

Reforms in Irish Public Financial Procedures

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Abstract

This paper sets out a reform programme for the financial procedures of the Irish central government, with a particular focus on the annual budgetary cycle.

Following an introduction and preview, the second section outlines the conceptual issues which arise in evaluating public financial procedures, and sets out, in general terms, rationales for reform.

The third section describes the origins of the present system and a number of recent attempts to improve it. An assessment of the Irish budgetary process is offered, set against the background of Ireland's fiscal policy experiences since the early 1970s. It is argued that the current phase of relative calm in the public finances presents an opportunity to consider a reform programme.

The fourth section draws on the reform experiences of three countries to illustrate some of the practical issues and problems which arise.

The fifth section contains the substantive reform proposals of this paper. Some of these require legislative changes and most others involve modifying policy practices and procedures. It is also argued that any future review of the Constitution should consider an agenda of proposals in this area.

Section six outlines principles for the implementation of such a reform programme. The paper concludes by listing a number of issues which deserve further consideration.

1 Introduction and preview

The last decade has seen much international attention devoted to improving performance and accountability in public sector organisations and in the overall budgetary systems of national governments. Such reform programmes have, in part, been motivated by perceptions of past failures of state interventionism in achieving policy objectives. More positively, they have also reflected a recognition that the public sector will continue to play a vital role in the economic, social and political life of any democratic society. The complexity and range of domestic policy issues which governments are expected to confront, and the reality of a highly competitive international economic environment, have further added to the case for assessing, and often changing, the ways in which the state collects and spends the resources of citizens.

Ireland has seen its share of policy failure, has only tentatively emerged from a difficult period of restoring order to the public finances, currently faces major domestic policy challenges and our future prospects will clearly depend on the effectiveness of our responses to international developments—developments over which we have only marginal influence. All of this, and the fact the public sector comprises a significant proportion of economic activity in Ireland, means there is at least a *prima facie* case for assessing the need for reforms in Irish public financial procedures.

Many complex questions could be raised by the general statements so far, and this paper does not pretend to be a comprehensive treatment of all such issues. Rather, the focus here is on the budgetary process of the central government, which is the framework within which the bulk of public sector activity is annually planned, implemented and evaluated. Before specific reform proposals are advanced, this paper sets out an understanding of the distinctive nature and functions of public financial procedures in general, and assesses the present Irish system. It is argued that there is a need for reforming the Irish budgetary process. The reform proposals aim:

- to encourage a longer perspective for policy decisions that the annual budgetary cycle permits
- to increase the emphasis on policy outcomes, rather than inputs
- to structure decision-making along the lines of policy areas, rather than administrative units
- to ensure the process is not expenditure-led
- to promote taxation decisions which more fully reflect issues other than revenue yield
- to provide for greater transparency in decision-making
- to facilitate the role of the Oireachtas in evaluating and approving expenditure and revenue decisions.

These proposals involve changes in legislation and/or policy practices. Furthermore, if and when a review of the Constitution takes place, it is suggested that such a review should be encouraged to embrace provisions relating to the role of the public sector and the financial procedures of the State. The paper suggests a reform agenda at the constitutional level for such an eventuality.

Above and beyond the specifics of any individual proposal there are important issues of implementation—above all, how to assess whether a reform programme is achieving what was for hoped for it—and a section of this paper is devoted to considering such questions. The conclusion sets out a number of other issues which will deserve consideration in future work.

2 Public financial procedures: conceptual issues

A criticism often levelled at attempts at reform in Ireland is that they seldom reflect a strategic view of problems, and more often consist of *ad hoc* tactical responses to unanticipated events¹. The purpose of this section is to outline a conceptual background for a reform programme in Irish public financial procedures, so that individual proposals can be related to a wider context.

2.1 Markets, governments and policy

In order to understand the nature of public financial procedures, it is useful to draw general comparisons between decision making in public and private sector organisations. Fig. 1 stresses that the state and the market play distinguishable roles in society, and that each has different means of monitoring performance. In general, decisions on resource allocation in markets are informed by price signals, profitability provides incentives for improved performance and the ultimate sanction for poor performance in that a firm may simply go out of business.

The state, on the other hand, is fundamentally different, in that ultimately it represents legitimate coercive authority: in a democratic society we do not have a choice in paying taxes, and are not automatically entitled to a commensurate return for such taxes. Furthermore, the range of activities undertaken by government mean that it is often difficult, inappropriate and/or impossible to monitor performance by looking at market prices, or to assess the profitability of such activities. The constraints on the state's resource allocation decisions, apart from public opinion as expressed between and during periodic elections, are the prospects of sovereign default, or more often, of internal decisions to end/curtail policy programmes.

¹See for example, Lee (1989).

Figure 1: Comparison of stylised public and private sector organisations

Private	Public
e.g. firms	e.g. the state
membership voluntary	membership compulsory: coercive powers available
activity takes place within a framework of law (e.g. property rights, contract)	state establishes and enforces a legal framework
production of private goods/services	production of private and public goods/services, transfer of income between citizens (tax, social security) management of macroeconomy, regulation
price mechanism provides signals for resource decisions	price signals not always available, or adequate
competition as a selection mechanism	administrative, parliamentary, electoral processes as selection mechanisms
performance monitored and incentives generated by profitability	performance more difficult to monitor, incentives more complex
insolvency/bankruptcy as ultimate constraint	sovereign default, electoral defeat abolition—crude (and distant?) constraints
<p><i>Adapted from:</i> Stiglitz (1989, 1990)</p>	

Figure 2: Market failures

Type of failure	Example
Absence of production of, or underprovision of, public goods	Law, defence, education.
Market prices do not fully reflect social consequences of private decisions	Pollution & congestion externalities.
Incomplete markets	Inability to insure against some contingencies of loss, accident or to fund long-term investment projects.
Imperfect information	Costly/impossible fo individual consumer to gather all available information on prices, quantities, standards.
Tendency towards concentration of ownership	Unregulated markets leading to formation of cartels, monopolies with resulting efficiency losses.
Inequitable distribution of income and wealth	Without a system of transfer payments, no income for many retirees, sick, unemployed.

2.2 Market failures, government failures

From these highly stylised descriptions, it follows that both markets and governments have certain weaknesses, or failures². Some of these are set out in Figures 2 and 3. Economists have generally seen failures of the market as providing sensible reasons for government policy interventions.

Dealing with market failures first, the most obvious example is the failure to

²It may well be the case that the comparisons drawn are too stylised i.e. simplistic. For example, many large private firms face considerable problems of monitoring performance and providing incentives, given the absence of internal markets and the sheer scale of operations. Firms like that are probably best understood as bureaucracies. Nevertheless, even such firms will find that they have a balance sheet which will ultimately decide whether or not they continue in business. More importantly, the points made in the text and diagrams above are not intended to be a description of any particular organisation; they are intended to be useful generalisations which help to structure the remaining discussion.

provide for the common defence and systems of law and order. The state must be the prime provider of such ‘public goods’ and indeed a market system could not long survive without them. Similarly, the market alone will only by co-incidence result in a distribution of income amongst citizens (or between regions) which society regards as just, so the case for a system of transfer payments can be rationally made.

The focus here is on government failures (without implying that they are more pervasive than market failures) in order to understand how public financial procedures may help to prevent them.

Government failures can be related to the distinctive nature of the state, as understood so far. For instance, if the state is to exercise coercive powers, there is a possibility that it will abuse those powers. In the present context, this might mean a taxation system which in effect expropriates private resources.

