
Budget process and documents

24 September 2015

Introduction

This *L&RS Note* seeks to explain how the annual budget process in Ireland works, as well as listing the main Budget documents. It acts as a guide for Members to the Irish budget process.

This updates the *L&RS Note* issued on 30 September 2014 entitled “*Budget process and documents*”.

The Department of Finance has produced a document *Medium Term Budgetary Framework*¹ (also known as a ‘procedural manual’). The document details Ireland’s budgetary framework, the fiscal rules, timelines and forecast methodologies used. This *L&RS Note* does not seek to reproduce the Department’s document. Rather, this *L&RS Note* seeks to elaborate on the annual Budget cycle and the role of the Houses of the Oireachtas in that cycle. Also included is a short glossary of terms used in the budget process.

Budget process

Ireland operates a cash based accounting system for government accounting within an annual cycle. However, the annual Budget cycle takes place within the context of a medium term macroeconomic and fiscal strategy framework. In addition, it also takes place within the context of European Union and Euro Area fiscal rules and regulations.

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The legislation governing the budget process includes the following:

- Constitution of Ireland/ Bunreacht na hÉireann (1937)
- Standing Orders of Dáil Éireann and Seanad Éireann
- Ministers and Secretaries Acts 1924 to 2013
- Fiscal Responsibility Act 2012
- Various other legislation (some of which predates the State)
- Various Statutory Instruments implementing EU Regulations and Directives
- Various Departmental Circulars

The budget process is continuous in that the legislation governing the collection of taxes remains permanently in force unless or until it is changed by the Oireachtas. The annual budget process has a distinct, cyclical pattern involving:

- The monitoring of tax collection throughout the year and planning for the forthcoming Budget.
- The Estimates Process requiring forecasts of expenditure in the following year, monitoring current spending and reviewing previous spending.

The annual Budget and the role of the Houses of the Oireachtas in approving expenditure by Government Departments can be considered in three distinct phases:

- Pre-Budget Day;
- The Budget Day statement; and
- Post-Budget Day.

Budget Day motions are traditionally seen as a motion of confidence in the Government and failure to pass them would normally see the Government resign.

In addition, the EU through the “two-pack” reforms² now has a common budgetary timeline and common budgetary rules for euro area Member States. The common budgetary cycle means that each year:

- By 30 April, euro area Member States must publish their medium-term fiscal plans (*Stability Programmes*), together with their policy priorities for growth and employment for the forthcoming 12 months (*National Reform Programmes*).
- By 15 October, euro area Member States must publish their draft Budgets for the following year.
- By 31 December, euro area Member States must adopt their Budgets for the following year.

Ireland is a now full participant in the European Semester process after exiting the Troika assistance programme. Figure 1 overleaf shows the Budget cycle in terms of the main events and or publications during the year.

Pre-Budget

Stability Programme Update

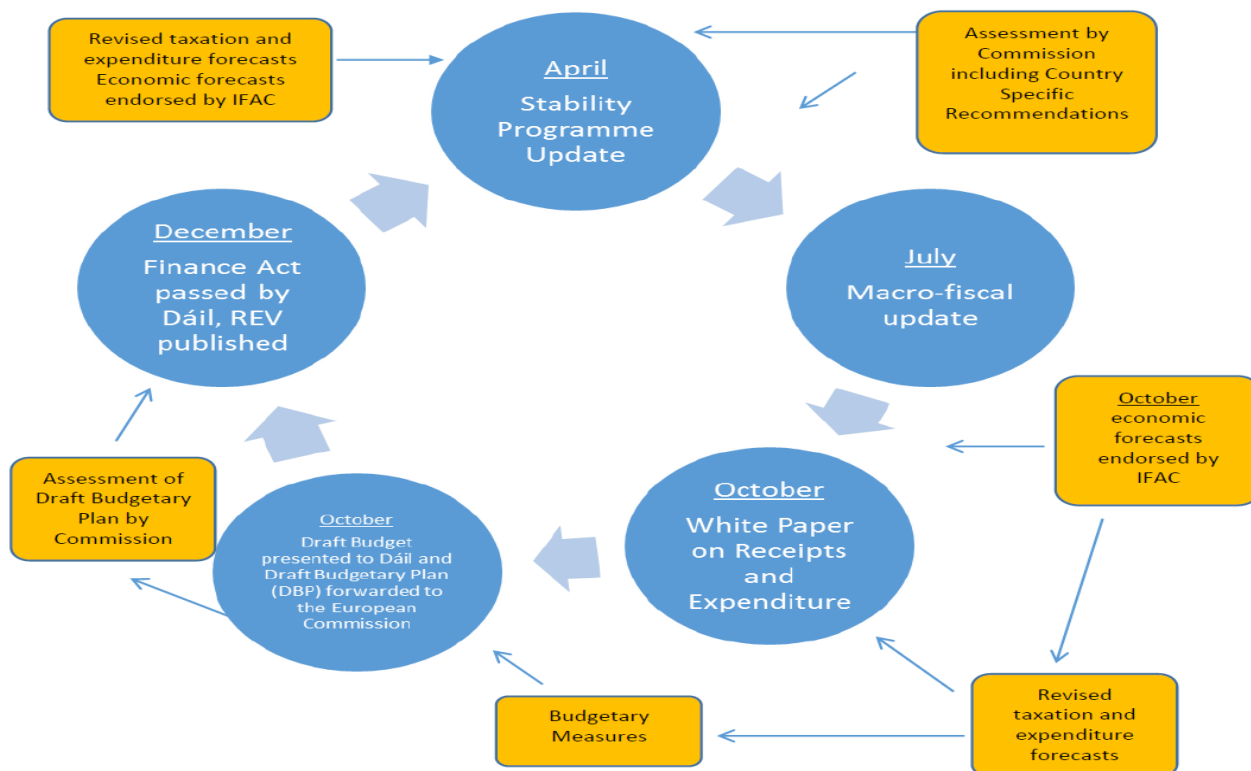
In April, the *Stability Programme Update (SPU)* is published by the Department of Finance. It sets out the Government’s budgetary strategy in the context of the fiscal rules (both domestic and EU).

