

Remarks on Interim Report on the framework for parliamentary engagement throughout the course of the budgetary cycle

Stephen Kinsella¹

Introduction

I thank the Committee and its Chair for the opportunity to appear before you. The [Interim Report](#) represents a major step forward in the parliamentary oversight of our budget cycle. The purpose of this report is to highlight a number of particular areas that the Committee sees as having scope for potential improvement, and it does that well.

The Interim Report reads well and has a 'design' element to it I find appealing. The opportunity to design appropriate governance and oversight into the Oireachtas is a rare one, and I am glad the Committee is taking a lead on this.

I endorse the Committee's commitment to performance budgeting (p. 14) as international best practice in budgeting. The data-gathering challenge this represents is more than achievable in the next 4-5 years.

I would respectfully add some comments and areas for potential improvement below.

There are, as I see it, still three issues with the report that deserve some comment and perhaps expansion. I suggest a potential action for the Committee arising from each.

1. Placing the annual budget in its longer term strategic context

In addition to its focus on an expanded version of the annual budget cycle, The Committee should have regard to:

1. Ireland's medium term fiscal and budgetary frameworks, which have not been updated in some time;
2. Ireland's public investment management system(s), which is/are in the process of reorganisation and;

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3. Ireland's overall budgetary strategy and fiscal responsibility framework, which is (of course) a matter of EU law.

Ireland's fiscal space, the costings around demographic and price-level related increases, can all be understood better if 1-3 are understood as well. Placing the economy in its longer-term setting is vital to see the trends that are evolving.

In terms of data feeds and information flows, the Committee should have its own data-gathering and analysis capabilities, backed up by the PBO. The data flows described in section 4.3 are too restrictive. I would increase the list to include capital investment and costings for future flows of contingent liabilities (pensions, etc), and most importantly, data on accruals.

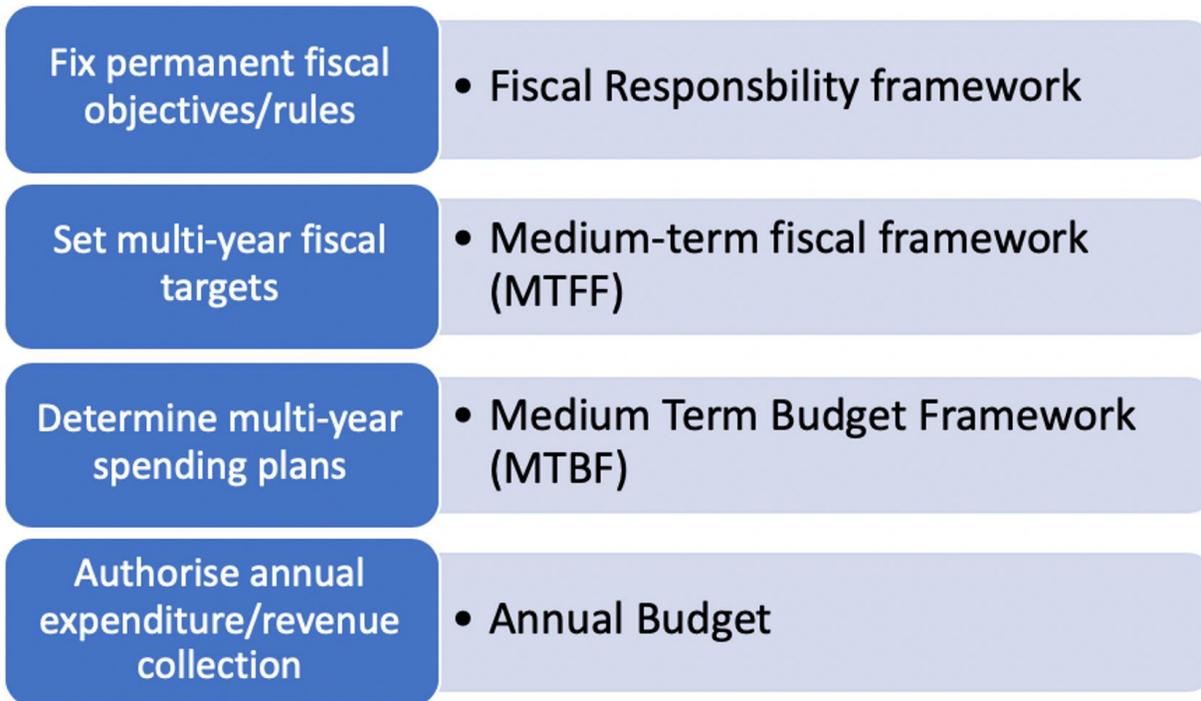
As an example, I would like to focus for a moment on the medium term budgetary framework. Ireland has had a medium term expenditure (not budgetary) framework [since 2013](#). A well-designed medium term budgetary framework can alert government to adverse developments related to ongoing policies, allowing it to initiate adjustment well in advance. One component of this could be the dashboard/modeling exercise described above, but there are other potential benefits.

