



Comptroller and Auditor General
Report on Value for Money Examination

Administrative Budgets
in the Irish Civil Service

Baile Átha Cliath
Arna fhoilsú ag Oifig an tSoláthair

Le ceannach díreach ón
Oifig Dhiolta Foilseachán Rialtais,
Teach Sun Alliance, Sráid Theach Laighean, Baile Átha Cliath 2
nó tríd an bpost ó
Foilseachán Rialtais, An Rannóg Post-Tráchtá,
4 5 Bóthar Fhearchair, Baile Átha Cliath 2
(Teil 01 6613111, fo-líne 4040/4045, Fax 01-4752760)
nó trí aon díoltóir leabhar

Dublin
Published by the Stationery Office

To be purchased directly from the
Government Publications Sales Office,
Sun Alliance House, Molesworth Street, Dublin 2
or by mail order from
Government Publications, Postal Trade Section,
4-5 Harcourt Road, Dublin 2
(Tel 01-6613111, extension 4040/4045, Fax 01-4752760)
or through any bookseller

© Government of Ireland 1997

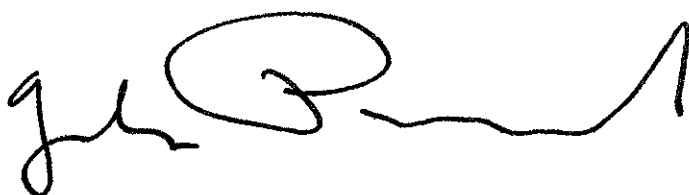
Wt P48394/A 1,000 2/97 Cahill (M22367) G 30-01

Report of the Comptroller and Auditor General

Administrative Budgets in the Irish Civil Service

I have, in accordance with the provisions of Section 9 of the Comptroller and Auditor General (Amendment) Act, 1993, carried out a value for money examination of administrative budgets in the Irish civil service.

I hereby submit my report of the above examination for presentation to Dáil Éireann pursuant to Section 11 of the said Act.

A handwritten signature in black ink, appearing to read 'John Purcell', with a large, stylized loop at the end.

John Purcell
Comptroller and Auditor General

31 December 1996

Table of Contents

	Page
Abbreviations	<i>ii</i>
Summary of Findings	<i>iii</i>
 Administrative Budgets in the Irish Civil Service	
1 Introduction	1
2 The Administrative Budget System	4
3 Impact of Administrative Budgets on Resource Use	8
4 The Role of the Department of Finance	17
5 Devolved Budgets within Departments	27
 Appendices	
A Extract from the Second Report of the Co-ordinating Group of Secretaries (May 1996)	
B Changes in expenditure rules under the administrative budget system	
C Budget development process	
D Civil service non-pay running costs, 1988 to 1996	

Abbreviations

General Note

A number of abbreviations are made in the text for convenience. In general, the generic term 'department' is used to denote both government departments and offices e.g. the Office of Public Works. Also, the proper names of departments are generally abbreviated e.g. the Department of Finance is referred to as 'Finance', the Department of Justice is referred to as 'Justice'.

MIS Management Information System

PRSI Pay Related Social Insurance

SMI Strategic Management Initiative

Summary of Findings

Civil service departments and offices are expected to spend around £850 million in 1996 on the administration of government services and programmes. The cost of administration represents an estimated 7.2% of total gross expenditure by central government. Economical and efficient use of public resources requires that the level of running costs should be kept at the minimum consistent with providing all the required public services.

The traditional strategy for controlling civil service running costs involved tight central control of expenditure by the Department of Finance. Departments had to apply to the Department of Finance for its express sanction for most types of spending, even for minor spending proposals.

Internationally, the trend in the 1980s was to move away from centralised models for controlling administrative spending because they were seen to be bureaucratic, inflexible and wasteful. The alternative systems adopted typically involved devolving responsibility for spending decisions to managers at the operational level. The general aim was to reduce the need for time-consuming correspondence and improve the flexibility and responsiveness of the service provided. The overall level of expenditure was controlled by setting limits on the budgets for the organisations.

The Administrative Budget System

A devolved budgetary system was introduced for most Irish civil service departments in 1991. The system, referred to as the administrative budget system, was intended to increase administrative efficiency and the effectiveness of spending programmes by the delegation of decision-making about administrative spending — both from the Department of Finance to departmental managements and within individual departments to line management. A further aim of the administrative budget system was to reduce civil service running costs.

Administrative budget agreements cover spending by departments over a three-year period. Two cycles of agreements, covering the periods 1991 to 1993 and 1994 to 1996, have been completed. A further cycle, covering the period 1997 to 1999, is being negotiated. Currently, 24 of the 34 civil service departments and offices operate under administrative budget agreements. Between them, they account for 83% of civil service administration costs and handle over 98% of total gross expenditure.

This examination focused on the effect of the administrative budget system on civil service running costs in the period 1991 to 1996, the role of the Department of Finance in the process and the extent of devolved budgeting in line departments.

Impact on Civil Service Running Costs

A primary objective of the administrative budget system was to reduce the cost of running civil service departments. To this end an 'efficiency dividend' — an annual 2% reduction in real terms in running costs — was built into agreements with participating departments. The agreements also provided for increases in running costs to meet general pay rises and extra work assigned to departments.

The cost of administration by civil service departments and offices increased from £667m in 1991 to £850m in 1996. When inflation is taken into account, total spending increased by an average of 2.7% a year. During the same period, staffing levels increased rapidly from 26,250 to 29,500. In addition, there was a significant grade drift upwards from Clerical Assistant to Clerical Officer.

There is some evidence to suggest that the introduction of administrative budgets helped to contain increases in running cost expenditure. For example, running costs increased faster in the years before the devolved budget system was introduced. Since then, spending on administration increased faster in departments and offices where administrative budgets have not been introduced.

There are some general indications of improvements in overall efficiency levels in the civil service in the period 1990 to 1996 e.g. the reduction in administration costs as a percentage of total civil service expenditure from 8.6% to 7.2%. However, because of the diversity of civil service operations, improvements in efficiency can only be determined by the measurement of performance on individual schemes and programmes.

The Role of the Department of Finance

The Department of Finance was centrally involved in the development and implementation of the administrative budget system. The relationship between it and the departments operating administrative budget agreements has changed significantly as a result of the extensive devolution of authority for administrative expenditure to departments.

The administrative budget system has been in place in a substantial number of departments for almost six years but it is only with the advent of the Strategic Management Initiative (in 1994) that the factors underpinning efficiency and performance are being identified. In retrospect, it is clear that provisions for the measurement of effectiveness included in administrative budget agreements were overambitious.

While acknowledging that an important part of the process was convincing participating departments that the 'heavy hand' of central control had indeed been lifted, it is nevertheless felt that the Department of Finance might have beneficially used internal staff resources released by the introduction of administrative budgets to garner information to enable it to develop an effective overseeing function and to fine-tune the system. In this regard, it is notable that arrangements for the second cycle of administrative budgets were substantially the same as for the first cycle.

The Department of Finance considers that the administrative budget system has improved its ability to control administrative expenditure by putting a greater onus on departments to justify increased expenditure. The system is undoubtedly an improvement on the traditional annual haggling between the Department of Finance and the other departments at Estimates time. As regards resisting demands for increased administrative resources, it has been more successful and enduring than earlier initiatives, such as the Expenditure Review Committees of the late 1980s. Against this there have been some negative aspects. For example, some departments resorted to direct appeals to Government when they failed to persuade the Department of Finance of the need for proposed increases in resources. During the first two cycles, there was little evidence of reviews being carried out either by the Department of Finance or individual departments to ensure that staffing levels were at the minimum consistent with the provision of required services.

In considering the impact of administrative budgets, one must take into account that the baseline allocations in 1991 were the product of the traditional Estimates process which the new system replaced, rather than comprehensive re-assessments of resource requirements from a zero base. Consequently, the starting figures may have been artificially high in some cases.

While there is general agreement that there has been a reduction in the level of correspondence and interaction between the Department of Finance and the line departments since the introduction of administrative budgets, no study has been undertaken of the resources freed up as a result.

Devolved Budgets within Departments

The extent to which departments have internally devolved significant levels of budgetary control is uneven. There has been no devolution in six departments and only three departments have devolved more than 20% of their administrative spending to line managers. Spending on travel and subsistence is the only area where a majority of departments and offices have devolved control. Where devolution has occurred, the budget holders tend to be at relatively senior management levels. Input by line managers into the resource allocation process continues to be limited and they have little flexibility to move resources.

The majority of departments do not have any plans to increase the level of internal devolution of budgets

With some notable exceptions, there has been little promotion of the administrative budget system within departments. Training courses and programmes have not been developed to make staff aware of the practices and procedures of effective devolved budgeting. There are few incentives in place to encourage the enhancement of budget management performance and in some cases, budget management has been hampered by the inadequacies of the available management information systems.

Administrative Budgets in the Irish Civil Service

1 Introduction

- 1 1 Central government departments and offices are expected to spend approximately £850m in 1996 on the administration of government services and programmes. This represents around 7.2 % of total gross expenditure by those departments and offices.

Control of Administrative Expenditure

- 1 2 Achieving economy and efficiency in the use of public resources requires that the level of running costs should be kept at the minimum necessary to provide all the required public services.
- 1 3 The traditional strategy for controlling civil service running costs involved tight central control of expenditure by the Department of Finance (hereafter referred to as 'Finance'). Typically, this involved departments and offices making formal requests to Finance for its express sanction for even minor spending proposals. As the scale of administrative expenditure increased, the power to sanction expenditure in a number of areas, up to agreed limits and subject to centrally determined guidelines, was delegated by Finance to departments and offices.
- 1 4 Over 70% of running costs relates to pay for civil servants. As a result, strategies for controlling the number of civil servants employed and their rates of pay largely determine trends in overall administrative expenditure. Up to 1991, all decision-making in matters of civil service numbers, grading and pay rates was controlled centrally by Finance.
- 1 5 Throughout the 1980s, public service recruitment and promotion were restricted as a means of controlling growth in public expenditure. These measures, together with a limited early retirement scheme introduced in 1987, resulted in the number of civil servants reducing from 30,800 in 1981 to 25,600 in 1990. However, it was recognised that continuing these policies indefinitely would impair the long term capacity of the civil service to deliver the services required by Government. For that reason, an alternative strategy for controlling administrative costs was sought.
- 1 6 The development of an alternative to the traditional centralised control and management of the Irish civil service was influenced by debate and changes occurring in other national administrations in the late 1980s. The trend internationally was to move away from the bureaucratic centralised model of organisation to a system where managerial decision-making was devolved to the operational level. Control of expenditure was exercised by setting fixed overall budgets.

