

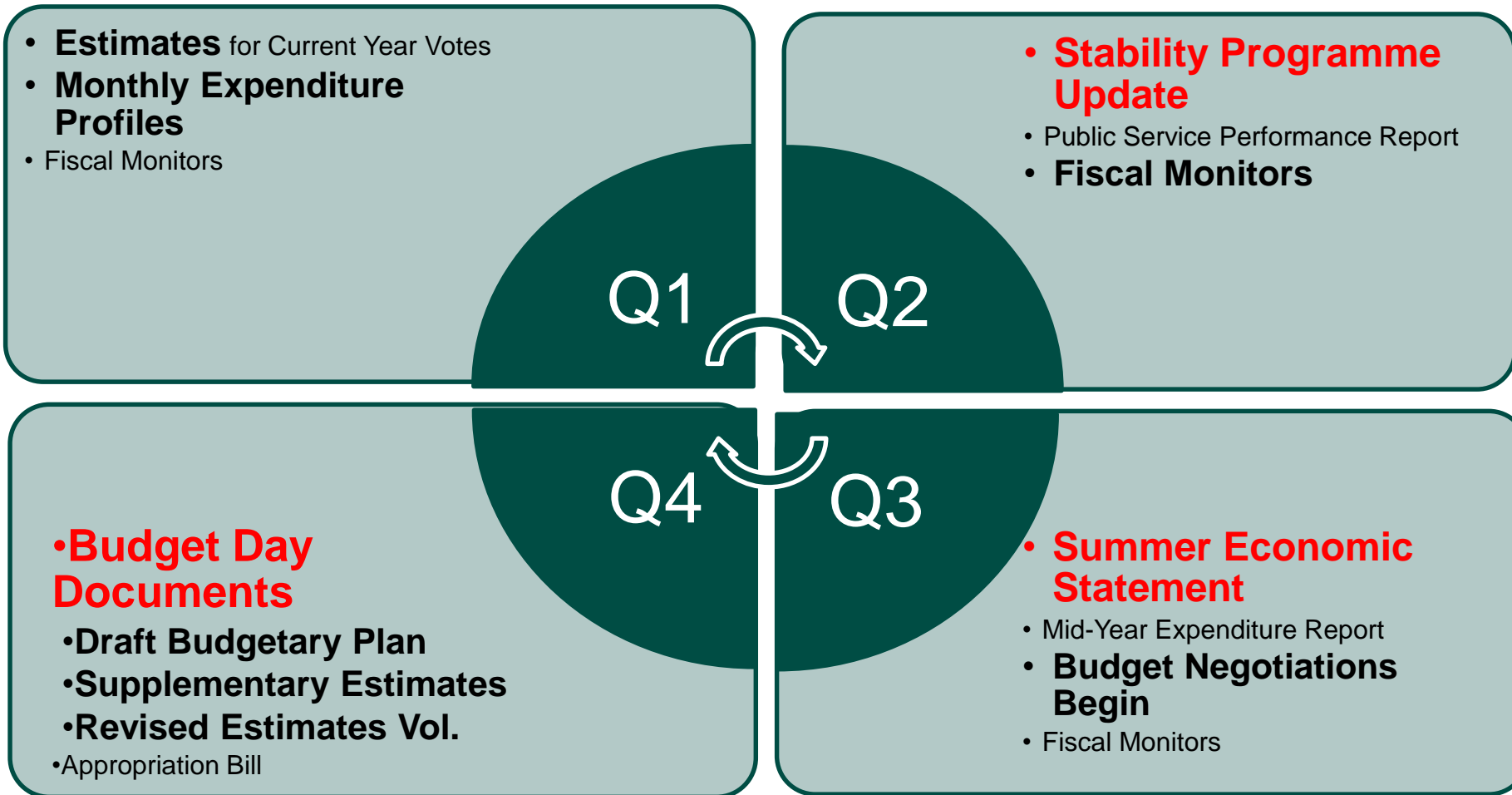


An Roinn Caiteachais Phoiblí
Sheachadadh PFN agus Athchóirithe
Department of Public Expenditure
NDP Delivery and Reform

Irish Budgetary Framework: The Whole of Year Budget Process

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Whole of Year Budget Process



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Irish Budgetary Framework

Irish Budgetary Framework



- **EU Fiscal Rules**
 - *Stability and Growth Pact/Fiscal Compact*
- **Fiscal Responsibility Act 2012**
 - *Ireland's Domestic Budgetary rule*
- **Preventative and Corrective Arms**
 - *Keep Gov't accounts close to balance or in surplus*
 - *Excessive Deficit – deficit (3%) and debt criteria (60%)*

General Escape Clause



- Activated March 2020 – extended through 2023, fiscal rules requirement expected to return in 2024 **(2025)**
- Allows temporary deviation from requirements under EU fiscal rules (similar for domestic)
- Negotiations ongoing with DFIN: can write our own rules, need to define.