Figure 3 lists these other forms of government failure, including the general problem of evaluating public sector ‘output’, which reflects both the lack of clear price signals in the public sector and the diversity of roles which the state is expected to play in modern societies. Furthermore, a set of individually desirable spending commitments, when aggregated, may imply a tax yield or borrowing requirement which is not sustainable in the long run. This may arise if public provided goods create the expectation of still greater future provision, unmatched by the ability or willingness of society to pay. Such government failures mean policy simply does not achieve its goals, and/or does so at a price that citizens cannot or will not bear.

The final group of government failures are more subtle. ‘Rent seeking’ refers to activities designed to secure differential advantage from policy interventions. Such practices divert resources which could otherwise be used directly to provide useful goods and services. They may arise when the precise form of state intervention makes it worthwhile for the private sector to devote a considerable efforts to retaining or to seeking special treatment e.g. lobbying to secure a tax break, litigation to secure a (dubious) interpretation of regulations. The extreme form of rent-seeking behaviour occurs when the state is the source of all economic privilege, and differential benefits are secured by bribery, although significant resources can also be diverted even when policy interventions are susceptible to only the legal forms of such activities³.

Policy may also fail in the sense that it distorts the price signals which govern decisions in markets, with sometimes perverse effects. The crux of this issue is that incentives may be set up by government intervention to no discernible social purpose e.g. by arranging tax liabilities so that investment decisions will favour capital intensive outlets in an economy with involuntary unemployment. A complication is that in the presence of many market failures, it may not be optimal for policy to attempt to tackle them one by one—part of the so-called ‘second-best’ problem.

³See Krueger (1974, 1990) and the submission made by the research department of the Central Bank of Ireland to the Culliton report.

Figure 3: Government failures

Type of failure	Example
Coercive authority of state may not be exercised legitimately—in accordance with administrative practice, the rule of law, wider democratic values	Expropriatory taxation, transfer payments distributed in a discriminatory manner, excessive state secrecy.
Problems of planning and performance evaluation due to complexity of functions, and lack of adequate price signals.	How do we know what might have happened if a particular spending decision had not been taken? How do you measure the ‘output’ of teachers, doctors, diplomats?
Failure to finance interventions in a sustainable way—‘excessive’ taxation, and/or public debt which pre-empts increasing private sector resources through the taxation needed to discharge debt service obligations.	Budgetary processes may be led by expenditure demands, with financing a secondary consideration.
Past interventions create demands for more in the future, and in the extreme, lead to unsustainable public sector.	Subsidies for private goods and services: vicious cycles as per Krueger’s argument.
Policy intervention may encourage ‘rent seeking’ i.e. the diversion of otherwise productive resources to the ‘playing of the game’.	Lobbying, excessive resort to litigation, and in the extreme, corruption.
Policy interventions may distort the incentives which prices in markets convey.	The ‘tax wedge’ leading to perverse incentives in the labour markets i.e. poverty traps.
Second best problems:	
(i) Interventions may cause more market failures than original present	Deregulating a polluting monopoly.
(ii) Tackling <i>only one</i> of a number of distortions can be worse than tackling none	Reforming the tax system, but ignoring links with the social welfare system.

2.3 The role of procedures

The argument so far suggests the following major roles for public financial procedures:

- to ensure the legitimacy of government decisions, i.e. that they are taken in accordance with the rule of law, administrative practice and consistent with the wider values of a democratic society
- to help decide when a policy intervention is warranted
- to define the goals of policy
- to evaluate performance and provide mechanisms for improving performance
- to ensure the sustainability of aggregate expenditure, revenue and borrowing plans
- to minimise opportunities for ‘rent-seeking’ behaviour
- to minimise distortions of incentives in functioning markets for a given level of policy intervention

Given these fundamental roles, procedural questions may clearly be more significant than any individual specific policy decision. Procedures will tend to influence how all policy decisions are taken over the long run. In this sense, public financial procedures are of strategic importance to both public and private sectors.

Furthermore, sometimes it is practicable to assess only whether procedures have been followed, rather than evaluate the results of policy directly. In such cases, good procedures act as proxies for good decisions. An obvious analogy is with the legal system: the Minister for Justice could not review the substance of every judicial decision, but can monitor whether fair procedures were followed in any given instance. In the present context, the mere existence of reporting requirements to parliament can be held to produce better decisions in general, without enquiring into the merits of any particular policy programme.

3 Assessing procedures

To assess how well a set of public financial procedures is working, the obvious starting point is the degree to which they fulfil roles such as those set out above. In a national government’s budgetary process, these roles are often assigned to different public sector participants and procedures, reflecting distinct functions in the political system. In particular, standard division between a permanent public service and elected politicians prompts the following categorisations which structure an assessment:

An elected government is held to be responsible for

- defining overall policy goals
- the effectiveness of policy in achieving those goals

The government is in turn accountable for these functions to a parliament, and the electorate.

Permanent public servants are held to be responsible for

- the efficient management of a given policy programme, within the parameters set by politicians.

These functions are discharged through internal procedures and ultimate accountability to ministers and parliament.

All participants are held to be responsible for:

- ensuring the legality/administrative propriety of decisions

These functions are generally monitored by an independent audit agency, reporting in the first instance to parliament. It is important that an assessment reflects this standard allocation of responsibilities within a democratic system.

3.1 Rationales for reform

Given the strategic importance of financial procedures, it is not sufficient to point at specific instances of inadequate management or ineffective policy in order to make the case for reform. A reform programme more clearly justified where there is:

- systemic policy failure—a consistent and general failure to achieve ultimate policy goals and/or
- consistently inefficient/poorly managed implementation of policy, within agreed goals

Failure to achieve the ultimate goals of policy may involve under-performance over the wide range of objectives of public policy e.g. living standards, equity in the distribution of income and wealth, educational attainments, employment levels etc.

An intrinsic difficulty is that in a democratic society, policy makers do not have direct control over such outcomes. They can only influence the outputs of the public sector.

For example, in the case of income distribution policy, government cannot set the incomes of individual citizens centrally i.e. produce exactly the desired outcome. The output however, intended to influence this, would include taxation and social welfare legislation, which may contribute more or less effectively to achieving the desired goals.

Furthermore, no individual minister directly controls even the outputs, but rather provides inputs to the policy process e.g. in the example just cited, the resources allocated to policy making, policy implementation and administration of the tax and social welfare systems. Procedures can be held to contribute to overall policy failure when they operate to confuse the distinctions between inputs, outputs, and outcomes. The general problems are

- outputs do not contribute to achieving outcomes, either because of inappropriate choice of outputs or because factors outside the control of policy makers intervene e.g. an output of a central bank is monetary policy advice—it may not achieve low inflation, either because it was ‘wrong’ or because an international oil crisis occurs.
- inputs do not produce desired outputs e.g. in the example above, expenditure on a central bank may be swallowed up by administrative costs, with little useful policy advice being generated in the first place.

More specific instances of procedural failures which may arise in this way are:

- Incrementalism of expenditure programmes whereby existing policy commitments are renewed almost automatically, perhaps according to a ‘cost + inflation rule’. This involves implicit assumptions that programmes have been effective in the past, that more inputs will mean more outputs, and so will tend to pre-empt resources for alternative policy approaches.
- The related problem of ‘over expanded’ budgets, refers to the consequences of ; incrementalist budgeting, namely that the resulting total of expenditure commitments cannot be financed sustainably through taxation and/or borrowing. This will ultimately lead to ‘fiscal stress’ whereby abrupt changes in expenditure and revenue plans are imposed to bring the overall budget back to a path that does reflect the ability and willingness of society to finance the state.