The Administrative Budget Initiative

- 1 7 In 1989, the Minister for Finance announced a system of devolved control for civil service administrative costs. Under this system, heads of government departments and offices would become responsible for fixed administrative costs budgets which would be agreed for two to three years ahead. Managers would be allowed much greater freedom of action than before, within those fixed budgets.
- 1 8 A formal agreement on a fixed administrative budget for the years 1990 to 1993 for the Department of Social Welfare was signed in July 1990. In November 1990, the Minister for Finance announced that the administrative budget initiative would be extended to cover all departments for the period 1991 to 1993.
- 1 9 When the first cycle of administrative budgets ended in 1993, a second round of agreements was entered into, covering the period 1994 to 1996.
- 1 10 The main objectives of the administrative budget system are
- to improve efficiency and effectiveness in departments through
 - delegating greater authority from the Minister for Finance to departments in relation to administrative expenditure and related matters
 - encouraging and facilitating the delegation of greater authority for administrative expenditure to line managers in departments
 - to reduce the cost of running departments

Scope of Examination

- 1 11 This examination focused on the effect of the administrative budget system on civil service running costs, the role of Finance in the process and the extent of devolved budgeting in line departments.
- 1 12 Chapter 2 describes how the administrative budget system has developed and how it operates. Chapter 3 examines trends in the cost of civil service administration between 1988 and 1996. Chapter 4 deals with the role of Finance in developing the system and the impact of the administrative budget system on the relationship between Finance and other departments. Chapter 5 examines the extent to which responsibility for resources has been devolved within departments which have entered into administrative budget agreements.

- 1 13 Data about spending on administration was derived mainly from the Appropriation Accounts for the years 1988 to 1995 and from the Revised Estimates for the Public Service 1996. Information about staffing was provided by Finance. Many of the findings in Chapters 4 and 5 are based on data collected during a survey of departments operating administrative budgets.

Strategic Management Initiative

- 1 14 The Strategic Management Initiative (SMI) was launched by the Government in 1994. The objectives of the initiative are to make the civil service more responsive to public needs, more accountable and more open and to provide the best possible value for money. Under the initiative, each department was asked to develop and implement a strategic plan covering all its areas of activity.
- 1 15 A Co-ordinating Group of Secretaries set up to oversee the SMI was asked to review existing systems for making decisions, allocating responsibility and ensuring accountability in the civil service and to bring forward proposals for an integrated programme to modernise the systems and practices.
- 1 16 A section of the Co-ordinating Group's report (published in May 1996) deals with the operation of administrative budgets (see Appendix A). The Group recommended a number of measures designed to improve the general effectiveness, operation and scope of the administrative budget system. These recommendations are included, where relevant, in the body of this report.

2 The Administrative Budget System

- 2.1 Central government expenditure is administered by a total of 34 civil service departments. Of these, 24 currently operate under administrative budget agreements (see Table 2.1)
- 2.2 Departments which operate administrative budget agreements are expected to spend a total of £709m on administration in 1996 — 83% of total civil service running cost expenditure. Together, they administer over £11bn (98%) of total gross expenditure
- 2.3 The departments which do not currently operate under administrative budget contracts are expected to spend a total of £141m on administration in 1996. Their areas of activity are diverse, as are the reasons why they do not operate administrative budgets
- In the cases of the President's establishment, the courts, the Offices of the Attorney General, Comptroller and Auditor General and Director of Public Prosecutions, there were concerns about potential conflicts between controls imposed by the administrative budget system and pre-existing legislative and constitutional controls
 - Prisons, though staffed by prison officers who are civil servants, are broadly regarded as a programme

Table 2.1 Administrative Budget Status of Civil Service Departments — 1996

Administrative Budget in Operation	No Administrative Budget
Agriculture, Food and Forestry	President's Establishment
Arts, Culture and the Gaeltacht	Houses of the Oireachtas
Central Statistics Office	Attorney General
Civil Service Commission	Director of Public Prosecutions
Defence	Comptroller and Auditor General
Department of the Taoiseach	Courts *
Enterprise and Employment	Prisons *
Environment	Land Registry and Registry of Deeds †
Equality and Law Reform	National Gallery
Foreign Affairs	Office of Charitable Donations and Bequests ‡
Health	
Marine	
Office of Public Works	
Office of the Minister for Education	
Office of the Minister for Finance	
Office of the Minister for Justice	
Office of the Tánaiste	
Ombudsman	
Revenue Commissioners	
Social Welfare	
State Laboratory	
Tourism and Trade	
Transport, Energy and Communications	
Valuation and Ordnance Survey	

* Parts of the Department of Justice which have budgets separate from the Office of the Minister for Justice.

- It was envisaged that the Land Registry and Registry of Deeds would be converted into a state-sponsored agency

2 4 The Co-ordinating Group of Secretaries has recommended that the administrative budget system be extended to those parts of the civil service where it is not applied at present. It also recommended that the potential for application of similar devolved budgets in other parts of the public service should be explored

Main Features of the Administrative Budget System

2 5 The main feature of the administrative budget system for the period 1991 to 1993 involved the conclusion of separate formal bilateral agreements between Finance, on one side, and each department on the other. These agreements provided for

- a set budgetary allocation for each year of the administrative budget cycle
- an agreed baseline budget figure for 1991
- an 'efficiency dividend' which involved reducing the 1991 baseline figure by 2% a year to give first estimates for spending in 1992 and 1993
- a commitment by Finance to provide extra resources to meet cost increases arising from decisions taken centrally about unit costs (e.g. increases in pay rates)
- a commitment by departments to keep spending costs within the agreed provisions
- more freedom for departments in deciding how to spend money provided for administration, including the right to recruit and promote certain grades of staff, subject to the overall agreed budget not being exceeded (see Appendix B)
- permission for departments to use savings in one administrative area to meet expenditure in another — usually referred to by the technical term 'virement' — subject to an upper limit, without seeking Finance's permission
- permission to carry forward savings from one year to the next, subject to an overall limit
- a commitment by departments to transfer authority for spending on administration to their line managers on a gradual basis
- a commitment by departments to devise quantitative indicators to assess the effectiveness of running cost expenditure in meeting programme objectives

2 6 The main features of the first cycle of administrative budgets were retained for the second (1994 to 1996) cycle with one exception — there was a provision under second cycle agreements that the annual 2% efficiency dividend could be waived where

- Finance was satisfied that this reduction would seriously impair the delivery of existing essential services and
- the department concerned undertook not to seek any additions to the agreed budget allocations, other than unit cost increases for the years 1994 to 1996

Administrative Budget Outturn

2 7 Table 2 2 sets out expenditure on running costs by departments operating administrative budgets over the period 1991 to 1996. How the budget and expenditure outturn evolve is described in Appendix C.

**Table 2.2 Expenditure on Administration in Departments
with Administrative Budgets, 1991 to 1996**

	First cycle			Second cycle		
	1991 £m	1992 £m	1993 £m	1994 £m	1995 £m	1996 £m
Baseline estimate	555.6	555.6	555.6	646.2	646.2	646.2
<i>Less Efficiency dividend</i>	(1.4)	(12.1)	(21.0)	(3.4)	(6.7)	(13.2)
Contract expenditure	554.2	543.5	534.6	642.8	639.5	633.0
<i>Plus Savings carried in</i>	2.0	13.6	6.5	7.7	14.9	12.8
<i>Plus Net allowed add-ons</i>	17.1	41.3	97.0	6.1	33.2	63.5
Permitted expenditure	573.3	598.4	638.1	656.6	687.6	709.3
<i>Less Savings carried over</i>	(13.6)	(6.5)	(7.7)	(14.9)	(12.8)	n a
Expenditure outturn in administrative budget departments	559.7	591.9	630.4	641.7	674.8	709.3
<i>Expenditure outturn in other departments</i>	<i>107.3</i>	<i>117.3</i>	<i>121.7</i>	<i>127.1</i>	<i>133.2</i>	<i>141.1</i>
Total expenditure outturn	667.0	709.2	752.1	768.8	808.0	850.4

Notes: 'n a' indicates data not yet available

- 2 8 The baseline estimate increased from £555.6m to £646.2m between the first and second cycles of administrative budgets — an increase of almost £91m, or 16%. The increase can be disaggregated into the components shown in Table 2.3

Table 2.3 Changes in Baseline Estimate for all Administrative Budget Departments between First and Second Cycles

Factors affecting baseline	£m
Extension of administrative budget system to the Department of the Taoiseach and the Office of the Tánaiste	6
Establishment of Irish Aviation Authority	(20)
Carry-over of first cycle efficiency dividend	(21)
Carry-over of net allowed add-ons ^a	126
Total increase	91

Notes ^a *Includes carry over of pay increases awarded in the period 1991 to 1993*

- 2 9 The efficiency dividend accumulates over the budget cycle. The aggregate efficiency dividend in the period 1991 to 1993 was £35m — equivalent to around 2% of total administrative budget expenditure in the period. The estimated total efficiency dividend in the period 1994 to 1996 is £23m — around 1% of total expenditure.
- 2 10 Increases in spending were allowed in order to meet unit cost increases such as pay rises or volume increases due to extra work. These 'allowed add-ons' can be of two kinds: recurrent or non-recurrent. Recurrent add-ons (such as pay increases) accumulate over the budget cycle.
- 2 11 Allowed add-ons increased rapidly over each of the administrative budgets cycles. The carry over of add-ons from the first to the second cycles was £126m (see Table 2.3) and represented over 19% of the second cycle baseline. Unfortunately, the form in which information about permitted add-ons is held by Finance does not allow easy disaggregation to distinguish between unit cost or volume increases and between recurrent or non-recurrent expenditure.

3 Impact of Administrative Budgets on Resource Use

- 3 1 A primary objective of the administrative budget system was to reduce the cost of running civil service departments. The only explicit target which was established in relation to the level of running costs was the efficiency dividend to be yielded under individual agreements. Since individual agreements also provided open-ended commitments to meet unit cost increases such as pay rises and increases due to extra work, it was difficult to set meaningful targets for overall civil service running cost expenditure.
- 3 2 Indications of the impact of the administrative budget system can be found by drawing comparisons between trends before and after administrative budgets were introduced and between trends in departments that have administrative budgets and those that do not.

