



**National Assembly for Wales Finance Committee: Inquiry into Best Practice Budget Processes**

**Further information requested during evidence session 26 June 2014**

**A Submission by:**

**The Chartered Institute of Public Finance and Accountancy**

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## **1. Background**

- 1.1 At the Committee's evidence session on 26<sup>th</sup> June, further information was requested in relation to the performance-based approaches to budgeting adopted in both New Zealand and the State of Virginia, as well as information on the Scottish Government's approach to establishing a Scottish Treasury. This paper seeks to provide this information and to identify further sources which should help inform the Committee in their inquiry.

## **2. Outputs-based appropriations in New Zealand**

- 2.1 In addition to the information provided in the annex to our previous paper, the Committee requested further information in relation to the output-based approach to financial management adopted in New Zealand.
- 2.2 In terms of budget reforms, the 1989 Public Finance Act (and Amendment Act 2013)<sup>1</sup> shifted the emphasis of the budget from inputs to outputs. Departments receive appropriations for the purchase of outputs. The Fiscal Responsibility Act 1994<sup>2</sup> required government to state fiscal objectives and report progress on achieving outputs.
- 2.3 The New Zealand system is based on output appropriations encouraging a focus on what is delivered, and the value obtained from government spending rather than how allocations are made. Resources are linked to results at three levels:
- Resources are appropriated against expected outputs in the budget;
  - Resources are reported against actual output performance; and
  - Actual outputs (and outcomes) are tracked and reported against targeted performance.
- 2.4 The following documents produced by the New Zealand Treasury provide much more detail on how the New Zealand outputs-based approach functions in practice, at all stages of the financial management cycle, and should be helpful to the Committee in their consideration of such approaches.
- Guide to the Public Finance Act,<sup>3</sup> which sets out an overview of the requirements of the Act. This sets out the approach to be taken to define outputs, set output appropriations and report on progress against outputs. It covers the entire financial management process,

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<sup>1</sup> [Public Finance Act 1989 and Amendment Act 2013](#)

<sup>2</sup> [Fiscal Responsibility Act 1994](#)

<sup>3</sup> New Zealand Treasury, [Guide to the Public Finance Act](#), 2005.

from budgeting, through parliamentary scrutiny, implementation and reporting.

- Putting It Together: An Explanatory Guide to New Zealand's State Sector Financial Management System,<sup>4</sup> provides an overview of the state sector's financial management. It includes coverage of the role and information needs of Parliament in approving and scrutinising government expenditure, the tools available to Ministers to focus public resources on the government's priorities and to set expectations of departments and other government agencies, and the role of departments in ensuring taxpayer's money is used appropriately (whether by the department in providing services itself or by other organisations funded through departments). It provides specific sections on the explanations of inputs, outputs. Outcomes and impact, as well as detail of supporting information provided with the estimates, including examples and reporting requirements.
- 2.5 Further detail of the New Zealand budget process itself, as well as examples of previous budget documents and economic and fiscal forecasts can be located on the Treasury's website.<sup>5</sup> These provide examples of how the outputs-basis for budgeting is presented in the relevant documentation.
- 2.6 There are also a number of reviews of the experience of the New Zealand budget reforms and are a useful source of information regarding the impact of budget reforms and lessons learned.<sup>6,7,8</sup>

### **3. State of Virginia – Virginia Performs**

- 3.1 It is estimated that around 39 states in the US use some form of performance budgeting for at least part of their budget, and some 22 state legislatures report using performance measures in their decision making.<sup>9</sup>

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<sup>4</sup> New Zealand Treasury, [Putting It Together: An Explanatory Guide to New Zealand's State Sector Financial Management System](#), 2011

<sup>5</sup> New Zealand Treasury, [Budgets of the New Zealand Government](#), 2014.

<sup>6</sup> New Zealand Treasury, [New Zealand's Fiscal Policy Framework: Experience and Evolution](#), Treasury Working Paper 01/25, 2001

<sup>7</sup> Webber, D. (2004) [Managing the Public's Money: From Outputs to Outcomes - And Beyond](#), OECD Journal on Budgeting, Volume 4, No. 2

<sup>8</sup> Warren, K. and Barnes, C. (2003), [The Impact of GAAP on Fiscal Decision Making: A Review of Twelve Years. Experience with Accrual and Output-based Budgets in New Zealand.](#), OECD Journal on Budgeting, Vol.3, No.4

<sup>9</sup> The PEW Charitable Trusts, [Using Performance Data to Budget, States Are Saving Money](#), 2009

- 3.2 The State of Virginia has a performance and accountability framework – Virginia Performs,<sup>10</sup> which aligns specific outcomes with larger state-wide goals:

*Quality-of-life measures (societal indicators) answer the question, "How is Virginia doing?" on broad issues such as obesity, land preservation, and educational attainment. Enterprise priorities, issue-specific report cards, and key outcome measures help us see whether we are getting results on our highest priorities -- for example, reducing childhood obesity, increasing agricultural exports, and strengthening workforce skills. Finally, a range of other metrics help us gauge whether state programs and services are producing the desired results and whether agency operations are well managed.<sup>11</sup>*

- 3.3 The Virginia Performs system has been operating for a number of years, and therefore its data collection and presentation systems are fairly developed. Performance is reported as 'scorecards' for specific state agencies, regions or overall. The system also recognises that, as many public services are driven or impacted by forces outside their control, the performance data can only ever be one input into the decision-making process. To demonstrate this, the system assesses whether the policies/actions of the State will have influence on the performance measure. This is shown on the main scorecard page alongside the arrows showing performance.<sup>12</sup>

- 3.4 Virginia's current performance management system is comprised of four, linked processes:
- Strategic planning: Systematic clarification and documentation of what an organization wishes to achieve and how to achieve it.
  - Performance measurement: Systematic collection and reporting of information that track resources used, work produced, and intended results achieved.
  - Program evaluation: Systematic collection and analysis of information to determine a program's performance and reasons for achieving the level of performance.
  - Performance budgeting: Systematic incorporation of performance information (planning, performance measurement, and evaluation information) into the budgetary process.