Given that the broad political decisions have been taken to aim at certain outcomes, and attempts to use outputs of the public sector to achieve them are made, the process of

implementation can involve specific types of failure which may prompt procedural reform. For instance:

- Allocations of inputs may be seen as targets, not limits, identified with bureaucratic prestige, contributing to inertia in expenditure aggregates. A symptom of this is termed 'expenditure surges' whereby spending rises noticeably towards the end of a financial year, because savings in one year cannot be carried over by line departments to the next, thus providing an incentive to exhaust those resources currently available.
- The precise form of policy intervention may represent an administrative solution to a market problem, thus creating opportunities for 'rent-seeking' as understood in the previous section and/ or distorting markets in undesirable ways.

3.2 Some caveats on reform

The argument so far has inevitably concentrated on policy failures and problems and has set out a rather abstract understanding of those issues. It is clearly important therefore to preface the remaining material on actual financial procedures and reform programmes with the following observations:

- No system of procedures removes difficult and subjective decisions from political and administrative agendas.

This point needs emphasis in order to draw back from any notion that all complex issues of public policy admit of obvious technical solutions, given enough information, and sufficiently impressive 'experts'. Some issues clearly do fall into such a category, but in general, public policy decisions cannot be automated⁴. This is particularly important in the context of previous reform efforts, informed by some of the concepts outlined so far, which have sought to crudely transplant 'rationalist' systems onto the body politic, and have suffered rejection. The exemplar of this is the failure of the PPBS system in the US, an essentially engineering approach to budgeting, which has proved ineffective in the bear-pit of Congress. The political context is a reality with which reform programmes must deal. It is also important to emphasise that

- Reform programmes themselves are policy interventions, involve resource costs and so need to be explicitly evaluated.

With these two caveats about the conceptual background in mind, the paper proceeds to describe and evaluate current Irish public financial procedures, focusing on the annual budget cycle.

⁴See Lindblom (1968) for a discussion of the contrast between idealised economic approaches to budgeting and the reality of trial and error. He stresses for example, that policy makers do not necessarily approach a problem with well-defined objectives—rather they discover their precise objectives throughout the process of policy formation and implementation.

4 Irish public financial procedures

4.1 Origins of the present budgetary system

The historical background to some features of existing Irish public financial procedures derives from Ireland's relationship with Britain and the resulting inheritance at independence. A system establishing that the state's resources are not at the disposal of arbitrary personal authority can be traced to the Settlement in late seventeenth century England. As an historian tells it:

From 1690 government policy was controlled by specific appropriations. The King, a courtier complained in that year, was kept 'as it were at board wages'. William was compelled to maintain a larger navy and a smaller army than he wished. By the end of Anne's reign the Treasury was as a matter of routine drawing up annual budgets for submission to Parliament. We are in the modern world.

Hill (1980, p. 237)

The period of reform in the nineteenth century and the consequent expansion of state activity provided the impetus for the Northcote-Trevelyan report of 1845⁵, which ultimately succeeded in replacing an administrative system bedevilled by political patronage with a permanent civil service distinct from, but accountable to, political master—a structure still discernible in both the UK and Ireland. Furthermore, the financial administration of the state was a particular concern of Gladstone who, as Chancellor, achieved the passage of the Exchequer and Audit Departments Act 1866, which still provides some of the statutory basis of public financial procedures in this country (see below for a recent update of this legislation). Roseveare's account of the 1866 Act provides the essentials of the system:

By the second half of the nineteenth century we shall find at work a logical sequence of (theoretically) watertight stages requiring (a) a technique of estimate, by which the annual requirements of forthcoming public expenditure could be accurately assessed. (b) A convention of parliamentary appropriation, by which funds could be strictly allocated to these needs. It also required (c) an independent agency (the reformed exchequer) empowered to issue these appropriated funds to (d) responsible, non-political paymasters, disbursing funds on behalf of government departments. Finally it required (e) effective machinery for the independent audit of this expenditure and submission of the balanced annual account to the scrutinising committee of the House of Commons. This brought the process of public expenditure full circle, laying before parliament the means of checking that its estimates and appropriations had been adhered to.

Roseveare (1973, p. 47)

⁵See Hennessy (1990).

A further set of reforms in the British civil service, designed to confirm the supremacy of centralised Treasury control and remedy organisational deficiencies brought to light during the First World War, is also an important part of the historical legacy. Fanning argues that the introduction of these reforms in the Dublin Castle administration accounts in part for the longevity of the system after independence, saying of the civil servants who managed the transition;

They did not necessarily conceive of themselves, therefore, as applying an old system to their new, Irish circumstances; rather they were working a new, almost radically modern, system...The inheritance was inescapable, but it was new, not old, modern, not outmoded, in the eyes of the men to whom was bequeathed.

Fanning (1978, p. 8)

4.2 Provisions of the 1937 Constitution

The 1937 Constitution of Ireland offered few innovations in the State's financial framework, but nevertheless provides the basis for the following features of the system:

- Financial transactions of the state are to be conducted through one account—later named the Central Fund, and often referred to as the Exchequer Account (Art. 11). The social insurance fund is an important example of permitted exceptions to this principle, generally referred to as 'extra-budgetary funds'.
- The government is required to present annual estimates of receipts and expenditure to Dáil Éireann, which are published along with other budgetary documents, but not debated by the Dáil (Art. 28).
- The Comptroller and Auditor General is a constitutionally independent officer, responsible for ensuring that expenditure is incurred/revenue received only as the Oireachtas has authorised. (Art. 33).
- The Department of Finance has a special status, as the only department to receive explicit constitutional mention, and the requirement that the member of government in charge of it be a member of the Dáil (Art. 28.7.1). The Department's extensive responsibilities are set out in the Ministers and Secretaries Act 1924.
- There are provisions for the expeditious enactment of financial legislation, through designating certain bills as 'money bills' (Arts 21 and 22) Such bills may only be initiated in the Dáil, are excluded from the operation of Art. 26 which allows the President to refer bills to the Supreme Court to test their constitutional validity, and cannot be referred to the people if the Seanad disagrees with them as is possible for other measures under Art. 27.

- The right of initiative in financial matter more generally is reserved to the government (Art. 17.2).

4.3 The annual budgetary cycle

Within this constitutional framework, the core set of procedures revolves around an annual budgetary cycle. This principally involves all the elements of the widest (CSO) definition of the ‘public sector’, as illustrated in Figure 4.

The annual budgetary cycle can be thought of as comprising three main policy events: the opening position, the budget statement, and the actual outturn, as illustrated in Figure 4. This annual cycle has typically, in recent years, taken place within the context of a medium term macroeconomic plan and/or on the capital side, a ‘national development plan’⁶.

The opening position is effectively the baseline from which budgetary proposals are made and assessed. On the expenditure side, this is reflected in the estimates presented by government departments, and approved by the government, of resource requirements in the forthcoming fiscal year. Increases or decreases in expenditure on Budget Day are typically presented in relation to the opening expenditure figure for any given sub-category of expenditure, so that the determination of the opening position will tend to influence the remainder of the process.

Similarly, on the revenue side, tax changes are typically related to the opening position, which is presented as an estimate of the revenue yield for the current year which would result if no changes were made to the taxation system. The cost/(yield) of taxation proposals in the budget is typically presented in terms of decreases/(increases) in the opening position figure. These aggregates clearly combine to give opening deficits, for both the current and capital parts of the budget.