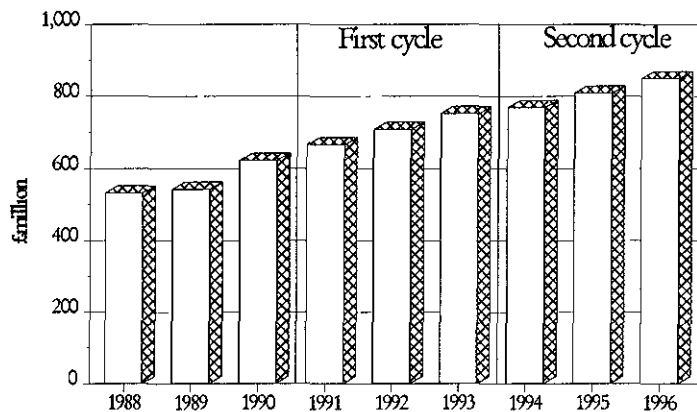
Trends in Civil Service Running Costs

- 3 3 Administrative (or running cost) expenditure in civil service departments is taken to include spending on
- salaries, wages and allowances, including overtime and employers' Pay Related Social Insurance (PRSI) contributions
 - office premises expenses such as routine maintenance, heating, light, fuel and furniture and fittings
 - travel and subsistence expenses
 - incidental expenses such as training, contract cleaning, security services, uniforms, purchase of newspapers and periodicals
 - postage and telecommunications services
 - 'other' miscellaneous items such as advertising, publicity, stores, specialist equipment and payment for agency services
 - office supplies and purchase, rental and maintenance of office machinery including information technology
 - consultancy services
- 3 4 Civil service pensions are not funded on an ongoing basis, so annual pay costs do not represent the full cost of employing civil servants. In addition, the Office of Public Works bears the cost of building or renting accommodation for civil service departments and for managing office property owned by the State. These are not currently charged to departments as administration costs.

Overall Running Costs

- 3 5 Between 1988 and 1996, civil service running costs increased from £532m to £850m, an increase of 60% (see Figure 3 1). Over the same period, general price inflation was less than 24%. Thus, total civil service running costs increased by almost 30% in real terms between 1988 and 1996.

Figure 3.1 Civil Service Running Costs, 1988 to 1996



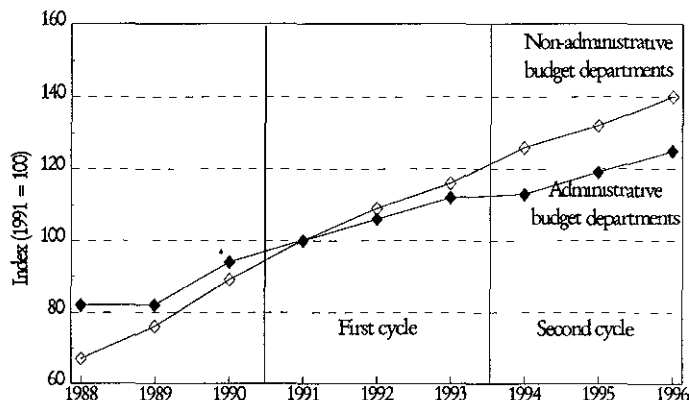
3.6 Civil service running costs increased at a faster rate between 1988 and 1991 (4.1% a year in real terms) than in the period 1991 to 1996 (2.7% a year in real terms)

3.7 Real increases in the overall level of running costs can occur because of

- an increase in the level of government activity
- increases in the unit cost of resources (e.g. pay rates) in excess of general rates of inflation
- reduced economy and/or efficiency in the use of resources

3.8 Between 1988 and 1996, running cost expenditure increased by £245m in departments which have adopted administrative budgets - an increase of 53%. Expenditure in departments which do not have administrative budgets in place grew by £74m - an increase of 110%. However, as Figure 3.2 shows, the trend in the rate of increase in running costs in either group does not appear to have been affected significantly by the introduction of administrative budgets in 1991.

Figure 3.2 Index of Running Costs by Type of Department, 1988 to 1996 (1991=100)



Individual Running Cost Elements

- 3 9 Non-pay running costs in the civil service increased faster than pay costs over the period 1988 to 1996. As a result, non-pay costs represent over 29% of total running costs in 1996, compared to less than 24% in 1988.
- 3 10 Expenditure increased for all categories of non-pay costs between 1988 and 1996 (see Appendix D). There is no evidence that the introduction of administrative budgets altered significantly the trends in expenditure on any of the spending categories.

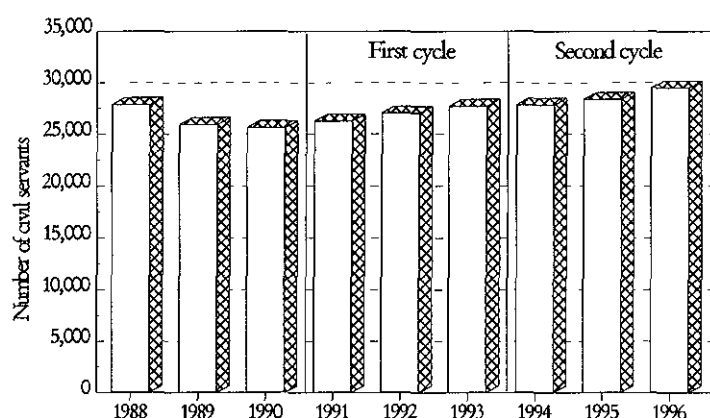
Accommodation Costs

- 3 11 Spending on office premises expenses was less than £10m in 1988, but increased to £24m in 1990 and to £28m in 1996.
- 3 12 The level of devolved control for office premises expenditure was reduced in the second cycle of administrative budgets. The main reason for making this change was the significant increase in expenditure on maintenance and refurbishment of buildings by departments operating administrative budgets. However, expenditure on office premises had also increased rapidly in the period 1988 to 1990 i.e. prior to the introduction of administrative budgets and has been greater in the second administrative budget cycle despite the reduction in devolved control in 1994.
- 3 13 The Co-ordinating Group of Secretaries have recommended that departments should have more control over, and be more accountable for, their accommodation costs. The establishment of central guidelines on maintenance and refurbishment policies and systems to attribute accommodation costs (e.g. imputed rents for accommodation owned outright by the State) may be required to facilitate this.

Trends in Staffing Levels

- 3 14 As a result of tight control of civil service recruitment, total civil service staff numbers declined from just under 27,900 at the beginning of 1988 to just over 25,600 at the beginning of 1990, a decrease of just over 8%. Since 1990, relaxation of recruitment policies generally has resulted in total civil service numbers increasing each year. By the beginning of 1995, the total number employed was almost 28,400 (see Figure 3.3). In June 1995, recruitment for additional posts was halted and the filling of additional posts was only permitted where the Government decided they were necessary. This policy has since given way to a new approach involving target ceilings in staffing levels which will involve some reductions in numbers. At the beginning of 1996, total civil service staff numbers had reached almost 29,500 but had fallen back to 29,250 by October 1996.

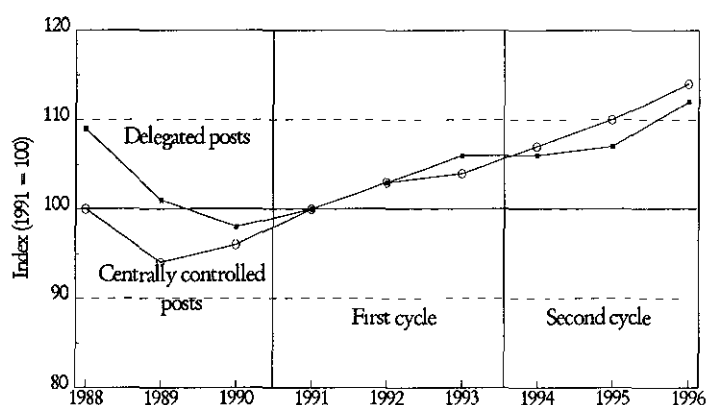
Figure 3.3 Civil Service Staff Levels, 1 January 1988 to 1 January 1996



Impact of Administrative Budgets on Staffing Levels

- 3 15 Before administrative budgets were introduced, departments had to seek Finance approval for all recruitment and promotions. Under administrative budget agreements, authority was delegated to departments to recruit or promote staff at all grades up to and including junior management level, subject to the condition that the cost could be met without increasing the overall allocation in their pay subhead. Finance sanction is still required for recruitment or promotion to middle and senior management level.
- 3 16 Figure 3 4 shows indices for the years 1988 to 1996 of the number of staff working in posts now controlled by administrative budget departments, and in posts which are still controlled centrally by Finance. There has been very little difference in the rate of change in the numbers employed in the two kinds of posts since 1991, when control was devolved.

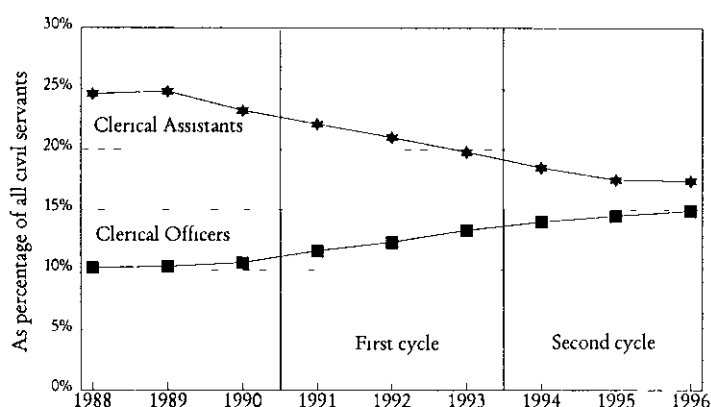
Figure 3.4 Index of Changes in Staffing Levels by Type of Post, 1988 to 1996 (1991=100)



Grade Drift

- 3 17 A significant change in the civil service grading structure has occurred since 1989. The proportion of civil servants who work in the Clerical Assistant grade decreased from almost 25% of the total at the beginning of 1989 to just over 17% at the start of 1996. The corresponding increase occurred mainly in the higher-paid Clerical Officer grade which increased from 10% to just under 15% of all civil service staff in the same period (see Figure 3.5). The balance of the upward drift in grade structure is accounted for by smaller increases in the proportions of other higher-paid grades.

