurable, auditable indicators of performance for each high-level objective.
- The high-level objectives – or "[Strategic Programmes](#)" – in turn form the basis on which the annual Estimates are organised. This replaces the traditional "subhead"-focused organisation of the Estimates.
- For each Strategic Programme, all of the financial information and performance information is laid out clearly and succinctly, on a single page, in the [new Performance-based Estimates](#).
- In turn, the performance-focused approach will be propagated internally in each Department via the [Business Planning](#) process, and into [individual performance plans](#) through which every public servant will see how their work is helping to achieve the wider public service objectives.

The performance budgeting approach will therefore be a unifying thread for all public service information. It will be for the Government, the Dáil Committees and the public in general to better assess how well or how poorly each organisation is performing, and to hold Ministers and public service managers to account on this basis.

Moving from Pilot Project to Mainstream

Earlier this year, in the 2011 Revised Estimates Volume, the Department of Public Expenditure & Reform piloted this new approach to preparing the annual Estimates, along with the Department of Finance, the Department of Agriculture, Food & the Marine, and 10 other Votes. The 2011 Estimates for all of these bodies were produced in the new format, and considered by the Dáil Select Committees on this basis.

This pilot project was implemented successfully. At the relevant Select Committees of Dáil Éireann, many Deputies expressed their support for the new approach and made particular reference to performance information provided. This information helped to shape the debate within these Committees.

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

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

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

In light of the experience of the 2011 pilot project (see Box III.c above), the Government has decided that performance budgeting will be implemented as the norm for all Estimates documents from now on. Accordingly, the 2012 Budget Estimates in Part IV of this Volume are prepared on the new [Strategic Programme](#) basis. (A small number of Votes, notably Health and Education, are still presented in the old format for this year. Certain technical challenges and complexities will be addressed in time for the participation of these areas in the 2013 Estimates.)

It is normal for the Revised Estimates Volume, due for publication in February, to include fuller details of the Budget-day Estimates. For the 2012 Revised Estimates, the full suite of **financial information and performance information** will be presented for each Vote. This will set the scene for a meaningful engagement with the Committees of Dáil Éireann as the Estimates are subsequently considered prior to their formal passage through the Dáil.

Moving Forward with Performance Budgeting

Performance budgeting involves a fundamental re-design of the Estimates documentation, in order to put the focus upon delivery throughout the process of resource allocation and accountability. This is in keeping with the broader Government Programme commitment that performance information should feed into the decision-making process at all levels, and that active performance management should be a key feature of how projects are delivered and continually evaluated within the public service.

In particular, the following complementary initiatives will allow for the potential of performance budgeting and performance management to be realised:-

- **GovStat** aims to be a whole-of-Government performance measurement system designed to measure success in delivering on the Government's goals. It will link the high level goals with associated outcomes and outputs, and it will show how we are doing over time. The information will be publicly available on the web. GovStat is currently in its very early stages of evaluation. It will be piloted during 2012 to assess if the approach is viable. If the pilot is successful the intention is to roll this out.
- The Central Statistics Office is currently studying how to increase the statistical and management value of the wide range of administrative data held across various public bodies. The CSO series of "**Statistical Potential of Administrative Records**" (**SPAR**) reports evaluate the data holdings of Departments and Offices. This work should, over time, allow for all of this data to be applied to performance management at the organisational level.
- The **Performance Management and Development Systems (PMDS)** for managing individual staff performance across the public service are being strengthened and streamlined. New, simpler PMDS forms are being introduced in 2012, with agreement of management and unions across the civil service, to underscore the linkage between financial inputs and individual / organisational performance.
- In a similar vein, clearer rules on **managerial responsibility and accountability** are under consideration as part of the Government's recently published Public Service Reform Plan, and in this context the existing legislative provisions set out in the *Ministers and Secretaries Acts* and the *Public Service Management Act* will be the subject of a thorough review.
- New developments in the field of **IT and Analytics** are being used to ensure that public services are planned in a more informed, integrated way, and delivered more cost-

effectively. For example, the Department of Education & Skills is using a Geographical Information System (GIS) to establish in which locations the school-going cohort will increase most significantly, and to plan accordingly for school provision. This system utilises data from the Central Statistics Office, Ordnance Survey Ireland, General Register Office and Department of Social Protection in addition to data from the Department's own databases and from local authorities.