4.3.1 The system of estimate, appropriation and supply

The presentation of expenditure decisions for approval by the Dáil is structured by the system of estimate, appropriation, and supply. Estimates for administrative units, generally government departments, detail sub-categories of expenditure (sub-heads). Each estimate is voted on separately, may be amended in the parliamentary process, and a passed estimate—a ‘vote’—is the required parliamentary authorisation for expenditure, although the sanction of the Department of Finance is still required before expenditure is actually incurred. Departments are not authorised to transfer money between subheads without the approval of the Minister for Finance. Furthermore, savings on one vote may

⁶See McCarthy (1990) and Bradley (1988) for evaluations of such planning exercises in Ireland.

not be allocated to another: increasing expenditure on another main category would require the presentation of a supplementary estimate to the Dáil.

Certain revenues are collected by departments in the course of their ordinary business (e.g. sales of publications). These may be offset against gross expenditure in the estimates procedure. The jargon is that such moneys are ‘appropriated-in-aid’ of a vote. Such sums are of the order of IR£1bn out of a gross current expenditure total of the order of IR£10bn.

If expenditure ultimately exceeds the amount allocated by the Oireachtas, including supplementary estimates, that excess is the personal liability of Accounting Officers, typically the secretary of the department in question. If the end-year outturn is less expenditure than anticipated in the appropriations procedure, departments may not generally retain the savings, which must be surrendered to the Exchequer.

Not all expenditure is voted: some categories may be charged directly on the Central Fund, such as service of the national debt and judicial salaries, by the provisions of statutes which do not limit the amounts which may be spent. Other non-voted expenditure relates to capital projects and the investment plans of semi-state bodies. In these cases, the legislation provides for limits on the amounts which may be spent, so that the relevant legislation is typically reviewed over a three to five year period.

4.3.2 The traditional audit function

Accountability for the financial accuracy and administrative regularity of expenditures and receipts is again structured around the estimates procedure, whereby the Comptroller and Auditor General performs the traditional audit function. In the first instance, he reports to the Dáil Committee of Public Accounts, which is charged by standing orders with responsibility for examining the Appropriation Accounts. These set out and comment upon comparisons between expenditure authorised and incurred for the last financial year. Accounting Officers of departments are the principal witnesses before the Committee of Public Accounts.

A cash system of accounting is used throughout the process.

4.4 More recent developments

A number of developments in public financial procedures can best be understood as responses to the perceived deficiencies in the core budgetary process as outlined above.

For example, both the establishment of the Departments of the Public Service in 1973 and Economic Planning and Development in 1977 involved transfers of

functions from Finance. Both decisions were eventually reversed (in the latter case, in 1979). An attempt to introduce the PPBS budgeting system in the early 1970s was soon abandoned.

A more relevant set of developments were prompted by the fiscal policy experiences since 1981. That year saw the introduction of a second budget in July by the incoming Fine Gael/Labour government which heralded the first serious attempt at adjustment⁷. The Minister for Finance, John Bruton, also turned his attention to procedural questions, in the White Paper of that year *A Better Way to Plan the Nation's Finances*. This document rehearsed classic arguments about government failures and attributed the fiscal crisis in part to deficiencies in the budgetary system.

In particular, this document argued that ‘under existing practice a structural bias can be seen to exist in our political system towards continually increasing public expenditure’ (p. 3). The central problems were diagnosed as a lack of information and procedures which would enable elected politicians and the electorate to critically assess public expenditure proposals and so counterbalance the demands of special interest groups. More timely and fundamental scrutiny of expenditure proposals, it was argued, would underline the necessity of ultimately financing expenditure through taxation. While some proposals, such as those for automatic deficit reduction legislation and a public expenditure commissioner to expertly evaluate projects, were never implemented, the following themes were to recur in later years:

- more timely presentation of estimates (unevenly implemented)
- multi-annual projections of revenue, (expenditure, revenue and borrowing estimates undertaken in national plan 1985–87, less detailed broad aggregates for 1987 to present)
- presentation of estimates by policy category, rather than administrative function (undertaken in the publication of *Comprehensive Public Expenditure Programmes*)
- presentation of policy objectives, performance indicators (unevenly applied, although improved information on government departments in annual reports, and better presentation of capital programmes throughout)
- fuller debates on expenditure estimates (improvements throughout, but especially since 1992)
- a Dáil Public Expenditure Committee, (implemented, then abolished in 1989, replaced in 1992 with new committee structure)
- an expansion of the role of the Comptroller and Auditor General beyond the accuracy and regulatory functions (operated on a non-statutory basis, until 1993 Act)

⁷See Honohan (1992) for an assessment of the period of fiscal adjustment.

A reasonable interpretation of the years to 1987 might be that the duration and scale of the fiscal crisis meant that ‘rationalist proposals’ proposals (not just those in the 1981 White Paper) were *less* likely to meet with success. Rather more blunt substantive policy actions, such as a public sector recruitment embargo, seem to have contributed more to achieving an eventual stabilisation. Indeed as late as 1990, the argument that procedural reform could become an alibi for refusing to take ‘tough’ substantive decisions was being levelled⁸.

The reductions in expenditure in the 1987–88 stabilisation period were in part effected through *ad hoc* measures such as the Efficiency Audit Group, with a brief to undertake fundamental reviews of expenditure programmes, and the voluntary retirement scheme for public servants, financed by a Central Bank loan.

Other recent developments include:

- the introduction, on a trial basis of ‘delegated administrative budgets’ whereby increased autonomy for line departments from the Department of Finance is traded for agreed annual savings over a number of years
- the introduction of a White Paper and passing of an Act in 1993 on the role of the Comptroller and Auditor General.

These latter documents are important in revealing official thinking on financial procedures. An expansion of the role of the Comptroller and Auditor General was formalised to cover the ‘economy and efficiency’ aspects of public activities, but this officer was to be precluded from considering the effectiveness of policy. This reflects a concern to avoid blurring the division between elected politicians setting policy goals and civil servants implementing policy within those parameters⁹.

This viewpoint influenced the proposals to the extent that both the Comptroller and Auditor General and the Public Accounts Committee were intended to be specifically prevented from commenting on the merits or demerits of policy and policy objectives. The Comptroller and Auditor General has a role in determining whether spending agencies have systems in place that appropriately monitor effectiveness, but the effectiveness judgements themselves on particular expenditure programmes were off limits.

This approach may well be appropriate given the constitutional independence of the officer in question, which might tend to be tarnished by involvement in essentially political debate. Nevertheless, these proposals left unaddressed the question of how effectiveness is to be more adequately evaluated.

⁸See remarks by Maurice Doyle in Hardiman and Mulreany (1991)

⁹It might also be observed, as the White Paper notes, that it is difficult to completely distinguish economy, efficiency and effectiveness. The first two terms are used in the Bill, but are not defined there. While it is easy to imagine a policy programme that is perfectly legal, while meeting none of the other criteria, it is difficult to see how a programme can be economical, and yet inefficient without that is, some contorted semantics.

4.5 An assessment

The system as outlined so far, is generally characterised by the following:

- cash-based accounting policies for aggregates (although individual units are encouraged to adopt accrual methods for internal management purposes).
- an emphasis on inputs, rather than outputs, in that performance monitoring does not structure at least the public part of the process
- administrative rather than broad policy categorisations of activities throughout the estimate and appropriation process
- an emphasis on the control function and propriety/regularity criteria for formal evaluation
- the centrality of the Department of Finance in approving decisions, including when broad Oireachtas authorisation has already been given
- the primacy of the executive in initiating decisions, with essentially *ex-post* accountability to Dáil Éireann
- formal separation of expenditure and revenue decisions, through the Estimates for the Public Service and budget/Finance Bill processes, respectively.