Figure 3.5 Percentage of Staff in Clerical Assistant and Clerical Officer Grades, 1988 to 1996



- 3 18 Grade drift at the Clerical Assistant grade is significantly more pronounced in administrative budget departments than in departments which do not operate administrative budget agreement. However, the trend clearly commenced prior to the introduction of administrative budgets.
- 3 19 Grade drift from lower paid grades to higher paid grades has implications for pay costs. It has been suggested that drift occurs because the type of work being done by civil servants is changing following the extensive adoption of new information technology-based systems. However, there is a risk that, in some cases, staff may simply have been regraded without any increase in work responsibilities.
- 3 20 The Co-ordinating Group of Secretaries has recommended that Finance should examine grade structures and staffing levels where the phenomenon of grade drift is most acute and give urgent consideration to possible options for controlling the tendency.
- 3 21 In August 1996, Finance informed all departments, in the context of new arrangements to control staffing levels, that every effort must be made to avoid grade

drift. Finance does not authorise increases in expenditure levels contracted under administrative budget agreements to meet extra expenditure related to grade drift

Efficiency of Civil Service Staff

3 22 Between 1988 and 1996, total civil service pay costs (salaries, overtime, employers' PRSI, etc) increased from £407m to £604m — an increase of 48%. Allowing for inflation and the increase in civil service numbers, the average pay cost for civil servants increased by 13.5% in real terms between 1988 and 1996. This occurred because

- there was significant upward grade drift
- pay rates of all grades increased faster than the rate of inflation as a result of a combination of national pay agreement increases, special increases for individual grades and productivity agreements

Measuring Efficiency

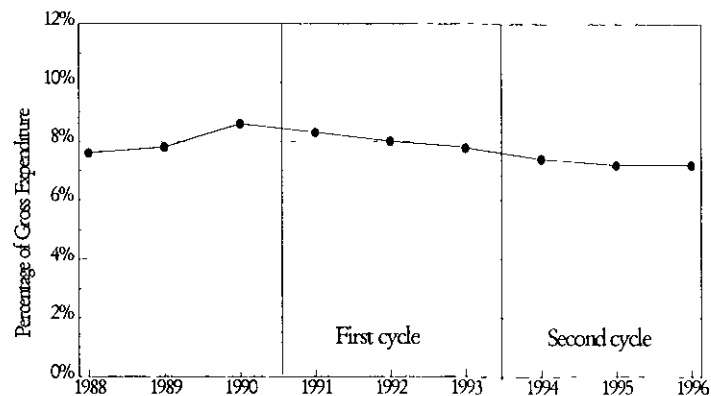
3 23 For most schemes or programmes, measures of output are readily available e.g. number of cases processed, training days provided, etc. Relating these to staff inputs provides a measure which can be monitored over time to indicate the trend in efficiency of staff. It should be noted, however, that discernable changes in efficiency (both improvements and deterioration) may be the result of a variety of factors, many of which are outside the control of the staff themselves e.g. fluctuations in level of demand for the service offered, changes in technology or organisation of the work.

3 24 In complex organisations which run a variety of schemes, monitoring general efficiency levels is much more difficult. Typically, there are many different kinds of outputs which cannot be aggregated in a meaningful way. Even if an overall efficiency measure can be produced, it may be difficult to understand which factors contribute most to changes in efficiency.

Running Costs as a Percentage of Overall Government Expenditure

3 25 The overall level of government activity is a strong determinant of the level of administrative resources required. However, since civil service outputs are very diverse, it is difficult to monitor changes in the level of activity. One rough measure of the output of civil servants generally is aggregate gross expenditure (the 'value' of all civil service output).

**Figure 3.6 Civil Service Running Costs
as a Percentage of Gross Expenditure, 1988 to 1996**

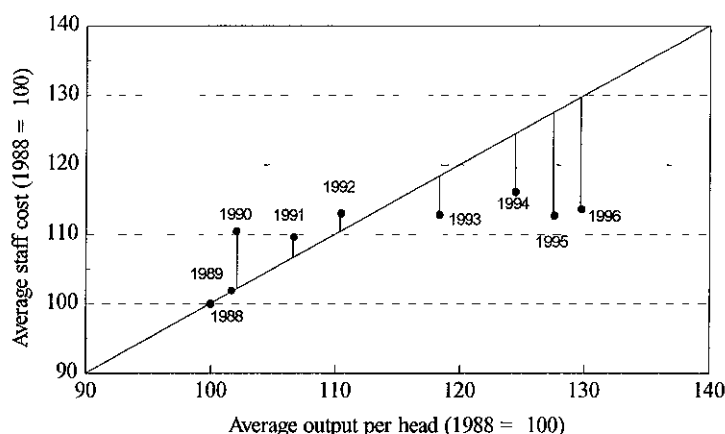


- 3 26 Figure 3 6 shows civil service running costs expressed as a percentage of gross expenditure each year from 1988 to 1996 The percentage increased from 7 6% to 8 6% between 1988 and 1990 but had fallen back to 7 2% by 1996

Trend in Civil Service Efficiency

- 3 27 The real increase in average pay costs per head of staff is a summary measure of the extent of grade drift and of pay increases in excess of inflation Comparing movements in average pay costs with movement in output levels gives an indication of what is happening to staff efficiency
- 3 28 The only readily available indicator of aggregate civil service output is total gross expenditure However, in using gross expenditure per head as a proxy measure of civil service output, it should be borne in mind that, in many situations, civil servants can deal with significant increases in expenditure without necessarily having to do more work For example, total expenditure under a scheme may increase because rates of payment go up while the number of claims being processed remains constant or declines
- 3 29 A crude indication of civil service efficiency can be derived by plotting changes in average civil service pay costs against changes in average output (using gross expenditure per head as a proxy measure) Figure 3 7 presents data for the period 1988 to 1996

Figure 3.7 Trend in Civil Service Efficiency, 1988 to 1996



- 3 30 If all the points on the graph moved along the diagonal line, it would suggest that average pay costs changed smoothly in line with changes in average output and that there was no change in the level of administrative efficiency relative to 1988 levels. Movements away from the diagonal in either direction suggest, in the short term, that average pay is not responding smoothly to changes in volume of output e.g. because staff numbers cannot be cut as quickly as programme expenditure. In the longer term, the pattern of movement away from the diagonal may suggest efficiency levels have changed.
- 3 31 The pattern in Figure 3.7 implies a substantial loss of efficiency between 1989 and 1990. This is consistent with what happened to average pay cost and output — average civil service pay cost rose rapidly while average output changed very little. After 1990, average output grew faster than average pay cost, suggesting that, by 1993, efficiency was greater than it had been in 1988 and that it has continued to improve since then.
- 3 32 The apparent improvement in efficiency cannot be attributed solely to extra effort on the part of civil servants. In this regard, the major investment by departments in information technology in the period should have allowed staff to deal with greater work loads. This should have the effect of improving output per head as shown in Figure 3.7. Other factors which could have contributed to the apparent improvement are
- improved management organisation (including administrative budgets)
 - staff training leading to higher ability levels
 - improved working environment

- increases in real rates of payment under schemes, as opposed to expansion of schemes e.g. where social welfare rates increase faster than inflation, but the number of claimants remain fixed

Conclusion

- 3 33 In general, spending and staffing levels have not been reduced by the introduction of the administrative budget system. Civil service running costs have increased very substantially over recent years which suggests that a primary objective of the administrative budgets system — a reduction in civil service running costs in real terms — was not achieved.
- 3 34 There are, however, some indications that the introduction of administrative budgets helped to contain increases in running cost expenditure. Running costs increased faster in the years before the devolved budget system was introduced. In addition, spending on administration increased faster in departments where administrative budgets have not been introduced.
- 3 35 There are also indications of improvements in overall efficiency levels in the civil service in the period 1990 to 1995. However, this apparent improvement needs to be validated by extensive monitoring of efficiency levels on individual schemes and programmes, as envisaged under administrative budget agreements and the SMI.

4 The Role of the Department of Finance

- 4.1 The Department of Finance is responsible for ensuring that adequate systems are in place for managing and controlling public expenditure. Since the administrative budget system involved major changes to existing management and control systems, Finance has been centrally involved in its development and implementation.

System Implementation

- 4.2 The organisational changes introduced under the administrative budgets system were designed to have an impact at two levels — the relationship between Finance and other departments, and management systems within administrative budget departments. This chapter focuses on how the relationship between Finance and other departments was affected by implementation of the administrative budget system. Chapter 5 deals with the administrative budget changes within departments.

Negotiation of Allocations

- 4.3 Prior to the introduction of administrative budgets, several sections of Finance were involved in setting budgets for administrative expenditure in individual departments. The administrative budget system reduced the work load on Finance officials with the result that the estimates negotiation process over the first two cycles was handled by one section within Finance.

Setting Expenditure Levels

- 4.4 The 1991 estimates were settled in the traditional manner and were then used as the base for the new administrative budgets. The sustainability of the starting 1991 baseline estimates is a key element in determining the true scale of savings attributable to the administrative budget system. For instance, departments which may have had high pre-1991 administration expenditure as a result of poor efficiency would have benefitted from an inflated initial baseline estimate. At this remove, it is very difficult to quantify this factor.
- 4.5 Finance considers that the introduction of the concept of baseline administrative budget entitlements has enabled them to withstand pressure from departments, in the context of the annual estimates campaign, for increased administrative resources and that it has been more successful and enduring than earlier initiatives such as the Expenditure Review Committees of the late 1980s. Previously, departments submitted spending estimates which almost invariably sought increases in allocations each year. Although lacking detailed knowledge of activities in departments, Finance then had to find ways in which these bids could be cut back, preferably with the agreement of the department concerned. Under administrative budgets, the baseline estimate is the agreed starting point. Thereafter, the onus is on departments to make a case for any increases sought, particularly where new services are being introduced.

Control over Staffing

- 4 6 In cases where departments seek additional staff resources, they are required to carry out reviews of existing staff deployment to establish whether under-utilised staff are available elsewhere. There is little evidence that reviews of this kind were carried out during the first and second administrative budget cycle when proposals for extra staff were made.
- 4 7 Staffing surpluses arose in a number of departments during the period of the administrative budgets, due to decentralisation and other factors. In February 1996, the Government decided to establish a redeployment pool to meet requests for additional staff. The Government directed that identified surplus staff in three departments would make up the initial redeployment pool – 60 staff from the Revenue Commissioners, 40 staff from Education and 91 staff from Social Welfare.
- 4 8 Over the course of the first two cycles of administrative budgets, some departments resorted to appeals to Government when they failed to persuade Finance of the need for proposed increases in resources.
- 4 9 In August 1996, Finance notified departments about new procedures to deal with requests for increased resources, as recommended by the Co-ordinating Group of Secretaries. Administrative audits by Finance will be used more extensively. In cases where agreement cannot be reached between Finance and the department concerned, requests for additional resources are to be considered by a committee of departmental secretaries. The proposal will be submitted to Government for consideration and decision, accompanied by the committee's report and recommendations.
- 4 10 While staff levels increased significantly between 1991 and 1996, Finance did not carry out post-implementation reviews of the programmes where additional resources were granted to ensure that staffing was at the optimum level. Finance considers that the responsibility to carry out such reviews rests with individual departments in the first instance and did not itself have dedicated resources to carry out reviews on an on-going basis.