Limitations



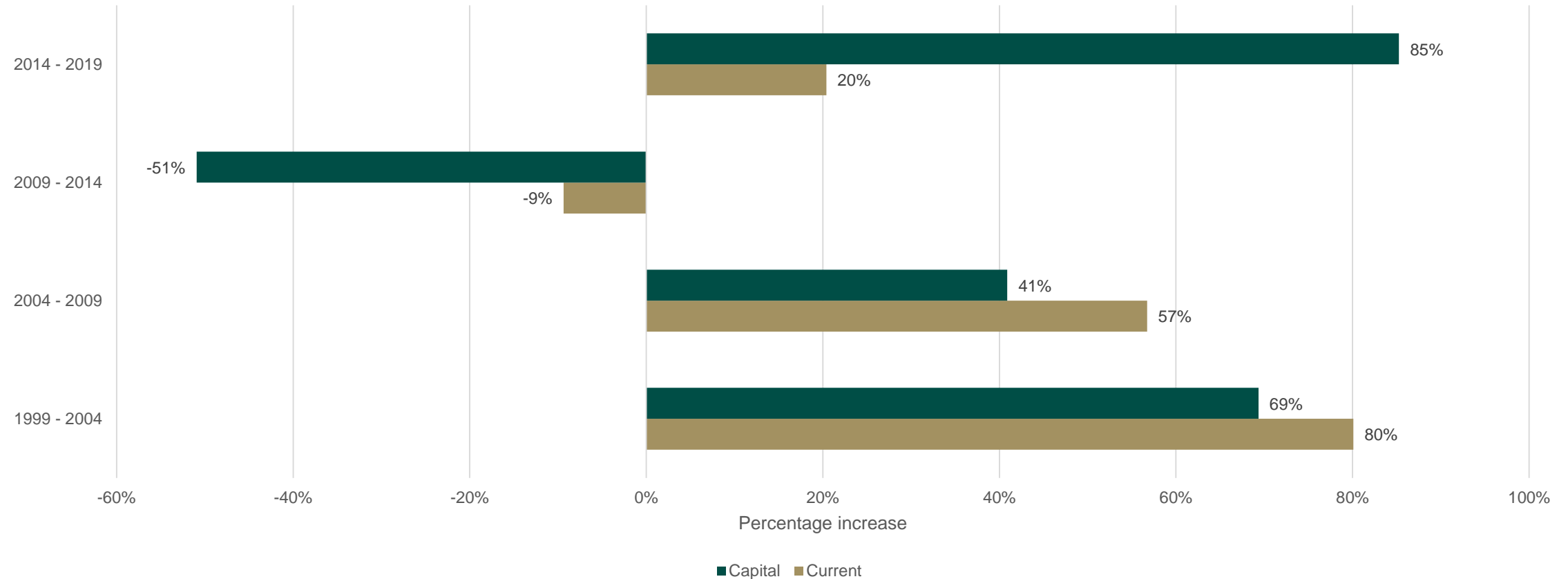
- One size fits all approach and complicated interpretations
 - *Structural Balance*
 - *Debt ratio*
 - *Expenditure rule*
- Write rule(s) that don't necessitate too much administration: be realistic with expenditure and Revenue.



