



An Roinn Airgeadais
Department of Finance

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Circular 10/06

Minute of the Minister for Finance in response to the Second Report for 2005 of the Committee of Public Accounts on Proposals for Alterations in the way that Estimates for Expenditure are considered by Dáil Éireann.

A Chara

I am directed by the Minister for Finance to enclose for your information and guidance a copy of the Minute of the Minister for Finance in response to the Second Report for 2005 of the Committee of Public Accounts on Proposals for Alterations in the way that Estimates for Expenditure are considered by Dáil Éireann.

Please note that the PAC commented on matters addressed in section 5 of the Minute in a letter, dated 3 April 2006. The PAC's comments and the Minister's subsequent response are set out in an appendix to this Circular.

Mise le Meas

Tom Considine
Secretary General

To: All Accounting Officers

Appendix to Circular 10/06: Comments by the Committee of Public Accounts in relation to section five of the Minute of the Minister for Finance in response to the Second Report for 2005 of the Committee of Public Accounts on Proposals for Alterations in the way that Estimates for Expenditure are considered by Dáil Éireann.

Comment in original Report of the Committee of Public Accounts (Extract)

“Section 5: Under present arrangements there is no accountability to the Committee for the spending [by local authorities of central Government funded] moneys because the Comptroller and Auditor General is precluded by law from access to local authorities. The Committee recommends that the governing legislation be amended to permit such access and subsequent reporting in order to facilitate scrutiny by the Committee of this important element of Government spending. Any such amendment should provide for value for money aspects to be covered as well as compliance and regularity issues.”

Apart from addressing the immediate public accountability concern in this regard, the Committee recommends that consideration be given to amalgamating the Local Government Audit Service with the Comptroller and Auditor General’s Office with a view to having a unitary national audit authority examining the spending of all public moneys. Such a move would bring Ireland into line with similar developments in recent years in Scotland, Northern Ireland and Wales, and with the long-standing practice in New Zealand.”

Further comment by the Committee in letter of 3 April 2006 (Extract)

“The Committee ‘noted’ the response of the Minister but expressed its strong disagreement with the content of the response.”

Response of Minister for Finance

This is a policy matter for which responsibility rest with my colleague, the Minister for the Environment, Heritage and Local Government. I have further consulted that Minister in the light of the issues raised by the Committee’s letter of 3 April 2006 and he has confirmed that the policy position in the matter, as set out in my original Minute to the Committee, remains unchanged.

**MINUTE OF THE MINISTER FOR FINANCE IN RESPONSE TO THE SECOND REPORT
2005 OF THE PUBLIC ACCOUNTS COMMITTEE, ON PROPOSALS FOR ALTERATIONS IN
THE WAY THAT ESTIMATES FOR EXPENDITURE ARE CONSIDERED BY DÁIL ÉIREANN**

The Minister for Finance makes the following response to the recommendations (pages 13 to 15) in the Committee's Report on Proposals for Alterations in the Way that Estimates for Expenditure are considered by Dáil Éireann.

With regard to the legal issues raised in Appendix 1 to the Committee's Report, the Minister is satisfied, having received advice from the Attorney General, that the current arrangements for Oireachtas scrutiny and approval of taxation and expenditure proposals comply with the Constitution and that no change in them is required on legal grounds.

CENTRAL GOVERNMENT

1. Level of service data in the Estimates

- **The PAC agreed that the Estimates volumes and Budget Day documentation should contain information on existing levels of service (ELS) and the full cost of ELS**

The Minister would point out that expenditure aggregates published on Budget Day already contain existing level of service projections under each Ministerial Group heading for all current expenditures for the Budget year itself and the following two years. In addition, five-year multi-annual capital envelopes are presented.

Currently, Tables 4 and 4A of the Budget booklet set out by Vote post-Budget gross current provisions for the year ahead and ELS current expenditure projections by Ministerial Group for the following two years respectively. Annex D sets out by Ministerial Group the rolling multi-annual capital envelopes for the five years ahead. These presentations include adequate information at an aggregated level on existing levels of service costs.