III.6 An Enhanced Role for the Oireachtas

A core principle running through all of the Government's budgetary reforms is 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. The Government Programme includes a commitment to opening up the budgetary process to the full glare of public and parliamentary scrutiny, and that commitment is being implemented.

Opening Up to the Oireachtas

Up to now, the entire budgetary process has been a closed and secretive affair, with expenditure allocations effectively decided by the Government behind closed doors. Dáil Éireann is formally responsible for voting through the Estimates of Expenditure each year: but in practice, the precise allocations brought forward by Government tend to be a *fait accompli*, as there are no mechanisms for advance parliamentary input into the resource allocation process. This year, the Revised Estimates were not considered by the Committees until July, more than half-way through the year, when the money being voted on had already been largely spent.

There have been two significant reports on this matter from the Oireachtas itself in the past number of years. One important contribution was the 2005 *Second Report of the Public Accounts Committee (PAC): Proposals for Alterations in the Way that Estimates for Expenditure are Considered by Dáil Éireann*. That Report, which was based upon a detailed analysis presented by its rapporteur, now the Minister for Communications, Energy & Natural Resources, Mr Pat Rabbitte TD, called for the annual Estimates process to be brought forward to the early part of the year. This was to allow for an *ex ante* scrutiny process with a more substantive role for Dáil Éireann and its Committees in contributing to the expenditure planning process before the precise allocations for the year in question were determined. In November 2010, the Joint Oireachtas Committee on Finance and the Public Service produced a detailed report on *Macroeconomic Policy and Effective Fiscal and Economic Governance*. That wide-ranging report called for the introduction of multi-annual budgeting, and for the re-formatting of Estimates to show all costs, administrative overheads and activities against each project or programme to allow for more meaningful Dáil scrutiny.

The Government agrees with the thrust of these recommendations. In the Government Programme, there is a commitment to bring forward the entire Estimates process, so that elected representatives have an opportunity to debate the proposed allocations in advance of finalisation. The introduction of a completely new Medium Term Budgetary Framework, as described in Section III.3 above, provides the opportunity for a new, more transparent and more participatory approach.

A 'Whole of Year' Budgetary process

Instead of waiting until the end of the year to produce Estimates, the Government will – starting from now – make clear exactly how much money is planned to be available to each Department not just in the coming year, but over the next three years. As well as the detailed 2012 Estimates, today's Comprehensive Expenditure Report sets out the allocations for each Department for 2012, 2013 and (on the basis of indicative ceilings) for 2014.

The first task of the Dáil will be to consider and vote upon the 2012 Estimates, armed as it now is with the new performance information outlined in Section III.5 above. Immediately after that, the Dáil will be in a position from the outset of each year to engage with Ministers and Departments on their spending plans for the following year. In other words, the Government is introducing a new, 'whole of year' budgetary process whereby the entire annual Estimates process is brought forward. 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.

EU Economic Governance

The new budgetary process is also in keeping with the evolving EU economic governance framework. The new system of budgeting being introduced by the Government – with an overarching medium-term framework, fiscal rules, an independent Fiscal Advisory Council and multi-annual expenditure ceilings – will adhere to the new economic governance package adopted by the EU in October 2011. By going further in the direction of transparency, openness and parliamentary input, Ireland is also well placed to participate in ongoing EU developments, which place a higher premium upon the assessment at EU level of all Member States' budgetary proposals in advance of finalisation

Box III.d at the end of this Section sets out the new annual timetable more fully. The new timetable also makes clear how each of the reform measures outlined in this Comprehensive Expenditure Report provides new opportunities and new tools for the Oireachtas to engage with the expenditure process more fully.