Any assessment of the core budgetary system must be influenced by the fact of the fiscal crisis and consequent adjustment period which Ireland has experienced in relatively recent times. The system may not have compelled the running, of large deficits, but it clearly failed to offer effective constraints, once governments had set upon an unsustainable course of policy action—this was systemic failure on a large scale.

While much progress has since been made in stabilising the public finances, the overhang of a large stock of foreign currency denominated public debt still represents a significant source of risk. More generally, the possibility of future policy ‘mistakes’, despite recent experiences, is obviously not to be dismissed lightly.

Furthermore, sustainable fiscal policy is one important prerequisite for achieving the major goals of public policy, including the employment objectives consistently identified as the central focus of economic policy.

The budgetary process before and after stabilisation seems to have been expenditure-led, meaning there is a structural bias towards increasing public sector share. Recent successes in meeting borrowing targets have meant that this is now reflected in revenue decisions, often of an *ad hoc* nature, being taken to finance expenditure. The consequences of taxation changes for issues other than for revenue yield relative to the opening budgetary position, are not visible from

the formal process. This in turn can mean that the commitment to reform of this system, rhetorically embraced since the Reports of the Commission on Taxation¹⁰, continues to be a secondary consideration, given the incentives which the reporting requirements of the government set up.

Focusing on the expenditure side, the merits or demerits of policy programmes and of their management are not visible in the formal budgetary process, and the process provides few formal incentives for performance beyond negative controls on failure to meet the legality/administrative propriety criteria. This in part might be attributed to an aggregate accounting framework which does not properly reflect the wider and more complex objectives of public policy in a modern public sector.

In particular, a cash system of aggregate accounting for transactions, allied with few opportunities to spread expenditure allocations over time, may limit attention to the consequences of decisions for the current financial period only. When line departments do apply more rational evaluation criteria internally, this extra useful information does not help to structure the public process of evaluation, in an overall system that is cash-based. The accounting framework can also distort decisions at the aggregate level; a particular instance would be the practice of postponing *and then backdating* public sector pay awards, which is simply a rearrangement of cash-flow, rather than a policy decision. This practice has been further 'refined' by an instance in 1991 of the early payment of backdated postponed expenditure (IR.£70m of public pay)

In the context of a medium to long-term framework, three points need emphasis about the role of procedural reforms:

- A central role of structural and other EC funds is ultimately to help ensure that future such transfer payments are no longer as necessary to bridge the gap in living standards between regions, by raising the long-term productive capacity of the Irish economy.
- If macroeconomic policy generally in an open economy can be primarily understood as competitiveness policy, then a significant public sector has an important role to play in achieving policy goals. In particular its relationship with the private sector must be predicated on wider considerations than the exercise of legitimate authority e.g. to minimise competitive market distortions for a given level of intervention.
- The present period of relative calm in the public finances should be seen as an opportunity for a reform programme. An alternative is to assume that the lessons of the period of fiscal stress have been fully learned, within a broadly unchanged budgetary process. The risk is a failure to comprehend the pervasiveness of the pressures which led to the last crisis, and so a similarly difficult period of adjustment to the next.

¹⁰See O'Toole (1993) for a progress report on the implementation of the Commission on Taxation's proposals.

5 Reformed procedures in three other countries

This section gives a fairly stark presentation of some features of reform programmes in the UK, New Zealand and the USA, and draws some broad lessons for Ireland.

5.1 The UK: the Thatcher legacy and beyond

Reform experiences in the UK were, in the Thatcher era at least, ideologically charged attempts to restrain and eventually reduce public sector share and establish a presumption of non-intervention in the micro-economy. This followed failed attempts to introduce price indexes for distinct public sector activities, which were designed to allow for policy changes to be considered in real, volume terms. This approach to budgeting compounds the confusion of inputs with outputs, in the UK case contributing to pre-1979 budgetary (and monetary) loss of control, and was eventually replaced by the blunter instrument of cash limits on spending.

Early developments post-1979 saw a series of scrutinies of administrative budgets via the Rayner Efficiency Unit. This was essentially an initial *ad hoc* attempt, its stock-in-trade being ‘absurdities, anomalies and plain fossilised practices’¹¹ in specific units of the UK Civil Service, but it did have a considerable demonstration effect on the structure in general, and provided the background to the Financial Management Initiative charter of May 1982¹². This aimed at ensuring that departmental financial information systems became integral parts of the annual round of aggregate expenditure decisions. The major themes were:

- financial information systems to provide a structure for line managers below departmental level, rather than being used only for aggregate decisions
- identification of cost-centres and assignment of personal responsibility for such units to managers
- management accounting systems to be used for planning and control, as opposed to being ‘optional extras’
- performance indicators and identification of outputs

Aggregate plans for spending and revenue were to be framed under a rolling series of medium term financial strategies, and the intention was that the rationalist information generated at every level would inform the annual round of negotiations with the Treasury. This can be understood as an attempt to explicitly prioritise expenditure so that rational choices could be made by the cabinet. The assessments of the annual Public Expenditure Survey by Thain and Wright

¹¹Hennessy (1990, p.601).

¹²See Chapman (1989)

(1992a, 1992b) conclude that the outcome generated is a *politically* rational one determined by the usual processes of negotiation and manoeuvring, but is not one that meets the original intention of economically rational decision-making which took advantage of the wealth of information generated.

The limited degree to which autonomy had been delegated caused demands for more, in the 'Next Steps' programme. While the original 1987 draft proposed a radical delegation of authority to line managers, and a related change in the doctrine of 'corporation sole', by which ministers are theoretically accountable for every departmental decision taken in their names, the final draft diluted this radicalism¹³. Nevertheless, the initiative has resulted in the transfer of many civil service functions into autonomous agencies, the practice of contracting out and of establishing internal markets within public sector organisations as a substitute for private sector price signals. More recent changes include a move to a unified budget, ending the formal separation of revenue and expenditure decisions through distinct Public Expenditure Survey/Autumn Statement and Budget processes¹⁴.

The UK tax reform experience underlines the necessity of linking both sides of the budget in other senses. The Rooker-Wise amendment entrenches a statutory presumption of full indexation in tax bands in the budgetary process, in an attempt to prevent the 'taxation by stealth' which under-indexation represents. The relevance of this for Ireland could not be more acute¹⁵. Furthermore, Nigel Lawson has argued that the role of political commitments to future rate reductions, given broadly acceptable bands, is to provide a visible signal, and credible commitments, to controlling aggregate expenditure¹⁶.

5.2 New Zealand: root and branch reform

The New Zealand reform programme is probably best summarised as a theoretically guided series of practical initiatives¹⁷. The catalysts were the fiscal and exchange rate crises of 1984 following a period of regulatory responses to economic problems (price, wage controls etc.) and the election of a new government. Following a fundamental reform of the market sector by phasing out industrial and agricultural subsidies, attention turned to the contribution that could be made by the public sector to restoring competitiveness.

The main elements of the reform programme were:

- The separation of commercial from non-commercial government activities with corresponding performance criteria and financing terms.

¹³Hennessy (1990, p.601).

¹⁴See the 1993 issue of *Fiscal Studies* for articles by Dilnott and Robson, Dorrell, and Gammie.

¹⁵See Tansey (1991) and O'Toole (1993).

¹⁶See Lawson (1992).