The concept of ELS is relevant to current expenditure and the information presented in, say, the 2006 Budget for ELS costings for 2007 and 2008, can in due course be contrasted with the actual 2007 estimates being brought forward. The ELS concept is not particularly relevant to capital investment as the vast bulk of that is not demand-driven. Capital investment levels are determined annually on a rolling five-year programme basis, with the allocations being published each year in the Budget.

As outlined in his recent Budget speech, the Minister has decided to develop the annual Economic Review and Outlook document. Up to now this simply reviewed the economic and budget performance for the current year against the Budget parameters for that year. In future the document, which will be published in advance of the Budget for the following year, will review and present a pre-Budget analysis of the economic and budgetary prospects for the current year and the following two years: as regards government expenditures this analysis will be based on an update on

the overall existing level of services projections published with the previous year's budget. This will be an important development in enhancing the information available to the Oireachtas.

- **The Strategy Statements of Departments and State Agencies should include details of output by those organisations in order that activities and outputs can be linked directly to the costs involved.**

The Government's proposals for reform of the Estimates and Budget announced in Budget 2006 provide for an Annual Output-Based Statement to be published alongside a Department's Annual Estimate from 2007 onwards.

It is intended that this statement will allow the Oireachtas and the public to assess what is being targeted for delivery through public expenditure from 2007 onwards. From 2008 onwards, Departments will be reporting on what was delivered in the previous year versus the planned output for that year, and setting out a target for delivery in the current year. This will represent an important development and will tackle the information deficit in this area.

2. Timing of the whole budget cycle and Budget Day

- **The Committee is of the view that the Estimates formation cycle, the ‘campaign’ including the bilateral negotiations between line Departments and the Department of Finance, should commence much earlier, in perhaps January, and end by the summer.**

The proposals announced in the Minister’s 2006 Budget to present a revised Economic Review and Outlook document in the autumn will give an updated pre-Budget view of the fiscal outlook. This will significantly improve information available to the Oireachtas in the context of the next Estimates and Budget.

The Minister does not favour an autumn presentation of the Budget. The current timing, in the first week of December, allows the Government to get the benefit of the most up-to-date assessment of the taxation and other budgetary trends emerging in the year to date. The Minister is not prepared to undertake to bring a Budget in on a basis that would not have the most up-to-date information on the base year.

As regards a unified Budget, the Minister has already announced that he is prepared to consider this. When the Government’s proposals in relation to the revised Economic Review and Outlook and the annual outputs-focussed statement to accompany the Estimates in 2007 have bedded down, these will lay the groundwork for a more unified Budget approach in the future.

3. Effective scrutiny of Estimates by Dáil Committees

(i) The role of the current Select Committee on Finance and the Public Service should be enhanced in order that it would scrutinise the Estimates of all Government Departments;

While it is for the Oireachtas to decide these matters, currently it is the Select Committee that deals with a Department's portfolio which has this role.

Under the Government's proposals to significantly revamp the presentations to the Oireachtas from 2007 so as to ensure a more meaningful presentation of the annual estimates and associated output information, the individual Select Committees would first examine these elements. Following those individual examinations, the Government is proposing that the Finance and Public Service Committee would coordinate the preparation of a report to the Dáil on the deliberations.

(ii) The 11 researchers referred to in the Annual Report of the Oireachtas Commission should be appointed on the basis of having various specialist skills so that as a group, their specialist knowledge would enable them to analyse Estimates across all Government Departments but that they would be assigned to the Select Committee on Finance and the Public Service Committee in order that it could carry out proper analysis of the Estimates of all Government Departments;

(iii) One of the 11 researchers / specialists would lead this expert team. That leader's functions would be established on a statutory or even constitutional basis in order to ensure that the analysis undertaken by the group would be independent;

(iv) The specialist group would also, at the direction of its leader, be available to other Oireachtas Committees and individual Members to carry out specialist analysis of proposals pertaining to any other committee. These activities would be likely to occur at a time of year when the Select Committee on Finance and the Public Service is not scrutinising Departmental Estimates.

The appointment of researchers is a matter for the Oireachtas Commission itself, within the framework for the determination of the sums to be provided by the Minister for Finance from the Central Fund on foot of the relevant statutory provisions. However, the Minister has no proposals to introduce legislation along the lines suggested.