It is based on revisions to economic growth forecasts and projects high level Budget figures for the subsequent three years. This is discussed at the Joint Committee on Finance, Public Expenditure and Reform (JCFPER) prior to being sent to the European Commission.

Macroeconomic forecasts are also evaluated prior to the publication by the Irish Fiscal Advisory Council (IFAC). This is to ensure that the official forecasts are within its endorsable range (i.e. that in the IFAC’s opinion the forecasts are justified) and that the fiscal rules are been complied with.

In addition, the IFAC examines the fiscal stance i.e. the impact of fiscal policy on the economy over time. IFAC comments on whether the fiscal stance is “conductive to prudent economic and budgetary management”.

Figure 1: Annual Budget Cycle



Source: Department of Finance (2014) [Medium Term Budgetary Framework, July 2014](#) p11.

Spring Economic Statement

Alongside the publication of the SPU in April, the Government also publishes a Spring Economic Statement (SES) which sets out the broad parameters for macroeconomic growth and the fiscal outlook and constraints over the medium term (5 years).

Informed by the SES, the first National Economic Dialogue (NED)³ consultative process was held in July 2015 to "*facilitate an open and inclusive exchange on the competing economic and social priorities by the Government*". The July 2015 dialogue was chaired by an independent moderator (ESRI Director, Professor Alan Barrett).

Budgetary Strategy Memorandum

In July the Minister for Finance prepares a Budgetary Strategy Memorandum (BSM) for the Government, setting out the Department of Finance's assessment of the budgetary and economic outlook into the medium term. In this context, the Department of Finance reviews the current year (i.e. year N-1) and prepares projections of revenues and expenditure involved in maintaining the existing levels of public services for each of the three subsequent years (i.e. years N to N+2). This is in effect an unpublished update of the SPU.

Department Negotiations with DEPR

Government Departments then engage in bilateral negotiations with the Department of Public Expenditure and Reform (DEPR). They outline their spending plans for the following year taking into account their spending limits set out in the medium-term expenditure programme. These spending plans reflect the cost of providing an existing level of public service by the department/agency and any plans for additional services. These discussions usually take place over the summer and are informed by the Government's assessment of the budgetary and economic outlook in the medium term (BSM).

In September, after further detailed negotiations with Departments, the Department of Public Expenditure and Reform agrees on proposed *Estimates for Public Services* for approval by Cabinet.

Department of Finance Tax or Revenue Preparations

Meanwhile, the Department of Finance prepares the tax or revenue side of the Budget. This involves estimating tax revenue and various scenarios for it. In addition, the Department will model potential changes to tax policy. An interdepartmental group (Tax Strategy Group) made up of officials of the various Government Departments and the Office of the Revenue Commissioners, meets to discuss policy issues regarding individual taxes. The Minister brings his proposals to the Cabinet for approval.