¹⁷

- The delineation of distinguishable government roles and relationships with state organisations (including departments of state) and corresponding appropriations methods.
- The delegation of considerable management authority to constituent units which decide the appropriate mix of inputs in order to produce outputs desired by elected policy makers
- An accounting framework designed to reflect these roles and relationships, provide price signals and reflect the change in 'net worth' of the assets of individual units and of the government sector as a whole, i.e. from a cash-based to an accrual system.
- Performance monitoring structured by competitive relationships within and between governmental units, and between governmental units and the private sector.

A key organisational principle has been the identification of distinct government interests in public sector activities. (In the New Zealand case, 'the government' as an entity distinct from constituent departments and offices is conveniently referred to as 'the Crown'). Three fundamental roles structure the budgetary process:

- the government as purchaser of goods and services
- the government as an owner of assets
- the government as an intermediary between citizens i.e. as funder of transfer payments.

The government as purchaser of goods and services chooses between competing public and private sector providers (including providers of policy advice), specifying output i.e. policy requirements. The providers have autonomy in choosing an appropriate input mix (e.g. staff, buildings) to meet these requirements. Government as an owner of assets provides capital injections to departments and state-owned enterprises, imposes capital charges, requires explicit capital budgeting and seeks a return on capital invested. The information generated thereby is used to construct an aggregate balance sheet for the government sector, whereby a deficit is, as in principle should be the case, a decrease in net worth. Government as funder of transfer payments appropriates these payments separately to disbursing departments, so that administrative resources can be allocated and compared between providers. Performance criteria here relate mainly to the efficiency, timeliness, and accuracy of such payments by the provider.

Accountability throughout is ultimately made meaningful, given the autonomy of managers, by performance-related pay, promotion and renewal of employment.

In summary, these changes amount the most radical and the most structured reform of public financial procedures yet undertaken.

5.3 The USA: re-inventing government?

Developments in the USA in many respects mirror the themes in the two previous sections. A vital distinction, however, is that the American experience could not (until recently) be considered a reform programme in the sense of a set of centralised decisions pursued according to a timetable. Rather, there has been a myriad of responses at different levels of government, (from federal through state and city, down to county units), to challenges posed by increasingly complex functions demanded of the public sector—in general unmatched by revenues as easily available from taxpayers as before.

This range of initiatives has been seen by Osborne and Gaebler (1992) in particular as amounting to the re-inventing of government along more entrepreneurial and less bureaucratic lines than the legacy of the New Deal and the Great Society. ‘Re-inventing government’ has also recently become the rubric for a major policy initiative for the Federal Government of the Clinton administration, headed by Vice-President Gore¹⁸.

These initiatives have been presented with what amounts to evangelical fervour, which in part accounts for their success in reaching near the top of a crowded policy agenda for the incoming administration. The ten basic themes of re-invented government, as characterised by Osborne and Gaebler are:

- Catalytic government steering, rather than rowing
- Community owned government empowering rather than serving
- Competitive government injecting competition into service delivery
- Mission-driven government transforming rule-driven organisations
- Results-oriented government funding outcomes, not inputs
- Customer-driven government meeting the needs of the customer, not the bureaucracy
- Enterprising government: earning rather than spending
- Anticipatory government prevention rather than cure
- Decentralised government from hierarchy to participation and teamwork
- Market-oriented government leveraging change through the market

Despite the snappy language, the above list essentially relates to many of themes pursued in more restrained presentational terms in the UK, New Zealand, and other countries. Furthermore, the sheer range of policy initiatives and budgeting systems in the American public sector which have selected from this menu, makes it clear that the divided and federal government system has comprised

¹⁸See Gore (1993)

thousands of laboratories for governmental reform, with competing and overlapping units generating a *useful* diversity of approaches¹⁹ If it were possible to conceive of an American unitary government, it would probably have by now undergone more substantial systemic failure than the current framework has experienced.

Of course, the scale of the federal government, and a budgetary structure which is constrained by overwhelmingly non-discretionary spending commitments (e.g. social security entitlements, most defence spending) will make the Vice President's task a difficult one. In any case, the appropriate comparison for Ireland is with the renaissance in state and local governments.

5.4 Drawing some lessons

This paper does not purport to present an assessment of these initiatives, but a number of generalisations can be made:

- Ideological (or theoretically guided) reform programmes mean that formal systems-based analyses of policy can be redundant in the political process for some key decisions; ideology has 'solved' the problem, or at least prejudged it e.g. privatisation in the UK, the necessity of tax reform in New Zealand.

No such understanding of the appropriate role of the state characterises most of the Irish political scene (nor is it necessarily desirable that it should). This means that a reform programme needs to be able to handle basic issues, such as taxation reform and the role of industrial subsidies, approaches to which in the UK and New Zealand, preceded, rather than followed, systems of performance monitoring.

- 'Rationalist' management systems at line departmental level nevertheless do not remove substantive political choices from the agenda at cabinet level, and in particular do not mean that the overall problem of the sustainability of aggregate spending and revenue plans is resolved automatically (e.g. the continuing large PSBR in the UK).

Programming and cost-benefit analysis approaches have sometimes raised unrealistic expectations of the degree to which resource allocation decisions in the public sector can or will be determined by 'obviously correct' technical criteria. In so doing, they can become irrelevant to the actual process of decision making. The particular concerns in the Irish case are that useful ways of presenting information become part of the overall process, not optional extras for individual reforming units, and that the core budgetary process is sufficiently flexible to

¹⁹For a more academic assessment of US state government budget procedures up to the mid-1980s, see Abrams and Dougan (1986) and references cited there.

allow for the diversity of political preferences which characterise a democratic society.

A fear that structural changes to public sector budgeting (and indeed to the taxation system) might imply at least a temporary loss of control of budgetary aggregates might inform some resistance to them. To some extent, the multi-annual perspective allowed for by an accrual approach and associated capital budgeting could help to realistically weight transitional problems of this kind.

- A mania for co-ordination and the elimination of overlapping policy functions can mean that valuable experimentation arising from a variety of institutions is not available.

This follows from the outline of the American experience of ‘re-inventing’ government. Institutional debates in Ireland tend to concentrate on rather disruptive allocations and re-allocations of responsibilities between governmental units, in attempts to eliminate perceived pure waste arising from ‘duplication of functions’. Clearly, absurdities can arise if separate units are covering essentially the same policy programmes. Nevertheless, if some less distinct units are competing in a meaningful sense for available funds, extra and useful performance monitoring information becomes available to budget decision-makers. These remarks would apply to different levels of Irish government (central, regional, local) and to different units at central level (the many functions re-allocated between departments by the present government, for example).

- An assessment of reform programmes has to be long-term.

It is in the nature of structural change in the efficiency of the market sector (resulting from improved public sector performance) that it will involve transitional losses and gains, but can constitute a permanent increase in competitiveness if reforms are credibly implemented i.e. if they are perceived as permanent. As assessment of reforms should reflect this—it is not enough to point to aggregate economic difficulties following reform programmes in particular countries, infer a causal link and make a final judgement. Such an approach is a snap-shot of an intrinsically dynamic process, and fails to consider the appropriate counterfactual question i.e. ‘what would have happened had no such reforms been implemented?’

6 Reform Proposals

The reform proposals which follow are structured by the previous sections and best understood against that background. Most of the proposal here would involve changes in legislation/Oireachtas procedures and/or policy practices. A short section consider issues which might arise in a future review of the Constitution of Ireland.

6.1 Legality/administrative propriety of state financial decisions

- legislation to be reviewed/introduced to more clearly define and further provide for powers of administrative tribunals of inquiry related to questions of public finance, defining evidentiary authority, relationships with government, courts and Oireachtas, reporting restrictions, fair procedures and financing of same.

