

Government Submission to the Select Committee on Arrangements for Budgetary Scrutiny

Introduction

The new political landscape in Ireland presents a historic opportunity to fundamentally enhance the relationship between Government and the Oireachtas. We have the potential to reshape the framework of engagement between the executive and legislature to permanently provide for a more participatory way of doing business. Government recognises that a stronger and more participatory Oireachtas is not only desirable, but is essential to making the functioning of Government more effective and more transparent.

The need for enhanced engagement by the Oireachtas in budgetary scrutiny is highlighted in the Programme for Government, with a number of commitments aimed at ensuring the Oireachtas has a more participatory role in the budget process. This is also an issue that was brought to the forefront of attention following the publication by the OECD of its Review of Budget Oversight by Parliament: Ireland in November 2015 (the “OECD Report”).

This submission, and the Government’s proposals, are specifically intended to facilitate the implementation of the recommendations contained in the OECD Report. The intention is to move away from the existing model of parliamentary interaction, which the OECD characterised as a disconnected series of annual set-piece events, towards continuous and meaningful engagement with the Houses of the Oireachtas throughout the course of the budget cycle. The focus is on early engagement with the Oireachtas, to ensure that the views of parliamentarians can be considered by Government in advance of budget proposals being presented.

Context

One of the key principles highlighted by the OECD to guide the process of budgetary reform is respect for constitutional constraints and the prerogative of the executive. The report states that “enhanced parliamentary engagement” does not entail displacing the views of the executive branch with the views of parliamentarians but rather ensuring that the legitimate views and insight of parliamentarians are brought to bear upon budget deliberations. The proposals presented in this Submission are framed in this specific context.

Accordingly, the Government's proposals – consistent with the objectives of the OECD report – are that 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.

A key objective of the Government is to improve the debate about and scrutiny of budget proposals in the legislative phase that follows Budget day in terms of the Finance Bill, the Social Welfare Bill and the Estimates.

Budget 2017 Process

A number of the proposals presented in this Submission relate specifically to the Budget 2017 Cycle. Given the current stage in the budget cycle, and the likely timeframe for the establishment of the relevant Oireachtas Committee, the proposals in relation to the next budget cycle are intended to be practical and workable, while facilitating enhanced engagement by the Oireachtas. Government also views these proposals as providing a solid base that can be built upon for future Budget cycles through an iterative process with the Select Committee in the first instance and which can be refined in the future based on practical experience.

Stability Programme Update

The submission of the Stability Programme Update (SPU) to the European Commission in April marks the commencement of the annual budget cycle, and, in keeping with the OECD recommendations, the principle of *ex ante* engagement of parliament could usefully be brought to bear on this process. In recent years, the Government has sought to facilitate parliamentary debate on the SPU 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. This is in line with the spirit of the European Semester. In 2015, this process was taken a step further by publishing a Spring Economic Statement alongside the draft SPU, setting out an initial estimate of fiscal space, and allowing a week in the Dáil for policy statements on these documents.

Going forward, the intention is to enhance the opportunity for meaningful engagement by parliament on the draft SPU, by ensuring that it is published in sufficient time for adequate consideration by the Houses to enable policy discussion in the Houses and submissions

received to be reflected by Government in the final SPU submitted to the Commission by end April. There are practical data constraints that would prohibit the publication of the SPU before April. These include the macroeconomic data for quarter 4 of the previous year, which is published in mid-March, and the Exchequer Returns for March as both are necessary to ensure the economic and fiscal outlook can be accurately updated.¹ However, the Government is committed to the publication of the draft SPU by mid-April to ensure that feedback received from the Houses of the Oireachtas can be incorporated into the final document submitted to the European Commission by the 30th of April deadline each year.

Spring/Summer Economic Statement

Having regard to the current stage of the budgetary cycle, the first element of the proposed new approach for 2016 is the publication of the Government's Spring/Summer Economic Statement ("SES") by mid-June. This statement will provide an updated assessment of the macroeconomic and fiscal prospects, including the medium-term fiscal framework. It will also provide an opportunity for the Government to set out a medium-term economic strategy and narrative. The intention is that the SES would provide an updated forecast on the fiscal space to enable the Oireachtas Committees to conduct fully informed discussions on budgetary priorities.

It is proposed that the SES will take the form of both a written document and statements in the Dáil by both Ministers. The Budget Committee could then provide its views to Government, perhaps informed by hearings with key stakeholders on the SES, and its recommendations for Government to consider in formulating its Budgetary Strategy for 2017.