Setting the Efficiency Dividend

- 4 11 The administrative budgets system is based on the assumption that devolved decision making results in improved efficiency. The new system introduced the concept of an 'efficiency dividend' whereby part (if not all) of the increased efficiency would be converted into a saving on running costs.
- 4 12 The efficiency dividend targeted during the first administrative budgets cycle was a reduction in baseline budget allocation of 2% in real terms in each of the years 1992

and 1993. In almost all of the first cycle contracts, it was agreed that the full dividend would apply in 1992 and 1993.

- 4 13 Finance proposed that a 2% efficiency dividend would also apply in each year of the second cycle but this was strenuously resisted by many of the larger departments. Thirteen departments agreed to the annual 2% reduction, while one agreed to a reduction of 1% a year. The remaining ten departments would only agree their second cycle contracts on the basis that no efficiency dividend would apply.
- 4 14 Setting the efficiency dividend for the first two administrative budget cycles was essentially an arbitrary exercise whereby departments agreed to limit their level of spending to a prescribed level, except for agreed increases.
- 4 15 The Co-ordinating Group of Secretaries has recommended that, in the interests of equity and transparency, consideration should be given to restoring the requirement on all departments to yield an efficiency dividend in the next three-year cycle of administrative budgets but that this might take a new form e.g. demonstrable improvements in service.

Impacts of Devolved Budgetary Control

- 4 16 In devolving more control of budgets, administrative budgets are expected to reduce the level of correspondence between departments and Finance and allow departmental managers the flexibility to vary the level of spending within categories and to carry over savings from year to year. In reviews of devolved budgetary systems in other jurisdictions, performance measures based on these features have been used to assess the impact of devolved budgeting arrangements.¹

Reduction in Correspondence

- 4 17 All administrative budget departments agree that the amount of correspondence between departments and Finance has fallen since administrative budgets were introduced. However, there is no data available as to the extent of the resources freed up on either side or the uses made of them.
- 4 18 A Canadian study found that with devolved budgetary control, the number of submissions received by the Treasury Board of Canada decreased by 5% over a five year period.

¹ See Richard Boyle, *Managing Devolved Budgets . The Civil Service Experience, Dublin The Institute for Public Administration, 1991*

Increased Within-Year Flexibility

- 4 19 Departments were granted permission to alter budgets during the financial year by moving savings which arise under one administrative subhead to another (virement) without seeking Finance's permission. The resulting increase in any particular subhead was limited to 25% of the original amount allocated for that year.
- 4 20 All administrative budget departments use the virement facility. It is used in particular coming up to the end of the year to transfer savings from the pay subhead into other subheads.
- 4 21 Most departments consider that the current virement limit is satisfactory. However, some feel that there should be greater scope to transfer funds between subheads, even to the extent of complete freedom to transfer funds as desired. Some departments suggested that a cash limit on the amount that can be moved rather than a percentage might be more appropriate, particularly for smaller departments.
- 4 22 The Co-ordinating Group of Secretaries recommended that the virement limit be abolished completely in the case of non-staff subheads and in limited circumstances for staff subheads.

Increased Between-Year Flexibility

- 4 23 The administrative budget system allows departments to carry over unspent balances from one year to the next, subject to an overall limit of 5% of the budget. These unspent balances — which are generally called savings — are added on to the following year's permitted expenditure.
- 4 24 Savings become available for carry-over from a number of sources. Expenditure may be deferred or economies or efficiencies may be achieved in certain areas of activity. No distinction is made between the different sources of savings when amounts to be carried over are being agreed.
- 4 25 The number of departments carrying over savings has been consistently high, with an average of 80% of them using the facility each year during the period 1991 to 1995. The level of savings carry-over varied from year to year. In some departments, the full 5% carry-over has been availed of. In others, savings carry-over from year to year is much less. The average carry-over for all administrative budget departments has varied from as little as 1.1% in 1992/93 to 2.4% in 1991/92.
- 4 26 There was no consistent approach to the spending of savings carried over. Some departments utilised the savings in one area e.g. for salary costs, consultancies or to

fund the purchase of office machinery while many apportioned the savings across all subheads

Overruns of Permitted Expenditure

- 4 27 During the first two cycles of administrative budgets, only one department exceeded its permitted expenditure level in one year. This occurred in 1993, in the context of restructuring of departments with consequent reassignment of staff, duties and budgets. It brought to light the fact that, under the existing arrangements, there are no penalties for overruns
- 4 28 The Co-ordinating Group of Secretaries have recommended that overruns should be regarded as a drawdown (or advance) from the following year's allocation, which would be adjusted downwards accordingly

Changes in End of Year Spending Patterns

- 4 29 The introduction of savings carryover was expected to remedy a perceived deficiency of the traditional budgetary system - the end-of-year spending 'surge'. Many departments tended to restrict spending early in the year, thereby creating a working surplus which could be used to meet contingencies. However, under the traditional budgetary rules, unspent balances had to be surrendered to the Exchequer at the end of each year. As a result, departments tended to spend any accumulated surplus in the final weeks of the year, giving rise to the possibility that resources were being expended without achieving best value for money
- 4 30 Departments were asked whether the administrative budget system had reduced the level of end-of-year spending surges. The general view was that disproportionate year-end spending had decreased. A review of devolved public sector budgets in Australia also found that the extent of end-of-year spending surges was reduced under the new budgetary systems
- 4 31 The monthly pattern of spending on office machinery and equipment in 16 departments operating administrative budgets² was examined to establish whether there was any change in the proportion of spending at year-end following the introduction of administrative budgets. Together, these departments spent £37m in 1994 on office machinery and equipment (including information technology) out of the total of £46m spent by all civil service departments
- 4 32 Half of the spending on office machinery and equipment by the 16 departments in 1988 occurred in the months October to December. By 1994, there had been a

² Data about monthly expenditure was not readily available in the remaining departments

significant redistribution in spending from the fourth quarter to the third quarter, with the result that spending in the months October to December had fallen to 39% of the total for the year. However, the level of spending in December, 28% of the total, was unchanged between 1988 and 1994.

4 33 Disproportionate spending at year end, particularly in areas like the purchase of office machinery, may continue to occur to a certain extent under the administrative budgets system as currently constituted

- Despite the three year dimension to administrative budgets, the amount actually available for spending is not known with certainty until the beginning of the financial year because of adjustments made during the annual estimates campaign. The amount of savings to be brought forward tends also to be unknown until late in the previous year.
- The timing of spending on items like information technology is generally discretionary. As a result, yearly plans for spending in such areas may not be finalised until all other allocations are fixed.
- If savings emerge during the year in other areas, such as pay, they can be absorbed most easily in spending areas like the purchase of office equipment and information technology. For instance, most departments have medium-term information technology plans approved by Finance, which can be readily accelerated if extra resources become available.
- Departments are still somewhat wary about the provision to carry over savings being honoured by Finance.
- Some departments pointed out that the carry-over limit (5%) is too low to avoid an end of year surge.

Monitoring Arrangements

Monitoring Groups

4 34 Administrative budget agreements provide for their operation to be overseen by monitoring groups comprising three representatives each from the department concerned and from Finance. The functions of the groups are

- to resolve any difficulties that arise in the operation of the agreement
- to produce a formal report on the operation of the agreement within one month of the end of each year

- to assess the scope for further delegation of authority from Finance to the relevant department, and within the department to individual line managers, in the interests of further increasing efficiency and effectiveness
 - to assess the impact of the agreement on the activities of the relevant department
- 4 35 No schedule for monitoring group meetings was set. There is some confusion about when meetings of the groups are properly convened and when the same personnel are meeting in other guises. For this reason, some departments claim their monitoring groups have never met while Finance consider that meetings are held at least once a year and in many cases, more frequently.
- 4 36 No monitoring group produced all of the required annual reports on the operation of the agreement. Over the period 1991 to 1995, nine groups did not produce a report for any year.
- 4 37 Where reports were produced, departments expressed disappointment at the lack of feedback from Finance. Many departments believe that reporting serves no useful purpose because Finance showed little interest in the reports. Some departments mistrust Finance's motives in gathering the specified information.
- 4 38 Only a small number of departments consider that difficulties are resolved at monitoring committee meetings (where they occur). They are generally considered to be a forum for airing difficulties without them being necessarily resolved.
- 4 39 In general, the monitoring groups have not assessed the scope for further delegation or undertaken assessments of the impact of the agreement on the activities of the relevant department. Many departments consider that the monitoring groups are not effective.

Performance Measures

- 4 40 The administrative budget system envisages that departments would devise quantitative indicators to assess the effectiveness of running cost expenditure in meeting programme objectives. Such indicators could be used in setting targets when new administrative budget contracts are being agreed. In the course of this examination, departments were asked about progress on development of these indicators. They conceded that, to date, little or no progress has been made in devising quantitative indicators.
- 4 41 The focus of the administrative budget agreement was on the level of running costs and on the extent of delegation allowed. The agreements did not specify or indicate

what was expected to be delivered by the departments with the budgets allocated to them under the agreements

- 4 42 Finance concedes that it may have been overly ambitious to expect the administrative budget system, given its very direct focus on administrative resources, to make significant early progress in the area of performance indicators and output measurement. It is intended that progress will be made in the next cycle. A focus on outputs, including outputs of administrative spending, is at the heart of the SMI and is being actively and energetically pursued in that context. In this regard, administrative budget arrangements and the SMI initiative are regarded as complementing one another.