In addition, prior to Budget Day the IFAC must endorse the macroeconomic forecasts that underlie the Budget (the IFAC does not endorse the Budget itself). See [L&RS Note on the Irish Fiscal Advisory Council](#) for more detail on its role.

In the week before the Budget, the *Estimates on Receipts and Expenditure* (also known as *the White Paper on Receipts and Expenditure*) is presented to the Dáil as required by Article 28 of the Constitution. The White paper sets out the expected expenditure and revenue for the following year based on existing policy prior to any new policy measures announced in the Budget. This gives a base from which the changes announced in the Budget can be compared to.

Budget Day

On Budget Day (on or before 15th October) there are now two distinct speeches:

- The *Financial Statement* by the Minister for Finance outlining the general economic and fiscal outlook and the tax changes in the Budget; and
- The Expenditure Statement by the Minister for Public Expenditure and Reform who presents the Budget Day spending changes to the Dáil.

Documents published at the time of the Budget set out the changes (revenue and expenditure) proposed in the Budget. Additional detail is provided in other documents (see below) for example the *Expenditure Report* or every few years, the *Comprehensive Review of Expenditure*. This document includes narratives regarding changes made to the expenditure limits, as well as summaries of various reports and reviews of spending programmes published throughout the year.

On Budget Day, the centrepiece of the annual budget process is the speech delivered by the Minister for Finance and responses to it by the main opposition spokespersons.

On Budget Day *Financial Resolutions* are passed by the Dáil which give **immediate** effect to some of the budgetary changes. Typically these relate to excise taxes, and changes which come into operation from the 1st of January (beginning of the tax administration year). The *Financial Resolutions* passed on Budget Day must be confirmed by the passing of the *Finance Act* within four months of the Budget for the relevant tax measures to remain in effect.

The debate on the *Financial Resolutions* is used by TDs to discuss the detail of the Government's Budget proposal.

Post-Budget Day

The Budget as presented by the Ministers is considered a draft Budget. The European Commission examines and gives an opinion on the draft Budget by 30 November at the

latest. If the Commission detects severe non-compliance with the obligations under the Stability and Growth Pact, it will ask the Member State concerned to submit a revised plan. For the euro area as a whole, the Commission will publish a comprehensive assessment of the budgetary outlook for the forthcoming year. The IFAC will also publish a report on the Budget (in the weeks following Budget Day) again analysing the fiscal stance and assessing whether the Budget complies with the fiscal rules.

Revenue changes

In the aftermath of the Budget the *Finance Bill* will be published and debated in the Oireachtas. When enacted this gives legal effect to the tax changes announced in the Budget. If there are any changes to social welfare and pensions, a *Social Welfare and Pensions Bill* will also be introduced. If there are changes to Motor Tax rates a *Motor Vehicles (Duties and Licences) Bill* is published. The Bills go through the normal legislative process, with the exception of the Finance Bill which as a 'money bill' cannot be amended in the Seanad. These Bills will normally be debated and enacted before the end of the year in accordance with obligations under the European Semester.

Passing the *Finance Bill* in December also gives an opportunity for the Government to revise the Budget Day announcement of tax changes. Where, for example, the amount of tax revenue collected in November (traditionally the month with the largest tax take) is not in line with expectations or if the European Commission recommends changes.

Expenditure or Estimates

The *Finance Bill* deals with most of the tax changes of the Budget. The spending side of the budget is mainly dealt with through the *Estimates* process. Certain spending changes may require legislation such as increasing/reducing social welfare rates but most do not need specific legislation. On Budget Day the *Estimates for Public Services* are published.

These include high level detail by Government Departments and certain agencies (there are approximately 40 individual Votes (see below) which make up the Estimates). The *Estimates* will set out the amount planned to be spent in each Vote in the next year with a comparison to the *Estimates* in the current year.

Two months later the '*Revised Estimates for Public Services*' is published which is a more detailed version of the *Estimates*. It includes more information on the spending within individual programmes and a comparison with the projected level of spending of the current year (i.e. as its published in December before the end of the year, the final actual amount spent is still slightly uncertain). The *Revised Estimates* also include some output, context

and impact indicators which give details on what the expenditure is going on, and some indication of the possible impact the expenditure is having.

Voted and Non-Voted Government Expenditure

There are two components to government expenditure, voted and non-voted. Non-voted expenditure is paid out directly from the Central Fund (the Government or Exchequer account into which all Government receipts are paid in and expenditure is paid from unless otherwise provided for by law) and includes payments for:

- The national debt;
- Payments to the EU Budget;
- The Houses of the Oireachtas Commission;
- Payments for elections and political parties;
- Salaries of constitutional office holders e.g. the President, the Comptroller and Auditor General and Judges).