Government is open to the possibility of maintaining the timing of the SES as per this year in the coming years, i.e. publishing it in mid-June, or to publishing it earlier in parallel with the draft SPU in mid-April as was the case in 2015. A key advantage of a mid-June publication is that key data for the calculation of the fiscal space and what needs to be done to comply with the fiscal rules are available.²

¹ It is also necessary to ensure that IFAC has sufficient time to assess and endorse the macroeconomic forecasts contained in the SPU.

² Both the European Commission's Spring Economic Forecast and the draft Country Specific Recommendations are published in May.

National Economic Dialogue

The Government intends to hold the National Economic Dialogue (the “NED”) on the 27th and 28th of June. The objective of the NED is to facilitate an open and inclusive exchange on the competing economic and social priorities in advance of Budget 2017. It will be informed by the macro-economic and fiscal parameters, including the EU budgetary framework, which were set out in the SES.

The OECD in its report found that 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, it recommended that the risk of a perceived sidelining of parliament should be avoided through aligning the NED, to a greater extent, with the deliberations of parliament, and through anchoring the process of ex ante budgetary engagement within the Houses of the Oireachtas and its committees. The OECD advised that, in the near term, this should involve ensuring that the Houses of the Oireachtas are a key partner in the NED. The Government is committed to ensuring that this is the case, and intends, for the forthcoming NED, to involve the Oireachtas through inviting members of the Select Committee on Arrangements for Budget Scrutiny to attend and participate at the event. In future years it can be considered how best to facilitate greater partnership in the conduct of this event.

Mid-Year Expenditure Report

In a new departure, the Government proposes to publish a Mid-Year Expenditure Report which would:

- Report on expenditure trends to end-June across spending programmes and revised end-year outturn forecasts in each case;
- Set out the expenditure ceilings for 2016 at Vote level. It will also set aggregate level ceilings for 2017-2019 at Vote level taking account of the forecast 2016 outturns and an analysis of the key non-discretionary drivers of expenditure, for example, demographics and pay, as was included in Budget 2016 projections of gross fiscal space.
- Set out the basis for any changes since Budget Day October 2015 and provide an update of the projections for 2017 expenditure prepared in October 2015 to take account of carryover of 2016 changes.

The publication of this Mid-Year Expenditure Report will satisfy the requirement identified by the OECD for adequate “no policy change” pre-budget information to inform *ex ante* budget scrutiny. The OECD argues that such an approach will add to the credibility of pre-budget parliamentary hearings as being based on official figures, rather than being concerned purely with abstract policy arguments.

Following the publication of the report, it would be open to the Oireachtas sectoral committees to review the priorities and challenges for each Vote Group. The Committees could then provide their recommendations to Government on expenditure priorities for 2017 having regard to the available fiscal space published in the Spring/Summer Statement. It is important to note that engagement with Government is only one pillar of engagement necessary to enhance scrutiny of the Budget Process, the relevant committees will most likely wish to engage with relevant stakeholders in their assessment of priorities for Budget 2017.

These recommendations would feed into the Government’s consideration and development of budgetary measures to be announced on Budget Day in Mid-October. This will ensure that the Oireachtas has the opportunity to feed in key inputs that will help shape policy priorities and budgetary allocations in advance of draft Budget proposals being announced by Government.

Circulation of Tax Strategy Group Papers

As part of the move towards enhancing the information flow between Government and the Oireachtas it is proposed to circulate the Tax Strategy Group (TSG) papers to the relevant sectoral Oireachtas Committees following the TSG process in early to mid-July. The current TSG is comprised of representatives from various Government Departments and political advisors. The group discusses papers setting out existing tax measures across all of the tax heads (Income Tax, Corporation Tax, VAT, Excise Duties, etc.) PRSI and social protection issues. The papers put forward relevant issues for discussion and costed options for changes, taking into account any relevant Programme for Government commitments.

These papers will provide the relevant sectoral Committees with accurate and costed options for change which could assist them in developing recommendations that they may wish to submit to Government in advance of the draft Budget decisions being made.

White Paper

In addition to the Mid-year Expenditure Report and the circulation of the TSG papers, the White Paper containing the Estimates of Receipts and Expenditure for the coming year will be published, as is normally the case, on the Friday before Budget day. It is prepared by the Government and laid before the Dáil in accordance with the provisions of Article 28 of the Constitution. It sets out the forecast Exchequer outturns for the current year and the projections for the coming year on a no policy change basis, i.e. it excludes the impact of measures proposed by the Government on Budget day. A reconciliation table in the Budget book explains the differences between the Budget and the White Paper figures. As it is prepared immediately in advance of the budget, the White Paper uses the same macroeconomic forecasts as the Budget. It should be noted that the proposed Mid-Year Expenditure Report intended to be published in July will contain expenditure estimates for 2017 on a no-policy change basis meeting in line with the relevant recommendation in the OECD Report.