A broad concern with the efficiency and effectiveness aspects of policy cannot be allowed to obscure the fundamental requirement that the state exercises legitimate authority in its relationships with citizens. While procedures for administrative control and financial regularity audits are important parts of the present system, through the Comptroller and Auditor General and the Committee of Public Accounts, recent resorts to tribunals, internal inquiries and inspectors indicate a need for a review of mechanisms to investigate allegations of impropriety. Past investigations have raised important procedural questions in attempting to vindicate the constitutional rights of citizens who may be the subject of such inquiries. Furthermore, basic issues as to the evidentiary powers and scope of such investigations have been raised in the courts and the Oireachtas in the course of their work. While no overall structure can be so perfect as to anticipate every such issue which may arise, it is clearly important that such investigations have a solid legal authority, clearly defined functions and are funded on a basis which allows them to discharge those functions in an independent, efficient and effective manner.

6.2 Management/efficiency issues

- The Comptroller and Auditor General, to be given statutory authority for a system of public sector quality awards/standards for procedures to monitor performance.

The Report of the Comptroller and Auditor general is central to the system of assessing the administrative regularity of government transactions. Public and political attention may be unduly focused on negative comments made therein about individual units, and/or policy programmes. This may contribute to poor system of incentives in public sector organisations, whereby mistakes are penalised heavily so that potentially important innovations may not be advanced at the risk of such policy failures. To counterbalance such a bias, the positive elements in the system of monitoring managerial efficiency should be formalised.

The precise form of an awards/quality standards system is clearly a matter for detailed discussions, but in general, such a system should relate to absolute standards, rather than leading to invidious comparisons between radically different functions. Such an approach would imply that all public sector units should eventually meet such standards. Furthermore, such a system should

provide the focus for evaluations of management systems and those for monitoring effectiveness. Resulting awards of ‘public sector quality marks’ would provide for good evidence and send appropriate signals in the annual estimates and appropriations process, in addition to providing more public benchmarking. Such a system does not necessarily involve the broader policy questions of limiting tenure, performance contracts and/or performance related pay, but would provide for improved incentives consistent with present policy on such matters.

- Consolidated and rationalising legislation to be introduced to define relationships between semi-state bodies, the government, sponsoring departments, and the Oireachtas.

A particular concern here is to formalise general principles for the degree to which the state guarantees the borrowings of semi-states. Such provisions are made in the relevant legislation in each case, but consolidated legislation would provide a focus for undertaking a review of this general category.

- The Department of Finance to be responsible for conducting ‘rent-seeking’ audits of policy programmes and / or for requiring them to be conducted.

This proposal reflects a concern that an accumulation of expenditure programmes and/or taxation provisions may provide for undue diversion of resources into ‘directly unproductive activities’ i.e. ‘rent-seeking’, as outlined earlier. Policy programmes particularly open to lobbying, litigation or artificial arrangement of economic resources, constitute a subtle form of policy failure. Audits for this aspect of effectiveness need to become a formal, then an automatic, part of the process of policy evaluation.

6.3 The budgetary process

The following proposals are framed to build on some of the improvements to the budgetary process so far undertaken, as outlined earlier. In particular, while the presentation of *ex post* decisions along meaningful policy lines has increased, the degree to which this influences the decision-making process needs to be strengthened.

- The annual estimates and appropriations process to be structured on the basis of policy programmes, crossing departmental lines where necessary, rather than on the basis of administrative units. Where expenditure is appropriately approved by continuing legislation, such ‘estimates’ to be included as timely notification/ information.

This proposal may cause difficulties because it may be taken to offend against the doctrine of ministerial accountability for specific administrative units/departments,

and because many resources are appropriately made under the aegis of continuing legislation, rather than specific votes. It might be possible to overcome such problems if some parts of each estimate have the status of a ‘timely notification’ to the Oireachtas of expenditure/revenue allocations, rather than providing the formal statutory authorisation for such decisions.

- Policy programmes to define categories (including those which cross departmental lines) between which expenditure may be reallocated in the course of a financial year, and those categories within which expenditures savings may be retained, to specified extents from one year to the next. Similar provisions to be made for policy programme revenues. In such cases, ‘timely notification’ would replace the requirement of Department of Finance/Oireachtas authorisation.

This would represent a considerable extension of the principles of delegated budgeting beyond the administrative sub-heads of expenditure. Problems arise in that individually autonomous departments may combine to generate an unsustainable aggregate expenditure total, so that overall budgetary goals are compromised. On the other hand, such autonomy has to be credibly given if it is to be effective—government must be able to commit itself not to arbitrarily ‘raid’ individual budgets for short-term purposes.

- Aggregate financial statements to be presented in a stock-flow consistent manner and such that they allow for straightforward translations between different levels of aggregation and different grossing/netting conventions. Revised formats to be applied to previous financial outturns as far back as practicable in order to facilitate comparison.

These proposals represent prerequisites for the coherent overall management of the budget. While many useful presentations of the budget are contained in published documents (e.g. national accounts, White Paper, Public Capital Programme) it is important that a broadly consistent set of formats is used to structure the decision making process throughout, rather than merely reporting on its results.

- The opening budgetary position on the revenue side to be calculated on the basis of indexed standard tax allowances and/ or on the basis of allowances and rates specified in a previous financial period by agreement with the Oireachtas Committee on Economic and Financial Affairs.

The aim here is to remove the bias in the system toward under-indexation of certain tax bands, and present a benchmark for policy changes against which budget proposals can be more appropriately judged. Without unduly complicating this presentation, it would be possible for government to agree to certain broad rate structures (with the status of long-term objectives) for which the

opening revenue position could be estimated. In this way the presumption is shifted away from retaining the present structure towards judging policy changes against a more desirable benchmark. This implicitly takes account of some of the efficiency consequences of tax proposals, above and beyond revenue yields.

6.4 Reporting requirements, accounting principles and a financial management agency

This set of proposals relates to the way in which reporting requirements and accounting principles can contribute to more effective policy. It is important that mechanisms are provided to oversee the implementation of desirable reforms.

- An office of the Department of Finance (e.g. Financial Management Agency) to be assigned responsibilities relating to the principles of state accounting, reporting requirements, performance monitoring systems and other procedural issues relating to policy effectiveness. Such an agency to be without any responsibilities for processing specific policy proposals which relate to individual expenditure projects and/ or revenue raising.

This proposal is conditioned by a view that the centrality of the Department of Finance to public financial needs to be retained. However, it is also the case that procedural reforms must not be seen as a way to pre-empt the results of policy evaluations in any given financial year. This motivates the notion of an office or agency within the Department of Finance with responsibility for procedural issues alone, above and beyond the specific decisions of a particular budgetary cycle. This is intended to be the mechanism through which the following proposals could be considered:

- This agency to oversee the implementation of an accrual system for all line departments policy programmes.

The cash-based system has the virtue of simplicity and will clearly continue to form the basis for regularity audits. The accrual system represents a more meaningful allocation of expenditure and revenue over time, is a prerequisite for meaningful capital budgeting and can contribute to preventing 'expenditure surges' by providing a conceptual framework within which some expenditure savings may be allowed to be retained within departments/policy programmes. While such systems are encouraged for purposes of internal financial management within units, if this system is not the basis for aggregate spending decisions, then the process fails to adequately weight improved performance resulting from such internal procedures.

- Departmental/policy programme capital budgets to be implemented as the transition to an accrual basis proceeds.