The *Estimates* cover voted expenditure (hence the individual *Estimates* for Government Departments are known as Votes). Voted expenditure is voted upon annually by the Dáil. Non-voted expenditure is based on legislation already passed by the Oireachtas.

Individual departmental/agency *Revised Estimates* are considered by the relevant Dáil select committee before being voted on by the Dáil. The Dáil may only approve or reject a motion to grant money. Any *Supplementary Estimates* for additional expenditure made after the Dáil has voted on the *Revised Estimates* must be referred to the relevant select committee for consideration and then voted upon in the Dáil. At the end of the year the *Revised Estimates* and any *Supplementary Estimates* are collected together into an *Appropriation Bill* which, when passed, gives statutory effect to the *Estimates*.

Oversight

The Comptroller and Auditor General audits the final accounts of Government Departments and agencies. Oireachtas oversight is performed by the Public Accounts Committee. It meets throughout the year with the Comptroller and Auditor General and the head of the relevant department or agency to discuss the Comptroller and Auditor General's *Appropriation Accounts* (i.e. the audited accounts of each Vote) and *Report on the Accounts of the Public Services* (i.e. an additional narrative report which highlights issues the C&AG has on the audited accounts).

The Oireachtas provides general oversight of the Government's handling of the economy, its overall fiscal plans and individual Department's programmes and policy including financial aspects through:

- Debates in the Dáil and Seanad;
- Parliamentary questioning of Ministers; and
- Committee meetings on specific topics during the year.

Budget Information available

The following sets out the likely documents that will be published over the Budget period. Over recent years the names of certain documents have changed names and some additional documents have been added. These documents are usually made available upon publication on the Department of Finance's Budget website www.budget.gov.ie.

Pre Budget Day documents

- *Stability Programme Update*: this is published in April and sets out the Government's planned medium-term fiscal strategy in line with EU fiscal rules. It incorporates the Department of Finance's latest macro-economic forecasts, as well as information on the stability of Ireland's Government finances both in the short and long term.
- *Spring Economic Statement*: this is published alongside the Stability Programme Update (in 2015) and sets out the broad macroeconomic and fiscal parameters to underpin the discussion of economic and fiscal policy over the medium term. Informed by the parameters detailed in the Spring Economic Statement, a *National Economic Dialogue (NED)* is held in July to "facilitate an open and inclusive exchange on the competing economic and social priorities by the Government". The Chairman of the NED publishes a report summarising the dialogue.
- *White Paper on Receipts & Expenditure*: this provides the opening fiscal position prior to the Budget and is usually published on the weekend before the Budget. The Constitution (Article 28.4.4) requires that the Government prepare estimates of the receipts and expenditure for each financial year and presents them to the Dáil.

Budget Day documents

- *Financial Statement*: this is the Minister for Finance's speech to the Dáil on Budget Day. The speech gives details of the previous year's financial results. It also comments on: the economic situation of the country and the outlook for the year ahead; details of the Government's economic policy; the general objectives of the Budget; the proposed public expenditure for the year and the various changes in taxation that the Government propose to make. Financial Resolutions must be

passed by the Dáil on Budget Day to give temporary legislative backing to the taxation proposals.

- *Summary of the Budget Measures*: this details the list of changes announced in the Budget together with the estimated financial impact. Annexes provide detailed examples and illustrative cases of the effect of the main income tax changes. They also provide more information on other changes and any new initiatives.
- *Economic and fiscal outlook*: this outlines the economic background to the Budget and sets out Government economic strategy over the following three years. Projections for economic growth and the public finances over the period are included. It is produced in compliance with the Stability and Growth Pact which requires the submission of the Irish Stability Programme Update to the European Commission the following April.
- *Expenditure Statement*: this is the Budget Day statement by the Minister for Public Expenditure and Reform setting out the spending side of the Budget, the overall aggregates as well as the main changes in the individual departments, concentrating on the changes in the main spending Departments (Health, Social Protection and Education and Skills).
- *Expenditure Report or the Comprehensive Review of Expenditure* (which incorporates:
 - The *Expenditure Ceilings (limits spending up to approved level)* for the Budget year and the subsequent two years as approved by Cabinet under the *Ministers and Secretaries (Amendment) Act 2013*.
 - The *Expenditure allocations* which detail the overall spending per Departmental group (the Government Department and the agencies under its remit) and changes made to the current year estimates and a summary of Budget Day changes.
 - The *Estimates for Public Services* details the estimated expenditure allocations by each Department and agency Vote for the following year. Summary tables for gross and net expenditure (pay, current, capital and total) for the upcoming year also includes forecast outturns for the current year.
 - The *Summary Public Capital Programme* which sets out the public capital investment by Ministerial group for the following year.
 - In addition, there are likely to be summaries of various reports and reviews of Government spending programmes published throughout the year and the

results of the *Comprehensive Review of Expenditure* will be incorporated into this document.