For example, medium-term projections can expose how an indexation mechanism for public sector wages, pensions, or unemployment benefits that might appear affordable today is actually potentially unsustainable over the medium to long term. It can also highlight the impact of potential policy choices on the medium term financial outlook of the State.

A medium-term outlook in budgeting gives the government an instrument for ensuring that policies are implemented *at the right time*, for example, capital projects.

A medium-term budget framework allows the government to announce policy changes now *that will be implemented later*. This helps set expectations for households and firms.

Good examples include [Australia](#), [the UK](#), and [New Zealand](#).



Potential action: Production of a dashboard, updated quarterly or as is practicable, maintained by the PBO, showing the data the Committee ask for in replicable format, placed within the context of 1-3 above, for 3-5 years.

A major element should be the provision of a 'handsfree' forecast of revenue and expenditure absent policy changes on the dashboard.

Potential Action. Consistent with its mandate, The Committee should also have a role in publicising and explaining the financial documents of every state to citizens. These are:

1. Statement of Financial Performance (Income statement)

Revenue

(Expenses)

Operating Balance

2. Statement of Financial Position (Balance sheet)

Assets

(Liabilities)

Fund Balance

3. Statement of Cash Flows

Net Cash Flows from Operations

Net Cash Flows from Investing Activities

Net Movement of Cash

Opening Cash Balance

Closing Cash Balance

4. Statement of Activities

Government activities

Business-type activities

Total government activities

The public understanding of Ireland's budgetary frameworks is limited. The reality of the tradeoffs inherent in all policy decisions is similarly limited, and these documents, presented and explained appropriately, could go a long way to helping citizens understand the finances of the country. This is a different role to the Irish Fiscal Advisory Council, and is more in keeping with the role Budget Committees play in other countries, particularly in times of plenty.

2. Consistent with its mandate, alter the scope of the Committee to include 18-24 months of budget 'time'

The committee should take at least an 18-to 24 month window to its work. Inputs to this process should include scrutinising data from the C&AG, PAC and DPER on the effectiveness of public spending of the previous budgets' allocations in order to help inform its work.

To be truly effective and give budgetary oversight in line with its terms of references, specifically its role on expenditure management, 219(i)(b), it is not sufficient to work on a 12 month cycle or to one individual budget's timeline. A workflow, taking data and insights from the PAC, and C&AG would help in refining the work of the committee further.

For example, if the education vote for the previous year contained a serious capital or current overspend, that then bled into the coming year, increasing the base of spending for that department over the medium term, the Committee should have a view on this over spend and its roots, particularly with respect to governance and effectiveness of public sector spending ceilings. Line Ministers and Secretaries General should be called to account for the previous over or under spending of their departments on a programme-level as the budget itself is being formed. This scrutiny allows a fuller discussion of the options available to the Minister and the various funding choices that might be open to them in the coming budget year.

It might also help instantiate the [Swedish tradition](#) that 'each Minister is their own Finance Minister', in that justifying an allocation or a spending choice is easier when one has actually allocated that budget within an individual minister's department.

Evidence on effectiveness of public spending from previous budget(s)



Discussion of options for the forthcoming budget



Contextualised by the medium term budgetary and fiscal frameworks

Potential action: production of a statement of structured shared dialogue between the secretariats of the PAC and Budgetary Committees to enhance the dialogue between them on effectiveness of public spending.

3. Creating more oversight and management of public investment

The Committee's report currently does not have a view on public investment management systems, or on the development of same. The management of public expenditure over the medium term is vital for the sustainability of the public finances. The charts below show what has happened to public investment across a range of categories since 2005, first in millions of euros, and then indexed to 2005. The clear shocks to housing and to health spending are evident. Capital spending is a vital part of our budgetary process, and a public investment management system of oversight across all departments is vital, particularly as the State spends more on capital related to health, housing, and education over the coming years.

Potential Action. A revision to the report should make provision for the inclusion of a specific oversight track for public investments of all kinds.