Budget Day

On Budget day, as is currently the case, both Ministers will make their Statements to the Dáil and will publish the Budget book and the Expenditure Report. Government will seek approval from the Dáil for such Financial Resolutions as are necessary to make temporary legislative provision for certain tax measures due to come into effect prior to the expected date of enactment of the Finance Bill. Government will seek approval of the Houses of the Oireachtas for its proposed Estimates for the coming year.

As has been the practice, incremental improvements will be made to the information in the Budget book, including on the distributional impact of Budget measures, where possible.

Furthermore, the Departments of Finance and Social Protection will continue to produce a distributive analysis of the main welfare and tax budgetary measures using the ESRI SWITCH model. The intention is that these assessments will be completed in advance of the passage of the Social Welfare and Finance Bills. The Department of Public Expenditure and Reform is also developing a Social Impact Assessment Framework which will complement the existing process. This framework will have regard to the Programme for Government commitment to develop a process of budget and policy proofing as a means of advancing equality, reducing poverty and strengthening economic and social rights.

Finance and Social Welfare Bills

The timing of the publication of the Finance Bill has been changed significantly over the past few years. Up to Budget 2012, Budget day was in December and the Finance Bill was published the following January or February. To comply with the European “two-pack” regulations, Budget day was brought forward to mid-October and the Finance Bill has been published shortly thereafter to facilitate its adoption by the end of the year. The OECD Review further recommended that both the Social Welfare Bill and the Finance Bill should be published on Budget day. It is intended that the Finance Bill will be published as soon as practicable after the Budget and certainly not more than two weeks later.

The Social Welfare Bill will also be published at the earliest opportunity following the Budget announcement.

Estimates

Reflecting the reforms proposed in the OECD Report, there may be scope for seeking approval of the Estimates for 2017 by end-year or very early in 2017. Certain compromise in relation to the OECD proposal regarding earlier publication of the Estimates would be required as a detailed Revised Estimates Volume would not be available on Budget Day.

Ex Post Scrutiny

It is crucial to also recognise the important role *ex post* scrutiny by the Oireachtas of the implementation of budget proposals in order to ensure that performance targets are being achieved and value for money is being obtained. By ensuring approval of the Estimates occurs earlier in the year, this will make space for a performance dialogue to occur between Departments and the Oireachtas, as recommended by the OECD in its report.

In the past number of years there has been a consistent effort to improve the quality of performance information available to the Oireachtas. The Revised Estimates Volume has been reformatted and now, in addition to information on financial and human resources, includes information describing the services that these resources are delivering and the impact of these services. The intention of this initiative is to facilitate Oireachtas committees in holding Ministers and Departments to account for how resources are to be allocated, and to what purpose. This process is ongoing, and guidelines for Departments have been prepared to

improve the quality of performance information in the REV in addition to detailed feedback and engagement on the information provided for REV 2016. The intention is that this process will benefit from the sustained critical engagement by Oireachtas Committees in order to further enhance the quality and relevance of performance indicators being used in light of the feedback received.

To further enhance this initiative, it is proposed that by the end of Quarter 1 each year a Performance Report will be submitted by the Minister for Public Expenditure and Reform to the Oireachtas to provide information on the performance of each Vote and the linkages between results and resources. The Report will lay the foundation for a more systematic engagement by parliamentarians and public on the impact of public policies and on resource allocation decisions. It will ensure that the relevant sectoral Committees are equipped to track progress in achievement or non-achievement of strategic outcomes. This Report will help enhance the focus in performance and delivery by presenting relevant performance indicators in a dedicated, focused document, which will be enable sectoral Committees make best use of the time allocated for reviewing performance measures. This will ensure the Oireachtas is best placed to provide feedback to Government as to the relative success or failure of different programmes. This feedback will, in turn, factor in to decisions on budgetary allocations for the following year.

Conclusion

The Government is committed to engaging with the Oireachtas as a partner throughout the “whole of year” budgetary process and recognises the value of such engagement. Government echoes the OECD’s belief that an active responsive parliament which is facilitated in engaging in the policy-making cycle in a responsive 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. The Government is committed to taking account of the views of the Opposition and engaging in meaningful and constructive dialogue. In order to ensure that this ambitious package of reform measures is successful in delivering real and meaningful change, it is incumbent on both the Government and the Members of the Oireachtas to find ways to co-operate and work together.