- *Other documents:* Various Government Departments produce documents and press releases regarding the individual impacts on their Department in the days after the Budget. The Health, Education and Skills, and Social Protection Departments' documents are usually the most detailed. The Department of Finance may also publish reports on reviews of specific tax expenditures. There are also various summary documents to inform the public on the main changes introduced in the Budget. The Department of Finance will also publish the letter from the IFAC endorsing the macroeconomic forecasts underlying the Budget figures.

Post-Budget Day documents

- The *Social Welfare and Pensions Bill* provides for changes in the social welfare code announced in the Budget and is usually enacted soon after Budget Day.
- The *Finance Bill*, which gives legal effect to measures announced in the Budget, must be enacted within four months of the passing of the Budget Day Financial Resolutions.
- The *Motor Vehicles (Duties and Licences) Bill* provides for the changes to motor tax rates if any in the Budget.
- *Revised Estimates for Public Services* published in December, gives a fuller, more detailed breakdown of spending by each Department and Vote than the spending totals announced on Budget Day. It also gives the provisional outturn for spending in the current year, as well as performance information, impact indicators and targets for the Budget year.
- The *Appropriation Act* which gives final statutory authority to the current year's Estimates is enacted in December.

Budget terms glossary

<p>Appropriation Act: the statutory authority that authorises issues from the central fund on supply services and appropriates all money granted by the Dáil to some distinct use.</p>
<p>Cash-based accounting: a method of accounting that records transactions on the basis of cash payments and cash receipts as they are made or received within an accounting period.</p>
<p>Central fund: the government or exchequer account, into which all central government receipts are paid and from which all central government expenditure is funded, unless provided otherwise by law.</p>
<p>Current expenditure: government current expenditure refers to government day to day spending. This means spending on recurring items. This includes salaries and wages that keep recurring, spending on consumables and everyday items that get used up as the good or service is provided.</p>
<p>Exchequer account: The bank account of the Central Fund – a record of all the transactions, credit and debit, on the Fund. The account is held in the Central Bank.</p>
<p>Money bill: a bill that contains only provisions dealing with all or any of the following: the imposition, repeal, remission, alteration or regulation of taxation; the imposition for the payment of debt or other financial purposes of charges on public moneys or the variation or repeal of any such charges; supply; the appropriation, receipt, custody, issue or audit of accounts of public money; the raising or guarantee of any loan or the repayment thereof; matters subordinate and incidental to these matters or any of them. (Articles 21 and 22 of the Constitution refer to money bills.)</p>
<p>Non-voted expenditure: expenditure that is not voted annually by the Dáil e.g. contributions to the EU Budget, interest on the national debt, etc.</p>
<p>Supplementary estimate: a procedure used to get Dáil approval for funds additional to those sought in the main supply estimate, to enable increased appropriations-in-aid to be utilised or to allow expenditure on a new service.</p>
<p>Tax expenditure: a transfer of public resources that is achieved by reducing tax obligations with respect to a benchmark tax, rather than by direct expenditure. (OECD definition⁴)</p>
<p>Vote: a coherent area of Government expenditure which is the responsibility of a single Government Department or office, which is in turn accountable to Dáil Éireann for the expenditure.</p>
<p>Voted expenditure: Departmental expenditure voted annually by the Dáil</p>
<p>White paper on receipts and expenditure: estimates of the receipts and expenditure of the state for each financial year prepared by the government and presented to Dáil Éireann pursuant to article 28.4.3 of the Constitution.</p>

Sources: [Comptroller and Auditor General, Department of Public Expenditure and Reform.](#)

¹ The latest version is from July 2014, see Department of Finance (2014) [Medium Term Budgetary Framework](#) [accessed 25/09/2014].

² See [L&RS Note on the European Semester](#).

³ See <http://www.budget.gov.ie/Budgets/2015/NED.aspx>

⁴ From Commission on Taxation (2009) Report of the Commission on Taxation [Part 8: Review of Tax Expenditures](#).