As regards the general thrust of the Committee's recommendations in this section, the Minister would point out that it is the duty of Government to develop policies, programmes and projects and in the circumstances to prepare the necessary ex-ante costings and analysis.

4. Financial Accounts

- **The format in which financial information is presented through the annual accounts cycle should conform to best practice and take cognizance of EU and international developments in the setting of standards for financial reporting. The information should be easily accessible and be capable of providing a meaningful basis for review by being presented in a clear and unambiguous manner. While the Committee accepts that a full commercial style accruals based approach may not be the most appropriate for Government Departments and Offices, it does regard the production of a balance sheet as an essential tool for those charged with oversight.**

The Appropriation Accounts of Departments and Offices are prepared in accordance with accounting rules and procedures laid down by the Minister for Finance. The accounts are audited by the Comptroller and Auditor General. The accounting policies and principles applying to them are set out in the Statement of Accounting Policies and Principles in the Appropriation Accounts Volumes published by the Comptroller and Auditor General each year.

The Appropriation Accounts are structured so as to be easily read and understood. They follow closely the format of the Estimates approved by the Dáil and are broken down into individual subheads showing the amount granted and the expenditure outturn for the year. A bottom-line figure shows the surplus to be surrendered to the Exchequer. Notes to the Accounts include explanations for the causes of any significant variations between the estimate provision and the expenditure outturn.

In addition, the Annual Output-Based Statement which the Government proposes will be published alongside a Department's Annual Estimate from 2007 onwards will allow the Oireachtas and the public to assess what is being targeted for delivery through public expenditure from 2007 onwards. From 2008 onwards, Departments will also be reporting on what was delivered in the previous year versus the planned output for that year, as well as setting out a target for delivery in the current year. These statements will be presented to the relevant Committees for their consideration.

These reforms may have implications for the format of the Appropriation Accounts and this matter will be considered in due course.

The Minister notes the view of the Committee that a full commercial-style accruals-based approach may not be the most appropriate for Government Departments and Offices. The Appropriation Accounts already contain some accruals information. As regards a balance sheet, a statement of certain assets and liabilities is included with the Appropriation Accounts each year; the Accounts also include an operating cost statement and a statement of capital assets.

Virtually all Departments have completed installation of modern financial management systems over recent years. When these have been fully bedded in and the reforms announced in relation to the estimates have been put in place, consideration will be given to the question of greater use of accruals-based information.

CENTRAL / LOCAL ACCOUNTABILITY

- **Under present arrangements there is no accountability to the Committee for the spending [by local authorities of central Government funded] moneys because the Comptroller and Auditor General is precluded by law from access to local authorities. The Committee recommends that the governing legislation be amended to permit such access and subsequent reporting in order to facilitate scrutiny by the Committee of this important element of Government spending. Any such amendment should provide for value for money aspects to be covered as well as compliance and regularity issues.**
- **Apart from addressing the immediate public accountability concern in this regard, the Committee recommends that consideration be given to amalgamating the Local Government Audit Service with the Comptroller and Auditor General's Office with a view to having a unitary national audit authority examining the spending of all public moneys. Such a move would bring Ireland into line with similar developments in recent years in Scotland, Northern Ireland and Wales, and with the long-standing practice in New Zealand.**

The Minister has consulted the Minister for the Environment, Heritage and Local Government in relation to these proposals. That Minister has pointed out that the fact that local government in Ireland does not incorporate direct accountability to the Dáil or any of its Committees is consistent with the separate democratic status and mandate of local government (see below). Instead, the local government accountability framework is based on the following elements:

- the County/City Manager has direct responsibility in law for the executive functions of the local authority and is accountable in important respects to the elected council and the local government auditor;
- elected members have direct responsibility in law for all reserved functions, which include adopting the annual budget and authorising borrowing;
- the annual financial statement of the local authority is subject to audit by the independent Local Government Audit Service, which has powers to disallow expenditure or apply surcharges;
- general responsibility for overseeing the actions of local authorities is assigned by the legislature to the Minister for the Environment, Heritage and Local Government, who has formal powers of direction, approval and inquiry in relation to local authority matters, and power ultimately to remove local authority members from office. The Minister is in turn accountable to the Oireachtas in relation to the exercise of these powers.