Continuous Improvement

The Government is living up to its commitments: it is putting in place a completely new budgetary architecture, with openness, transparency and accountability at its core. It is now up to all participants in the budgetary process – Departments, Ministers and most of all parliamentarians – to make the process work. Reform is not something that the Government simply delivers, with benefits flowing automatically without further effort from other parties. 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.

No budgetary reform can realistically expect to achieve perfection all at once. The Government is not making that claim in regard to the major expenditure reform measures being launched today.

Instead, the hallmark of a real reform programme is openness to change, and responsiveness to new ideas about how the system can be made better. Indeed, many elements of the new expenditure framework depend upon active critique and engagement from members of the Oireachtas. For example, when performance information is presented by Departments to Dáil Select Committees, as part of the new performance budgeting framework, it is to be expected that some of this information will be useful, and some of it will be deemed less useful or incomplete. If Dáil Committees engage actively and express these views, Departments and Ministers can adapt their approach, and the system will improve over time. The same ideal – continuous improvement, on the basis of constructive critique from parliamentarians and from the public – will inform the Government’s approach to the entire expenditure reform process into the future.

The annual Expenditure Report and periodic Comprehensive Expenditure Report

The Government intends to present a new *Expenditure Report* to the Dáil as part of each Budget process from now on. In that context, adaptations to the new expenditure framework, and further reforms and modifications, will be set out, along with the Estimates of Expenditure for the year ahead.

In light of the success of the 2011 CRE in equipping the Government to meet its budgetary objectives to date, the Government has decided that a further CRE will be conducted between autumn 2013 and spring 2014. That exercise will build upon the body of analytical work to be generated on foot of the new VFM Code, and will inform the next three-year cycle of fiscal targets and expenditure allocations from 2015 onwards. It is envisaged that a *Comprehensive Expenditure Report*, with a multi-annual dimension, will be prepared to reflect the outcomes of a future CRE, and to replace the annual *Expenditure Report* for that year.

Box III.d - Input from the Oireachtas: A New Annual Estimates Timetable

Under the new arrangements, which are being introduced now and will apply from the outset of 2012, Estimates allocations will be determined in the following manner.

Start of year: Multi-annual expenditure ceilings are known

Today's *Comprehensive Expenditure Report* shows the spending allocations for each Department not just for 2012, but also for 2013 and 2014. This will be the norm for all future years. Ministers and officials have up to two years to plan their affairs so as to achieve policy objectives with these allocations (see III.3 above). Oireachtas Committees will be key stakeholders in this ongoing, whole-of-year exercise.

Spring of each year: Engagement with Oireachtas Committees on allocations / Estimates

It is open to the Oireachtas Committees, from the early part of each year, to engage with Ministers and their Departments to exchange views on how the fixed allocations for future years should be allocated to best effect. These perspectives can be taken into account by Government as the Estimates allocations are considered over the remainder of the year.

April: Stability Programme Update

Just as the November 2011 *Medium-Term Fiscal Statement* set out the Government's overall fiscal adjustment path for the 2012-2015, the *Stability Programme Update (SPU)* published in April each year will adjust these targets as necessary to reflect economic developments, input from the assessments of the independent Fiscal Advisory Council and indeed the views of the Oireachtas Committees. In this context, the multi-year fiscal planning horizon will be extended by a further year, including the new overall expenditure figures (see III.2 above).

Autumn of each year: Further engagement on expenditure policy

As the Government's annual Estimates process becomes more advanced, Oireachtas Committees will have further opportunities to engage on specific policy proposals. The Committees will be informed by the range of VFM Reviews and focused policy analyses generated on an ongoing basis as part of the Government's new VFM Code (see III.4 above).

End of each year: Estimates are finalised

The Estimates for the coming year will be published as part of the annual Budget process, having been informed by the input of the Oireachtas Committees over the preceding year.

February of the following year: Revised Estimates and "Performance Budgets"

More detailed versions of the annual Estimates, which will now include key performance information, will be published and referred to Dáil Select Committees for consideration. In this context, Ministers and public service managers can expect to be held to account for delivery – or non-delivery – of the targets and objectives spelled out previously (see III.5 above).