Promotion of the Administrative Budget System

- 4 43 The role of Finance in assisting the development of best practice in departments has been limited. It initiated or collaborated in the development of seminars and information sessions on the implementation and operation of the administrative budgets system and has commissioned a number of studies of devolved budgetary systems. Operational guidelines were provided by Finance but it was left up to individual departments how these were to be implemented. No direct training for staff operating administrative budgets was provided by Finance. There have been no transfers of personnel, expertise or models of operation from Finance to departments.
- 4 44 Finance states that the resources available in the administrative budget section did not allow for a more extensive role in the promotion and development of best practice. It also pointed out that, under the devolved management approach, departments are expected to manage their own affairs and that the concept that Finance must 'hand hold' other departments in pursuing the much needed management reforms implies a return to the past. Legislation currently being prepared is intended to enhance and strengthen the capacity of local management to implement significant organisational and management changes and the existing senior officer networks allow departments to share problems, seek solutions in common etc.
- 4.45 In other jurisdictions, devolved budgeting control has resulted in resources being freed up in the lead agency which are then used to promote best practice and to carry out evaluations of the new system. For example, the UK Treasury established lists of contact points for practical advice on particular topics, such as top management systems, running costs and output measures, in order to improve line managers' access to specialist support and consultancy. Each list is kept up-to-date and is made available to departmental budget-holders. The Australian Department of Finance set up a Management Improvement Advisory Committee to promote good practice. The Committee has investigated the extent to which devolution has occurred within departments and its impact.

Evaluation of the Administrative Budget System

- 4 46 The potential impacts of administrative budgets on resource use and organisation of civil service business are considerable. Periodic review of the system would help to ensure that its effectiveness is maximised. Such an effectiveness review depends on quantified targets being set and appropriate management information being gathered on an on-going basis

Setting Objectives and Targets

- 4 47 The objectives of the administrative budget system — improvements in economy and efficiency of administration through increased delegation and reduction of running costs of departments — have not been developed into explicit measurable targets. While there may be difficulties in identifying appropriate measures or in interpreting trends, setting aggregate targets (e.g. in relation to the level of increase in overall administrative spending or to movements in administrative spending as a percentage of total spending) could provide some focus for evaluation of effectiveness and may suggest useful ways to improve or develop the administrative budget system

Management Information

Reporting Administrative Expenditure

- 4 48 Before administrative budgets were introduced, running cost expenditure was identified in the annual Estimates and Appropriation Accounts under a variety of headings. This was rationalised during the first administrative budget cycle. Expenditure is now recorded in each departmental vote under the same subheadings (subheads A 1 to A 12) which has made it easier to differentiate between administrative expenditure and programme expenditure
- 4 49 Finance should consider including in the book of Estimates a summary table drawing together running cost expenditure across all votes. This would facilitate monitoring of trends in administrative spending

Monitoring Data

- 4 50 Details about decisions on administrative budget allocations, allowed extra expenditure, savings carried over, etc are held by Finance. However, the data is not recorded or compiled in a manner which would allow for detailed analysis of trends or patterns. For instance
- There is no data on the degree and extent of economies and efficiencies achieved by departments

- It is difficult to distinguish between extra spending arising because unit costs increase or because the volume of activity is increasing. It is also difficult to distinguish clearly between increases of a recurrent and non-recurrent type.
- There is insufficient data to allow for the breakdown of savings carryover to ascertain how much of it was achieved by deferred spending or by actual efficiencies.

- 4 51 Finance should develop and implement a framework for recording relevant management information in relation to the operation of the administrative budget system. This would improve its ability to analyse and evaluate the impact of decision-making about pay and changes in the volume of civil service activity on resource use in civil service administration.

Conclusions

- 4 52 There has been extensive devolution of authority for administrative spending from Finance to departments. This was a key aim of the administrative budget system. Departments have made considerable use of the new flexibilities introduced such as the moving of resources from one spending area to another and from year to year. The new system appears to have led to a decrease in correspondence between Finance and departments but no data is available on the extent of resources freed up by the decrease. The flexibility to carry over savings has not resulted in eliminating end of year spending surges but there are indications that spending by departments is more evenly distributed throughout the year.
- 4 53 Finance considers that the system has significantly improved its ability to control administrative expenditure by putting an onus on departments to justify requests for increased administrative resources.
- 4 54 Changes in the procedures adopted by Finance for monitoring, evaluating and promoting the administrative budget system would help to ensure that it contributes as effectively as possible to ensuring economy and efficiency in the use of administrative resources.

5 Devolved Budgets Within Departments

- 5 1 Administrative budget agreements include a commitment on the part of departments to transfer authority for administrative expenditure to their line managers on a gradual basis. This was intended to improve efficiency and effectiveness in the administration of public expenditure.

Degree of Devolution

- 5 2 Target levels of devolution which were to be achieved during each administrative budget agreement were not set for or by departments. No performance indicators were set to measure the degree of devolution achieved nor have evaluations been carried out to assess the impact of any devolution instituted. However, Finance is aware that, in general, little progress has been made in the area of devolution within departments.
- 5 3 In order to ascertain the degree to which responsibility for running costs had been transferred from centralised control within departments to departmental line managers, the following performance indicators were considered:
- the proportion of departmental expenditure in line managers budgets and the level within the organisation to which budgets are delegated
 - the flexibility which managers have to switch expenditure between budget headings³

Proportion of Expenditure Devolved

- 5 4 It was found that, in departments generally, most spending areas are still centrally controlled by, for example, finance units or personnel units. No devolution of budgets to line managers has occurred in most of the smaller offices because devolution is seen as impractical or unnecessary. Twelve departments have devolved no more than 10% of their administrative budget amount to line managers. Three departments have devolved between 10% and 20%. Only three departments have devolved more than 20% of their administrative budgets to line managers.
- 5 5 Table 5.1 shows the number of departments which have devolved all or part of each of the seven main expenditure areas to line managers (budget holders). Devolution of travel and subsistence has occurred in seventeen departments. Seven departments have devolved part of their pay subhead. The majority of departments do not have any plans to increase the level of internal devolution of budgets.

³ These performance indicators were used in a UK review of devolved budgeting

Table 5.1 Extent of Devolution of Subheads

Subhead	Number of Departments
Salaries, wages and allowances	7
Travel and subsistence	17
Incidental expenses	7
Postal and telecommunications services	5
Office machinery and office supplies	7
Office premises expenses	2
Consultancy services	4

- 5 6 Where devolution has occurred, budget holders tend to be at relatively senior levels — typically Assistant Secretary or Principal Officer grades
- 5 7 The lack of internal devolution of budgets arises from many factors, some of which are technical and some of which appear to relate to the prevailing management culture. Departmental officials variously attribute a low level of devolution to factors such as
- budgets being too small to be devolved
 - practical difficulties in devolving subheads other than travel and subsistence and overtime
 - inability of the currently available management information systems to support devolved budgets
 - line managers being unwilling or unable to adequately manage budgets
 - little encouragement from top level management

Flexibility in Spending

- 5 8 Line managers have little flexibility to switch expenditure between budget headings. Some degree of virement is permitted in eight departments. Virement is not permitted in the others — often because only one expenditure area is controlled by a line manager.
- 5 9 Line managers are rarely permitted to carry savings over from year to year. In one case where it is allowed, the carry-over must be approved by the central budget control section and be shown to be as a result of efficiencies instituted by the line manager.

Example of Good Practice 1

In 1995, the Department of Enterprise and Employment devolved 83% of its total administrative budget to line managers. Heads of divisions at assistant secretary level were allocated budgets for their areas of responsibility with freedom to make choices of expenditure. The allocations of the administrative budget expenditure consisted of

- a block allocation to each assistant secretary consisting of salaries, wages and other allowances, travel and subsistence expenses, incidental expenses (part)
- an allocation to each assistant secretary for planned projects for office machinery (the part relating to information technology), consultancy services

The remaining 17% of the budget was controlled centrally by the Head of the Personnel Division. This related to items which were considered impractical to devolve such as heating, lighting, maintenance and messenger and library services.

Input into Resource Allocation

- 5 10 Most departments continue to adopt a short-term approach to the internal preparation of budgets. Estimates are still prepared on an annual basis rather than for the three years of the administrative budget cycle
- 5 11 In general, estimates are prepared by line managers only for expenditure areas where they are budget holders. This means, for instance that they do not always provide estimates of the staffing resources necessary to carry out their activities. Detailed justification of requirements are not normally supplied. Subhead managers usually prepare estimates with little or no input from line managers. Budget allocations are most commonly made centrally in the department following an examination of the estimates and the previous year's outturn. Changes are sometimes made to line managers' budgets without prior consultation
- 5 12 An intention of the devolution of budgets was that subhead managers (e.g. in the information technology area) would change their role from one of authorisation of expenditure under their control to more of an advisory role, with line managers being given greater freedom regarding decisions on the application of resources. This intention has not generally been realised

Monitoring of Performance

- 5 13 Improvements in economy and efficiency as a result of devolving budgets can only be assessed in terms of improvements in performance at programme level. Consequently, targets relating performance to the level of resources allocated need to be set. Outturns subsequently have to be monitored. Factors which may enhance performance may also need to be assessed.

Performance Agreements

- 5 14 Performance agreements have been completed between departments and budget holders in very few cases. Expected outputs/performance levels have not generally been specified for budget holders.
- 5 15 Where devolved budgets have been introduced, there have been few efforts made to discover the impact of this devolution on the running of the department. No measurement systems were introduced to ascertain whether devolution has led to any improvement in efficiency and effectiveness.

Management Information Systems

- 5 16 Monitoring and control of administrative budgets requires the provision of adequate management information to the appropriate level of management, including the ability to record outputs and to relate them to resource inputs.
- 5 17 The survey of departments established that
- Most departments had some form of computerised management information systems (MIS) in operation. The system most generally used was the Financial Management System which is a general ledger software package developed as a common system by Finance.
 - None of the departments surveyed had a computerised MIS which was capable of handling information on outputs and performance.
 - The majority of departments reported that the use of the administrative budget system had led to an increase in the achievement of economies and efficiencies. However, in general, detailed data was not held on the measures introduced and the extent and degree of the results achieved.

Example of Good Practice 2

In the Office of the Revenue Commissioners, the administrative budget system has been integrated with the corporate planning process. A business plan, accompanied by a business case outlining budgetary requirements, is produced annually by each budget holder for approval by the Board. The business plan is designed to implement the objectives of the Corporate Plan and provides details of proposed activities, resources allocated, the expected outputs and the performance indicators for each area of activity.

Example of Good Practice 3

The Department of Transport, Energy and Communications has completed devolved budget agreements with the Meteorological Service and with the Geological Survey of Ireland (GSI). These agreements are very similar in style to the administrative budget agreements between departments and Finance. However, the following additional objectives have been set in the Meteorological Service and GSI agreements:

- outputs for the organisation must be specified and linked to their cost of production
- specific elements of the organisations' performance must be benchmarked against other organisations

-
- 5 18 The amount of management information available to budget managers varied greatly between departments. In some cases, periodic reports provided centrally compare budget allocations against expenditure. In other cases, budget managers compile their own management information. In some departments, information was not provided routinely to budget managers or was provided only on request.
- 5 19 In general, the level of MIS available in administrative budget departments was insufficient to allow for extensive devolution of budgets to line managers. In some cases, managers were hampered in their management of the current level of devolved budgets due to the inadequacies of the available MIS.