This of course raises many practical problems of valuation, given the non-marketable nature of many government assets and output. The central point is that the absolute level of ‘net worth’ in a public sector context may be less important than changes in such an indicator. The aim is to properly allocate cost and revenue flows over time e.g. by explicitly depreciating buildings in budget provisions, so that maintenance/repair charges do not arise in large bunches, meaning indefinite postponement. This system would also contribute to the management of the vast cash flows which characterise some parts of the public sector, through explicit capital charges for central funds.

- Oireachtas Committees to proceed by agreement with such an agency, in consultation with line departments/semi-states to require publication of specific performance indicators for policy programmes during the estimate and appropriation process. In the initial stages, line departments and semi-states to be permitted to submit information selected without consultation, but ultimately all reporting requirements to be complied with.

The procedure ‘by agreement’ here is intended to establish the principle that in performance monitoring ‘no-one is a judge in their own case’. Furthermore, if it is the case that such agreements are procedures which will apply beyond the life of one Oireachtas, they ensure that performance indicators requested by opposition politicians will be advanced on the understanding that their own performance in a future government will be similarly assessed.

No one set of quantitative measures will adequately represent the activities of many complex policy programmes. The point here is that such indicators can be revised, amended, or dropped as the evaluation of programmes contributes, by trial and error, to the clarification of policy objectives.

- Committee on Economic and Financial Affairs to proceed by agreement with such an agency to require publication of performance indicators for taxation, social welfare systems.

Given broad consensus on the parameters of tax reform, and the uneven progress in implementing such reform, it seems appropriate to require the government to formally report on these matters at budget time. It is surely significant that the extent of the ‘poverty trap’ due to the interaction of the taxation and social welfare systems made a public impact following a parliamentary question: such a performance indicator should have been intrinsic to the tax policy process. Standard indicators of the non-neutrality of the tax system more generally could be readily constructed e.g. the degree of fiscal privilege accorded to various savings media. This is a simple mechanism for evaluating the degree of commitment to reform in these important areas.

- Oireachtas Committees to proceed by agreement with such an agency and in consultation with line departments to require publication of capital

project appraisals in a standard format, before and after expenditure is committed. It may well be inappropriate to present a comprehensive account of the factors influencing, capital decisions and/or to present such evaluations of their consequences. Nevertheless, certain basic listings of estimated streams of costs and benefits and financing requirement could be specified in a standard format to provide the basis for informed parliamentary and public discussion. Again, the procedure ‘by agreement’ is an important element of this.

Finally, in this section:

- In the course of a consolidation and review of public financial legislation and regulations, archaic and obscure terms to be replaced e.g. ‘re-allocation of expenditure’ for ‘virement’, ‘Revenue arising’/‘resources’ for ‘Appropriations-in-Aid’, ‘Central Fund’/‘Account of the Government’ for ‘Exchequer’ etc.

6.5 A short constitutional agenda

Constitutional debates in this country rarely extend to considering the financial framework of the state. Constitutional reform for public financial procedures would best be effected in the context of a wider review, as it would most likely involve amending a large number of articles, which at present is possible only by separate referendum proposals.

- A future review of the Constitution should consider new provisions for public financial procedures.
- Provisions whereby legislation relating to broad principles of fiscal policy may be enacted and subsequently repealed or amended by a majority greater than 50% + 1 of Dáil membership (e.g. a two-thirds majority).

Such legislation might be enabled for a ‘fiscal constitution’ covering permitted and excluded tax bases, schedule structures, numbers, ranges and / or maximum/minimum rates, amnesties, principles of government accounts, reporting requirements for policy programmes, and borrowing limits. Such legislation would commit future legislatures, consistent with all other provisions of the Constitution. These provisions could not be held to compel expenditure for particular purposes, beyond their own implementation, nor revenue raising from particular sources. Neither could they be held to limit either expenditure or revenue to specific levels, e.g. as a % of GNP.

- Provisions in the Constitution to more fully reflect Ireland’s relationships with other member states of the European Community.

These provisions would not be taken to imply that the state's legal personality derives from, nor that its legitimacy depends on, membership of the EC. They would however, entrench in an explicit way the principles of Community Law relating to competition and the role of the state, in a manner more appropriate than the present references to named treaties and provisions for their immunity from constitutional challenge.

- Provisions to give explicit constitutional status to the modern public sector, and broadly define its relationship with the political system.

The 1937 Constitution fails to reflect the reality of a significant role for the modern public sector in a democratic society. Provisions for recognising this role would serve the practical purpose of defining at the constitutional level the broad nature of, and limits to, that role.

7 Implementing reform

Whatever about the merits or demerits of the above specific proposals, a reform programme must include some realistic assessment of the appropriate timing or 'sequencing' of proposals, and of the appropriate mechanisms through which they might be effected. This section offers some comments on these issues, and is particularly informed by the at best limited success of wider Irish reform programmes²⁰ in the past.

7.1 Sequence of reform

The modest nature of the proposals contained here for Ireland, relative to reforms already undertaken in some other countries, is conditioned by a desire to sequence the reforms so that relevant information and a coherent overall framework are established first. Given such a framework, basic policy issues such as overall budgetary control and the continuing reform of the tax system, can continue to be prioritised.

The ultimate questions of whether there is sufficient delegated autonomy and appropriate performance monitoring for line departments, offices within them and semi-states, then arise within the new framework. In particular, setting out a new accounting framework first means that those units which currently do meet accountability and performance criteria become more visible within the process. J.J. Lee has given a broad characterisation of the Irish public sector as one which displays an enormous range of performance, from the truly outstanding, to the disastrous. The argument here is that a cash-based system, at least formally, weights both ends of the spectrum equally.

²⁰See for example Dunne's (1989) assessment of public sector reform in the 1982-87 period.

It may be the case that new systems in the initial stages generate information which could be used for resource allocation decisions at managerial level if only managers had the autonomy to take them. While this is obviously not ideal, it will at least provide impetus and evidence for future attempts to tackle such basic structural issues.

Furthermore, the diversity of public policy functions in a large public sector in a small state argues the need for allowing departments and policy programmes to agree performance monitoring criteria and systems over time, as part of the 'trial and error' process of policy formulation and implementation. A rigidly imposed set of such measures will only compound problems of perverse incentives.

It is also the case that an attempt to put in place such reporting requirements in one or two years might lead to an avalanche of unstructured information from individual units. A key set of decisions at the outset therefore concerns the selection of those major components of spending and revenue which will initially receive detailed public scrutiny within the revised budget framework covering all of them.

7.2 Mechanisms of reform

An emphasis throughout has been on agreement, especially between a Department of Finance office and Oireachtas Committees, in consultation with line departments, semi-states etc.

If this means reform proceeds more slowly than would be ideal, it also might mean that reform is more permanent than would otherwise be the case.

The need for a monitoring agency or office is clear; many departments currently present reports and information which could provide the basis for performance assessments. If the form and substance of this information, is (within statutory limits) essentially selected by the units concerned, then it may be the case that units are being 'judges in their own cases'. This argues the need for an office which is not involved in specific policy decisions, but is entirely concerned with procedure.

Finally, any reform programme must make an explicit provision for its own review and evaluation.

8 Conclusion: unfinished business

An agenda of substantive policy issues and detailed procedural questions remain after a preliminary attempt such as this to identify possible reforms in Irish public financial procedures. These would include:

- How can capital budgeting be implemented for functions where market valuation is simply not available or appropriate?
- Which policy programme areas should structure the process?
- How can useful performance indicators and mechanisms be selected and amended?
- How might such procedures work in specific policy areas?
- How should lines of responsibility be redrawn between government and its departments and employees?
- What implications does effectiveness assessment have for the process of determining public sector pay and conditions?

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