The independence of local government as a separate democratic entity with its own system of accountability has (since the Comptroller and Auditor General Act 1993) been further underscored by

- the constitutional recognition of local government following the 1998 referendum;

- the termination of the dual electoral mandate (i.e. at central and local level) in 2003.

In the view of the Minister for the Environment, Heritage and Local Government, direct accountability of local authorities to the PAC would not fit readily within the above framework, and would have the potential to create duplication and/or confusion in relation to systems of accountability already in place.

Both Ministers acknowledge that the Exchequer contributes significantly to local authority expenditure. About 50% of total local authority expenditure – some 25% of their current expenditure and some 70% of their capital expenditure is provided by the Exchequer. The Ministers point out, however, that there is already full accountability to the Comptroller and Auditor General and the Public Accounts Committee in relation to these voted monies, for example through the responsibilities of the Accounting Officers of the Department of the Environment Heritage and Local Government and the Department of Transport for the proper and efficient use of funds provided to local authorities from their Votes. The Comptroller and Auditor General has accordingly been able to review the performance of certain local authority delivered programmes in VFM reports. Two such reports have already been published in relation to the national roads programme and a further report on Ballymun regeneration is being prepared.

In relation to the proposal that consideration be given to the amalgamation of the Local Government Audit Service with the Comptroller and Auditor General's Office, it is the view of the Minister for the Environment, Heritage and Local Government that this change would not be consistent with recognising the separate democratic mandate of the local government sector and the accountability framework for that sector as identified above.

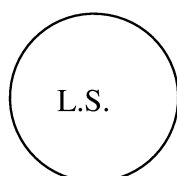
The primary functions of the Local Government Audit Service and the Comptroller and Auditor General's Office are essentially similar in that they both form independent opinions on the accounts of audited bodies and have a value for money function. However, the separate identity of the Local Government Audit Service underscores the democratically independent nature of the local government sector. The Oireachtas gave statutory recognition for the first time to the Local Government Audit Service, and the position of Director of Audit, in the Local Government Act, 2001. (This is not unlike the arrangements in place in England where the National Audit Office deals with central government departments and agencies and the Audit Commission audits the Local Government Sector.)

Local Government Auditors – who are all professionally qualified and statutorily independent in the exercise of their professional functions – are strategically based around the country and have extensive local knowledge that is invaluable in carrying out their audits. The Local Government Audit Service also has a Value for Money Unit which has published 22 reports. Under this heading, the Unit has a number of studies under way or under consideration. A follow-up to an earlier study on internal audit in local authorities is due to be published by the VFM Unit soon. A study by the Unit on financial management information usage in local authorities is underway. The Unit has prepared a feasibility study on energy management in local authorities and is preparing one on the planning and development process in authorities.

To further develop the accountability and efficiency framework operating in local government, the Department of the Environment, Heritage and Local Government is developing proposals for strengthened local audit committees taking account of best practice as set out in *the Smith Report "Audit Committees Combined Code Guidance"* (published in 2003 by the Financial Reporting Council in the UK), the "*Code of Practice for the Governance of State Bodies*" issued by the Department of Finance in 2001, and *the Mullarkey Report*, July 2002. These will further complement the role of the Local Government Audit Service in ensuring the continued development of accountability and value for money in the local government sector in line with modern principles and best practice, while at the same time fully respecting the separate mandate conferred on the sector by the Oireachtas.

The Minister for Finance generally supports the views of the Minister for the Environment, Heritage and Local Government in relation to the two recommendations of the Committee under this heading. He has, however, asked the Minister for the Environment, Heritage and Local Government to keep the situation under ongoing review to ensure that the local government audit process reflects best practice and gives that Minister and his Department the necessary assurance that expenditure by local authorities is incurred in a cost effective way that delivers value for money.

Given under the Official Seal of
the Minister for Finance this
24th day of March, 2006



Thomas Considine
Secretary General
Department of Finance