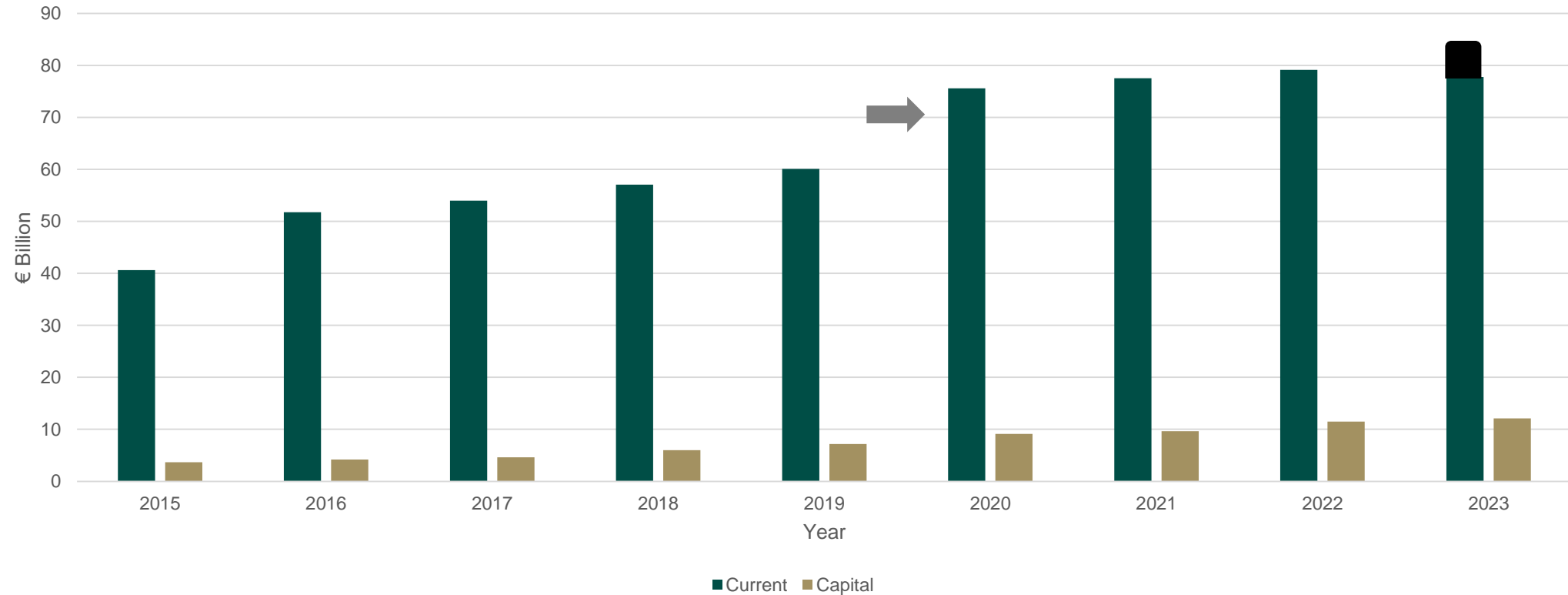
2 Why does it matter?

Lookback @ Expenditure 1999 - 2019

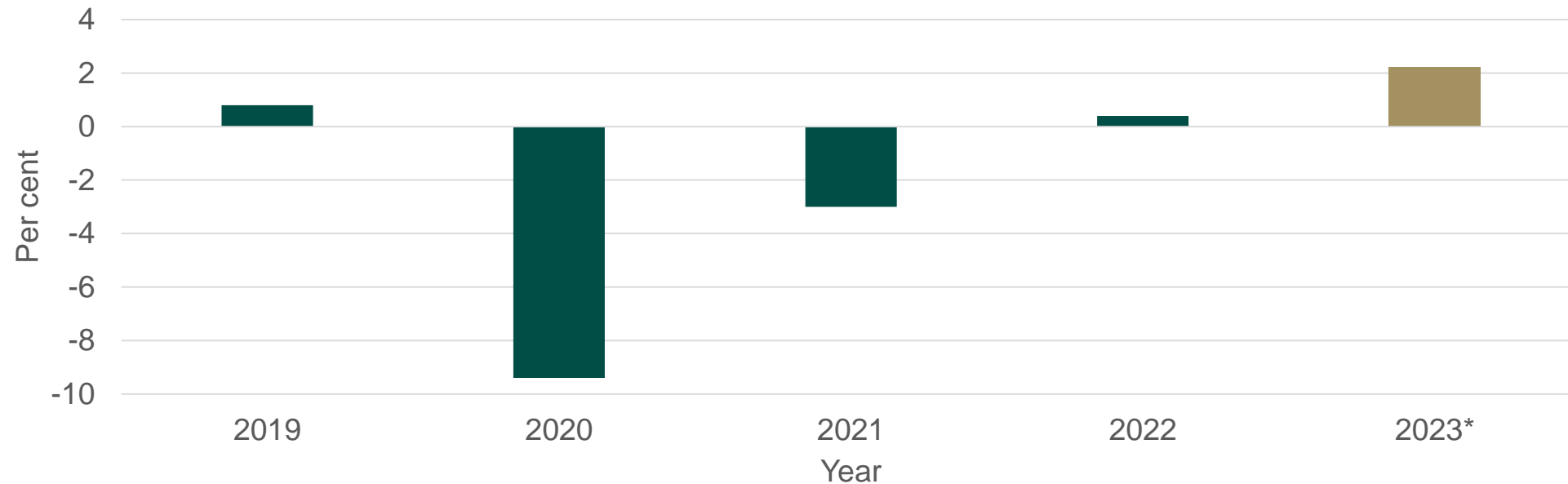
(Current V Capital cuts...)