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<sup>10</sup> Commonwealth of Virginia, [Virginia Performs](#)

<sup>11</sup> Commonwealth of Virginia, [About Virginia Performs](#)

<sup>12</sup> Commonwealth of Virginia, Virginia Performs, [Scorecard at a glance](#)

- 3.5 A review of the Virginia Performs system, how it has evolved, how it operates and how it is continuing to develop to support a fully integrated performance budgeting system is provided by the Council for Virginia's Future.<sup>13</sup> This review provides a rich source of information which should be informative to the Committee. Also of interest is a review of the State's overall financial management system.<sup>14</sup>
- 3.6 The Committee may wish to note that the Scottish Government's Scotland Performs<sup>15</sup> system is largely based on the Virginia Performs system.

#### 4. **Scottish Government – implementation of Scotland Act 2012.**

- 4.1 The Scottish Government's first implementation report<sup>16</sup> details the formation of Revenue Scotland, a new body which will work to administer and secure compliance with devolved taxes. In relation to staffing arrangements for this organisation, the report states:

*The Head of Revenue Scotland was identified in autumn 2012 and has been in post since 1 October. Key staff are being recruited, among them a Chief Operating Officer who has direct experience of tax administration, including the existing UK SDLT. The body will have 9 staff from June 2013. A programme of work has been established with Registers of Scotland and SEPA to oversee design and development of systems, training, guidance, structures and other arrangements to ensure that the devolved taxes can be collected efficiently and effectively from April 2015.*<sup>17</sup>

- 4.2 The second implementation report<sup>18</sup> provides further detail on staffing of Revenue Scotland:

*The Head of Revenue Scotland has been in post since October 2012, and a*

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<sup>13</sup> Council for Virginia's Future, [Evolution of Virginia Performs](#), 2009

<sup>14</sup> University of Virginia Newsletter, Richard Kirk Jonas, [The Development of Performance Measures for Virginia Financial Management and Oversight](#), 1996

<sup>15</sup> Scottish Government, [Scotland Performs](#)

<sup>16</sup> [Scottish Government First Annual Report on the implementation and operation of Part 3 \(Financial Provisions\) of the Scotland Act 2012](#), April 2013

<sup>17</sup> [Scottish Government First Annual Report on the implementation and operation of Part 3 \(Financial Provisions\) of the Scotland Act 2012](#), April 2013

<sup>18</sup> Scottish Government, [The Second Annual Report on the Implementation of the Financial Provisions in the Scotland Act 2012](#), 29 April 2014

*Chief Operating Officer with extensive senior experience in tax operations*

*was recruited in May 2013. A staffing structure has been established and*

*approximately 20 posts were filled by April 2014. These staff are currently*

*located within the Finance Directorate of the Scottish Government. When the new body is formally established, the intention is that staff will transfer across.<sup>19</sup>*

4.3 Note that this body will be dealing with the devolved taxes only, not the Scottish Rate of Income Tax (SRIT), which will be administered and collected by HMRC. The progress on arrangements for this are also set out in the implementation reports.

4.4 In relation to borrowing powers, the second implementation report states:

*Planning work is also underway on systems to handle borrowing by Scottish Ministers to ensure that all transactions are controlled and can be accounted for and reported appropriately.<sup>20</sup>*

4.5 However, no specific details on access to capability to deal with such systems within the Scottish Government are provided.

4.6 The second report also states the intention to provide tax receipt forecasts for the devolved taxes. It states that:

*At present, the OBR provides twice-yearly forecasts of receipts from Stamp Duty Land Tax and UK Landfill Tax in Scotland, based on a historic Scottish share of forecasts of UK receipts for the taxes in question. From the 2015-16 Scottish budget onwards, it will be necessary for the Scottish Government to have reliable forecasts of devolved tax receipts to support accurate budget planning. This function will be provided by professional economists within SG.<sup>21</sup>*

4.7 The Scottish Government are also establishing an independent Scottish Fiscal Commission to review government forecasts of receipts from devolved taxes. Nominations to the Commission were announced earlier this year.<sup>22</sup>

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<sup>19</sup> Scottish Government, [The Second Annual Report on the Implementation of the Financial Provisions in the Scotland Act 2012](#), 29 April 2014

<sup>20</sup> Scottish Government, [The Second Annual Report on the Implementation of the Financial Provisions in the Scotland Act 2012](#), 29 April 2014

<sup>21</sup> Scottish Government, [The Second Annual Report on the Implementation of the Financial Provisions in the Scotland Act 2012](#), 29 April 2014

<sup>22</sup> Scottish Government, News Release, [Fiscal Commission members nominated](#), 19 May 2014