Enhancing Performance

Incentives

- 5 20 Two-thirds of administrative budget departments operate an award scheme for exceptional performance which could be used in the context of performance agreements to reward managers who achieve efficiencies. The scheme allows for ex-gratia payments or other awards to individual staff members or groups of staff by way of recognition of exceptional performance of duty.
-

- 5 21 In some departments, there were no perceived rewards for good performance. The only incentives to enhance performance are perceived to be negative ones e.g. the possibility of censure by top management as a penalty for overspending.
- 5 22 In a few cases, there is a perceived disincentive for managing budgets well in that it was believed that good budget management would be penalised and that bad budget management would be rewarded. There was a feeling that, if savings were made in a cost centre, the following year's allocation for the cost centre would be cut by the amount of the saving while managers who exceeded their allocation would receive a greater allocation the following year.
- 5 23 Officials operating administrative budgets in departments suggested a number of ways of enhancing performance including
- greater use of performance-related pay
 - greater input into the resource allocation process including having to 'bid' for resources
 - greater flexibility in the use of resources including the use of virement and the ability to carry-over savings from year to year

Training and Guidance

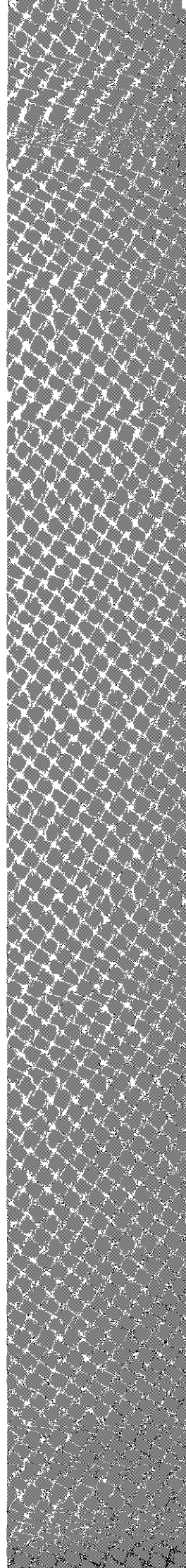
- 5 24 In the majority of cases, no formal training in the management of devolved budgets is provided by departments to line managers. Information sessions/seminars have been held in only a few departments. Office notices, guidelines and circulars relating to the area of devolved budgets were, and continue to be, issued.
- 5 25 In general, training courses and programmes have not been developed to make staff aware of the practices and procedures of devolved budgeting control. This type of training could include such basic elements as budgeting skills, information systems, interpretation of reports, the investigation of variances and the means of taking corrective action.

Conclusions

- 5 26 In general, departments are not meeting their commitment to transfer authority for administrative expenditure to line managers. To date, a relatively small percentage of running costs has been transferred to line managers. Little flexibility is permitted to managers and their input into the resource allocation process continues to be limited. The majority of departments have no plans to increase the current level of devolution.

- 5 27 The level of MIS available in most departments is insufficient to allow for extensive devolution of budgets.
- 5 28 There was an expectation that the introduction of devolved budgets would lead to an increase in efficiency and effectiveness by departments. However, no measurement system were put in place to ascertain whether this has been achieved
- 5 29 Promotion of the administrative budget system within departments has been limited In general, training courses and programmes have not been developed to make staff aware of the practices and procedures of effective devolved budgetary control Few incentives are in place to encourage the enhancement of budget management performance

Appendices



Appendix A

Extract from the Second Report of the Co-ordinating Group of Secretaries (May 1996)

In light of the experiences to date, the report of the Assistant Secretary Group on financial management, the SMI process, and the parallel recommendations made above for the control and management of public finances, the Group recommend that the following measures be implemented to improve the general effectiveness, operation and scope of the administrative budget system

- Any overrun on an overall allocation for which an explanation has not been agreed is to be regarded as a drawdown from the following year's entitlement and the succeeding year's allocation will be adjusted downwards accordingly. Failure to manage within an allocation so adjusted will be similarly penalised and formally reported to Government
- The commitment in administrative budget agreements to manage within agreed allocations to be departed from only in the most exceptional circumstances involving major expansions in services and, even then, only after a department has demonstrated, to the Government if necessary, that the extra demands cannot be met by redeployment of existing resources from within the department concerned or from elsewhere in the civil service. A specific advisory group comprising the Secretary, Department of Finance (Public Service Management and Development), the Secretary of the Department of the Taoiseach, and the secretaries of two other departments to be given authority to consider unresolved requests for increases in administrative resources. Only on the basis of a report from that advisory group would the Government consider any request for an increase in resources
- The full cost of civil service administrative expenditure to be transparent and located in the subheads of the relevant votes, thus ensuring that all administrative costs are met from within the agreed allocations. In this regard, improved arrangements are to be put in place for charging recoupable expenditure along the lines now in use for the recoupable element of EU travel
- In light of the grade drift that has occurred since the administrative budget system was introduced, the Department of Finance, in accordance with the formal agreements with individual departments, to undertake administrative audits where the phenomenon of grade drift is most acute. The Department of Finance will also give urgent consideration to other possible options for addressing the problem

- Responsibility for maintenance, fitting out and refurbishment expenses, which had been delegated to departments in the past, to be restored, subject to adherence to any necessary guidelines/criteria, these should be drawn up as soon as possible
- Departments to have more control over, and be more accountable for, their accommodation costs. Since this raises major and complex issues, it requires further study, which should be set in train immediately
- The virement limit on administrative budget subheads to be abolished in the case of non-staff subheads and in limited circumstances for staff subheads where substitution effects apply.
- While responsibility for pay rates, conditions and allowances are not to be devolved to departments, consideration is to be given to expansion of the administrative budget system in the pay area where this would not undermine public expenditure policy (e.g. if the concept of performance pay arrangements were to be extended to grades other than Assistant Secretary, departments may be given greater autonomy in operating it, or future restructuring discussions might afford an opportunity of delegating some form of greater autonomy in relation to pay)
- Additional responsibility for consultancy to be devolved to departments, subject to strict adherence to an appropriate code of practice; this will include systematic monitoring and reporting of the performance of consultants and the outcome of their recommendations
- The administrative budget system to be extended to those parts of the civil service where it is not applied at present and its potential for use in other parts of the public service should be explored

The Group acknowledge that proposals by Departments for programme savings to be linked to increased staff and related costs pose serious difficulties for the Department of Finance. Nevertheless, the Group recommend that such proposals be considered on their merits on a case-by-case basis.

The Group are of the view that, because of the rising trend in administrative expenditure in recent years and in the interests of equity and transparency between departments, consideration be given to restoring the requirement to yield a form of efficiency dividend in the next three-year cycle of administrative budgets through, for example, demonstrable improvements in service. Allowance would be made where costs of new programmes or expanded/improved services have been met by the redeployment of existing resources. The Group reiterate the point made earlier in the report that additional resources must be offset by savings

Appendix B

Changes in Expenditure Rules under the Administrative Budget System

Cost element	Rules governing expenditure	
	before administrative budgets	after administrative budgets
Pay rates	Determined centrally by Finance	No change
Recruitment/ promotion	Finance approval required for all recruitment/promotion	Delegated authority to recruit/promote up to and including HEO grade, subject to overall budget not being exceeded
Overtime	Delegated sanction to incur expenditure up to a specified limit	Limit on expenditure removed
Travel expenses of staff	Delegated sanction to spend subject to compliance with relevant circular	No change
Training	Delegated sanction	No change
Postage	Delegated sanction	No change
Telecommunications	Delegated sanction	No change
Information technology	Finance sanction required	Delegated sanction subject to a departmental limit and compliance with all relevant Finance directives
Photocopy equipment/office machinery	Delegated sanction for purchases up to £5,000	£5,000 limit replaced by a higher limit agreed on a departmental basis
Stationery	Delegated sanction but purchases must be made through Government Supplies Agency	No change
Premises maintenance	Delegated sanction for tasks costing up to £50,000 and subject to compliance with relevant Finance circulars	No change
Energy	Delegated sanction	No change
Furniture and fittings	Delegated sanction subject to compliance with all relevant Finance circulars	No change
Consultancy	Finance sanction required	Delegated sanction subject to a departmental limit and compliance with all relevant Finance directives

Appendix C

Budget Development Process

Budget Allocation Process

Figure C 1 (over) shows the process involved in arriving at the level of expenditure on running costs in an administrative budget department in any year

- A fixed baseline estimate of expenditure is set at the start of the budget cycle
- The agreed efficiency dividend is deducted from the baseline to arrive at the contracted level of expenditure
- The contracted level of expenditure may be reduced by the imposition of spending cuts e.g. across-the-board cuts decided on by Government.
- If the department had spent less than the amount permitted in the previous year, a sum equivalent to the saving (within certain limits) can be added to the contracted expenditure
- Finance may permit extra expenditure to pay for unit cost increases or where the volume of work to be done increases

Baseline Estimate

The baseline estimate for an administrative budget cycle represents the bulk of the spending which occurs in any year. For that reason, setting the baseline is an important process.