What the State Spent on Capital, and Where

€m

Year	Roads	Housing	Schools	Public Transport	Health	Water Services	3rd Level	Health ICT
2005	1,264	1,145	523	421	462	418	91	49
2006	1,583	1,254	514	354	421	465	120	22
2007	1,713	1,372	678	641	529	497	147	24
2008	2,069	1,522	674	890	549	496	155	19
2009	1,769	1,168	567	674	412	512	200	15
2010	1,414	845	569	614	346	495	169	9
2011	1,017	503	510	377	315	429	77	16
2012	886	397	398	254	316	308	55	22
2013	594	295	413	265	293	275	69	39
2014	638	300	517	395	326	30	79	40
2015	612	348	572	339	320	20	53	53
2016	704	464	604	355	351	18	69	52
2017	680	760	603	367	382	19	63	55
2018	815	1,185	633	405	435	532	71	60
2019	957	1,136	790	479	564	685	138	85

Table: Stephen Kinsella • Source: Department of Public Expenditure and Reform • Created with Datawrapper

Evolution of Public Investment/Capital Spending

2005 = 100

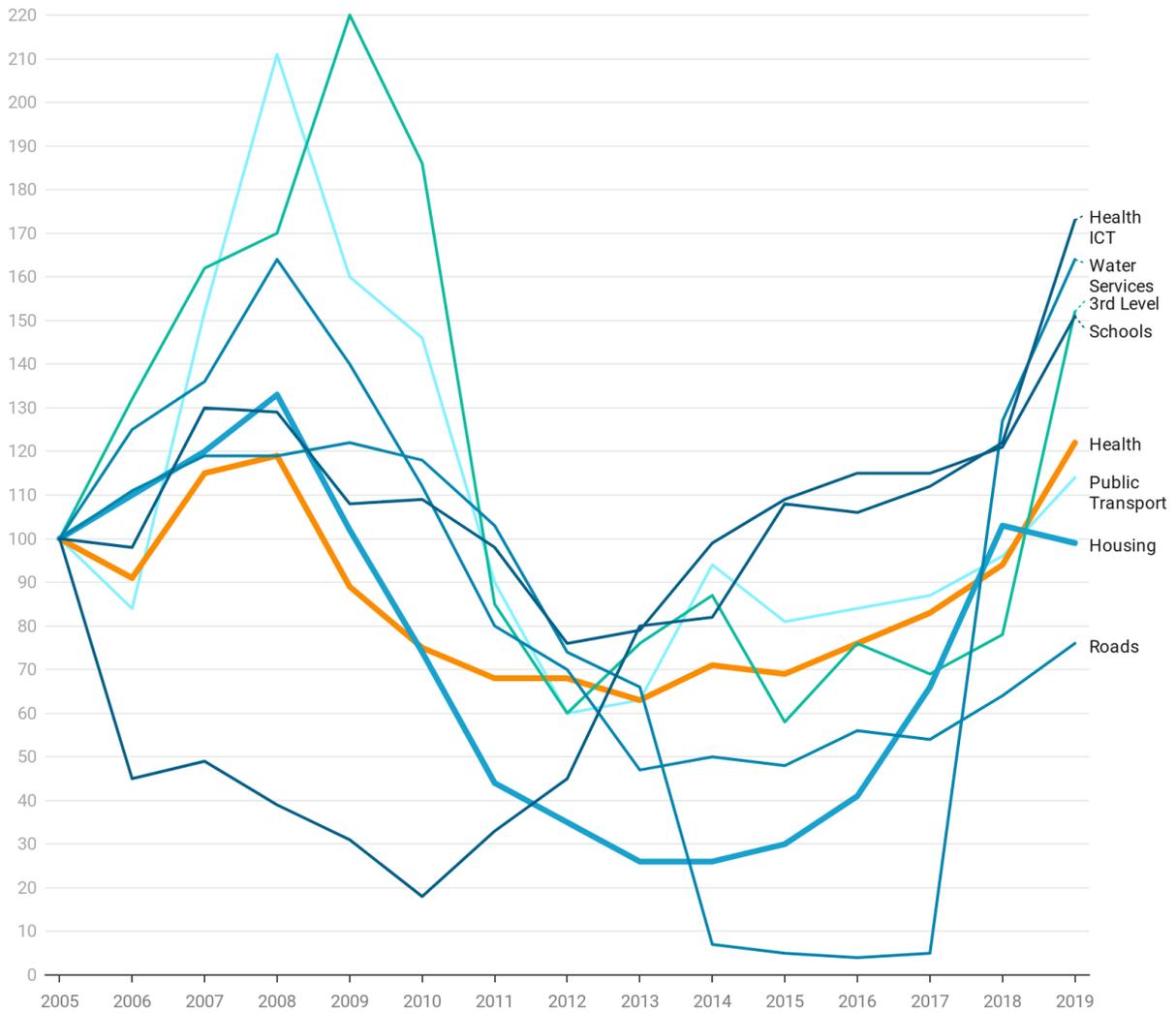


Chart: Stephen Kinsella • Source: Department of Public Expenditure • Created with Datawrapper

I thank the Committee for their time and attention.