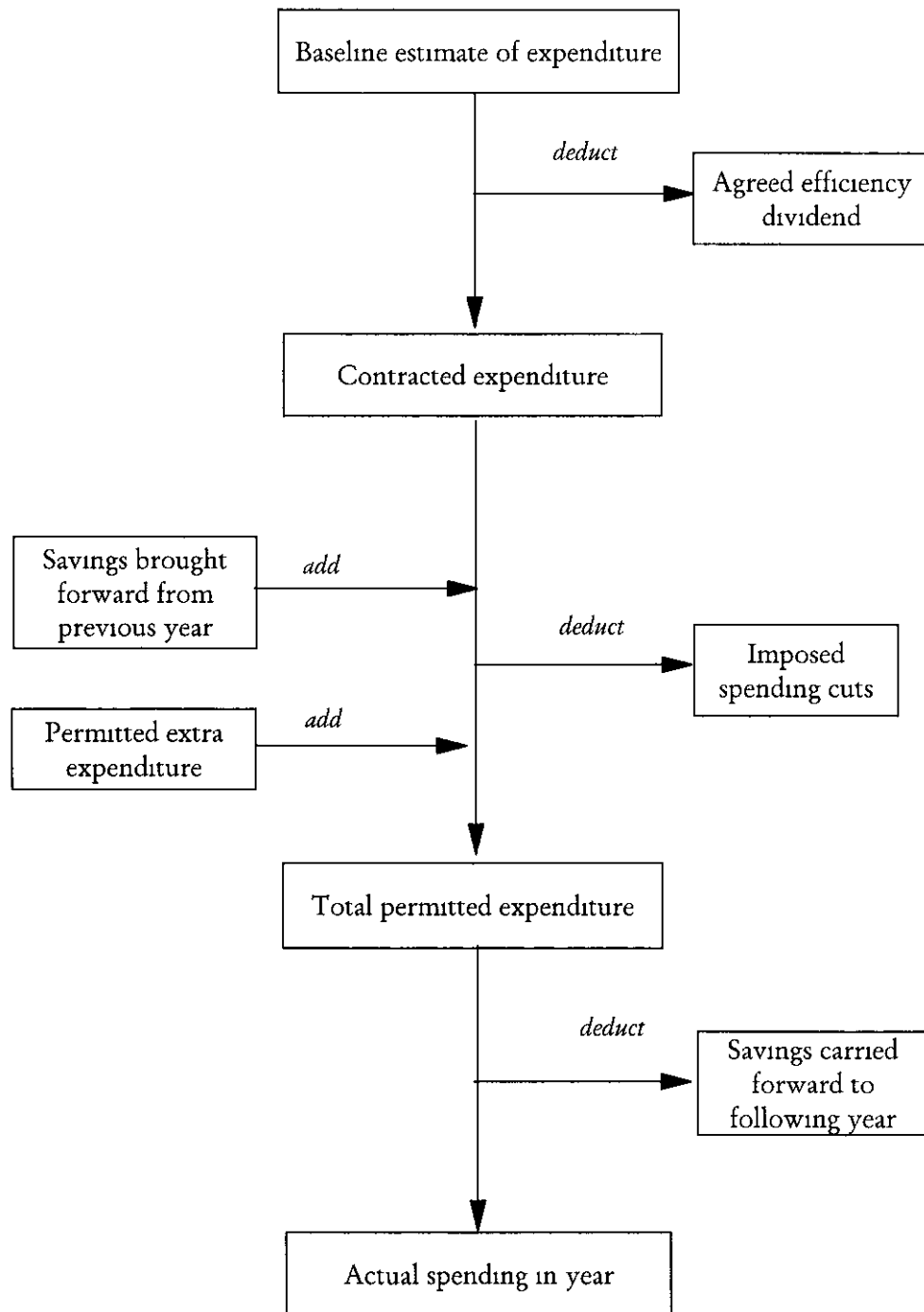
The baseline estimate of expenditure does not change from year to year within an administrative budget cycle.

The baseline set for the first cycle was £556m. This was based broadly on the 1990 level of expenditure by the departments concerned but included some expenditure items arising in 1991 which were not expected to recur in subsequent years (e.g. the cost of the 1991 census of population).

Adjustment of the baseline estimate between cycles is influenced by a number of factors

- any change in the number of departments covered by administrative budget agreements
- carry-over of the efficiency dividend
- carry-over of net allowed add-ons

Figure C.1
How Annual Spending Levels are set under Administrative Budgets



Efficiency Dividend

The efficiency dividend accumulates over the budget cycle. The aggregate efficiency dividend in the period 1991 to 1993 was £35m — equivalent to around 2% of total expenditure in the period. The estimated total efficiency dividend in the period 1994 to 1996 is £23m — around 1% of total expenditure.

Imposed Spending Cuts

On a number of occasions, cuts in contract expenditure were imposed on departments e.g. across-the-board cuts in running cost expenditure. Cuts may affect only one year's expenditure or may be recurrent.

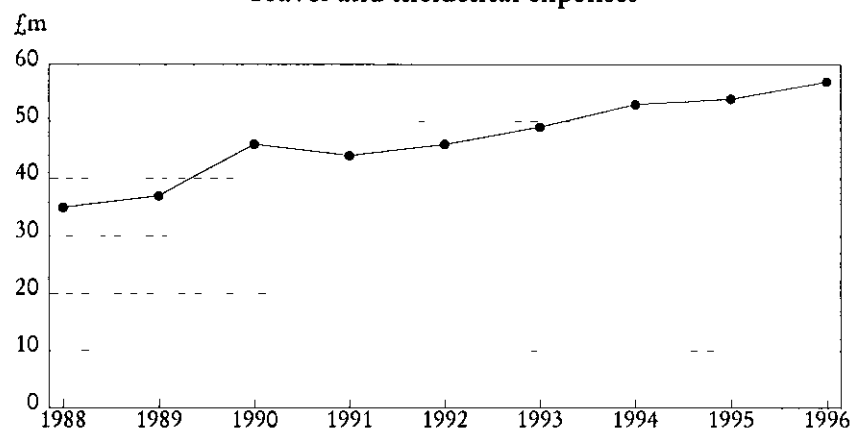
Permitted Extra Expenditure

For stated reasons, Finance each year allows increases in spending over agreed contract levels. Allowed additional expenditure can be of two kinds - recurrent (e.g. pay increases) or one-off (e.g. pay arrears). Like the efficiency dividend, recurrent add-ons accumulate over the budget cycle.

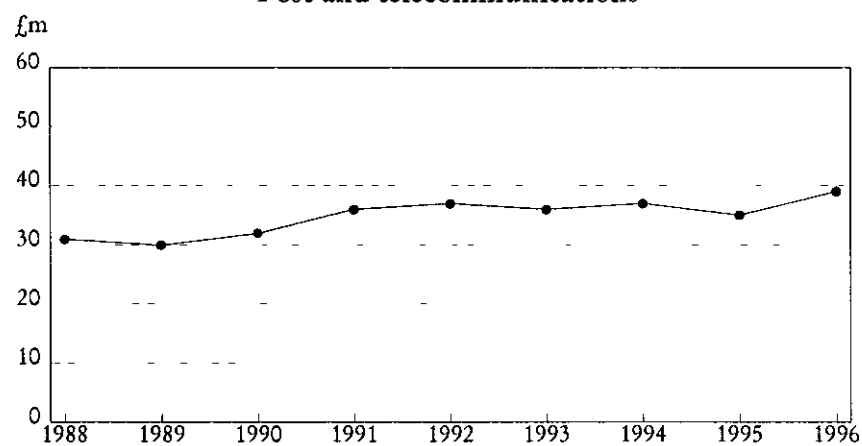
Appendix D

Civil Service Non-Pay Running Costs, 1988 to 1996

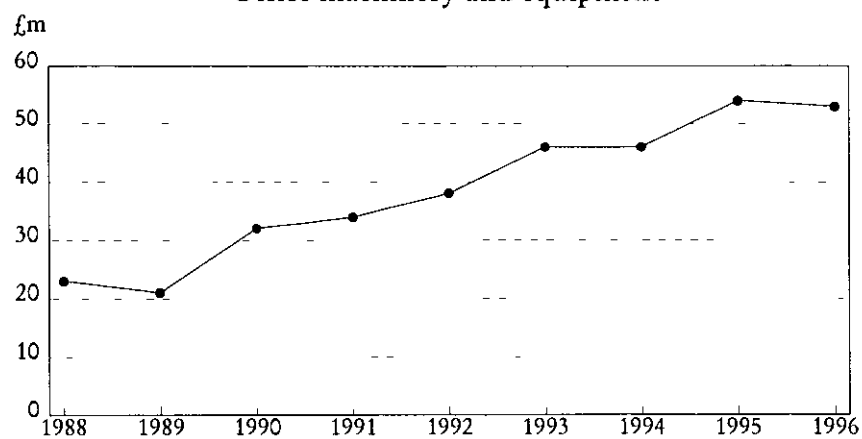
Travel and incidental expenses



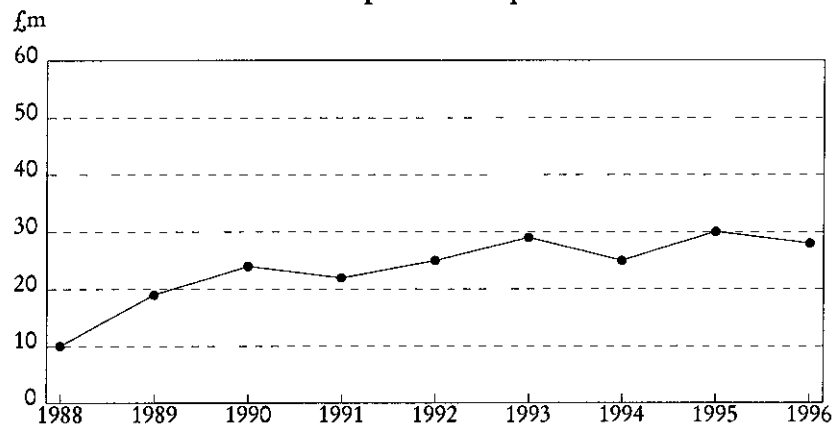
Post and telecommunications



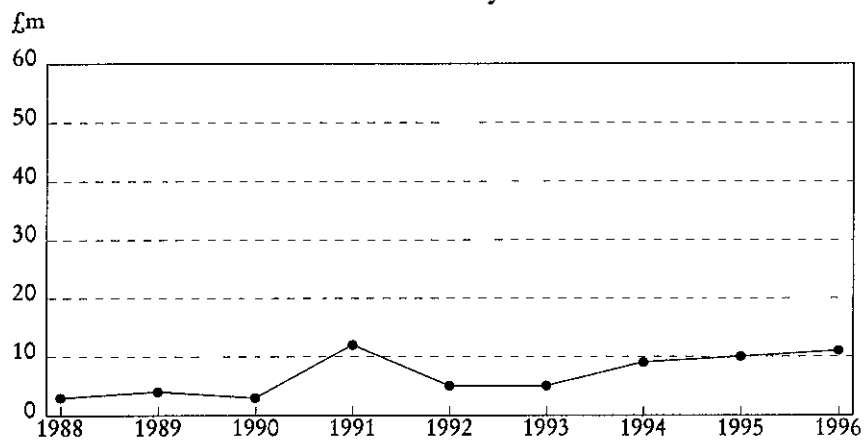
Office machinery and equipment



Office premises expenses



Consultancy fees



Other running costs