Growth by Core Expenditure Type 2015 – 2023 (REV)



General Government Balance, per cent GNI* (2019-2023*)



Risks and Challenges



- Volatility of expenditure growth driven by the fiscal cycle
- Periods of expenditure increases followed by significant reductions in expenditure put at risk:
 - *Investment in public services*
 - *Investment in infrastructure*
- Significant impact of external challenges on the fiscal position:
 - *Brexit.....COVID....Ukraine....Cost of Living*
 - *€15 Bn in 2020 down to €4.5 Bn for 2024*
- Mitigate through the Medium Term Fiscal and Expenditure Strategy
 - *Anchor for 'Core' Expenditure (capital & daily expenditure)*
 - *Separate 'non-core' and don't build in*



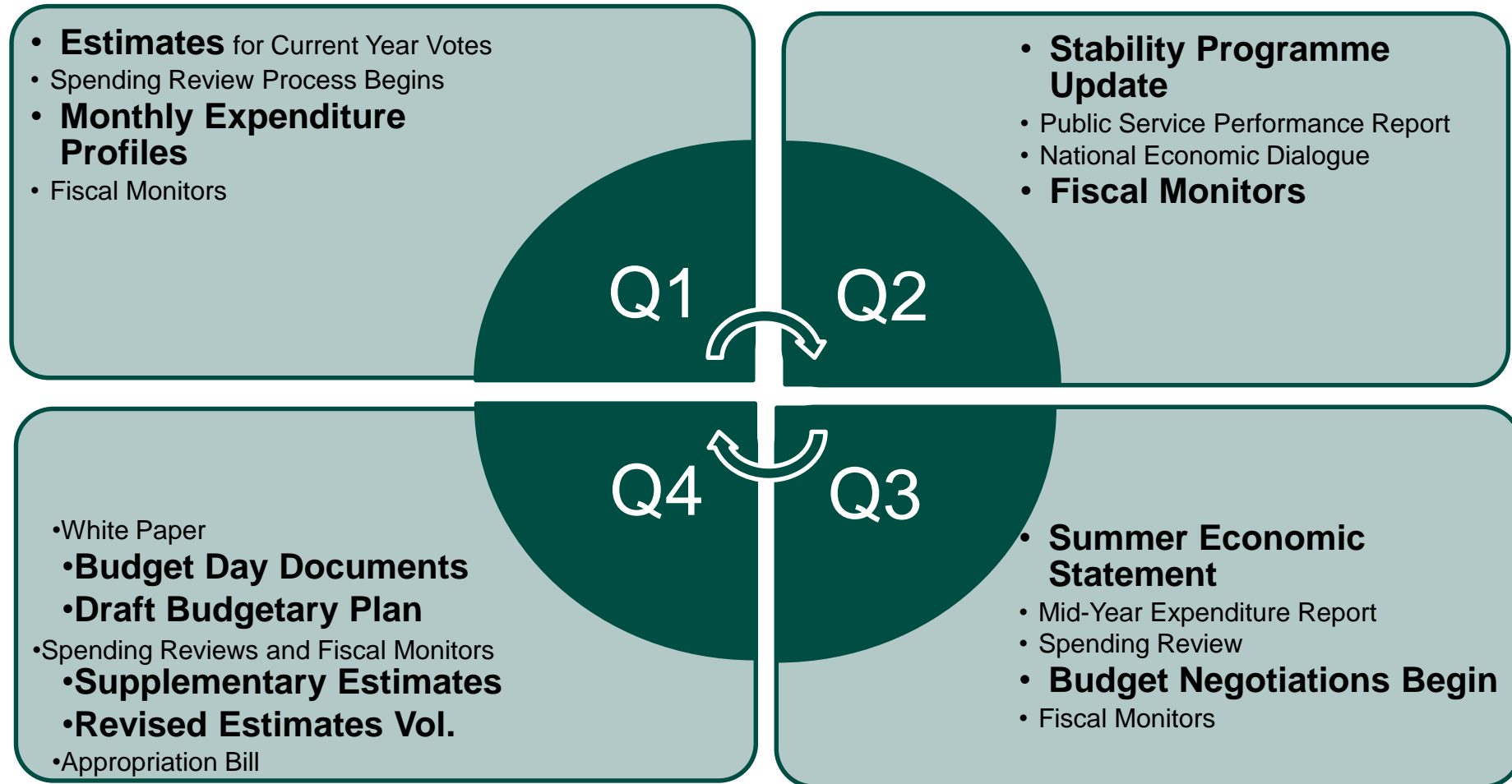
3 Strengthening the Fiscal Framework

Strengthening the Fiscal Framework



- **Improved Process**
 - *Whole of Year Budget Process* (will come to that)
- **Enhanced and Responsive Strategy**
 - *Medium Term Expenditure Framework*
- **Improved Analysis and Enhanced Debate**
 - *Spending Reviews*
 - *Irish Fiscal Advisory Council (Fiscal Council)*
 - *Irish Government Economic and Evaluation Service (IGEES)*
 - *Parliamentary Budget Office (PBO)*
 - *Performance and Equality Budgeting*

Whole of Year Budget Process





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Medium Term Expenditure Framework

Medium Term Expenditure Framework



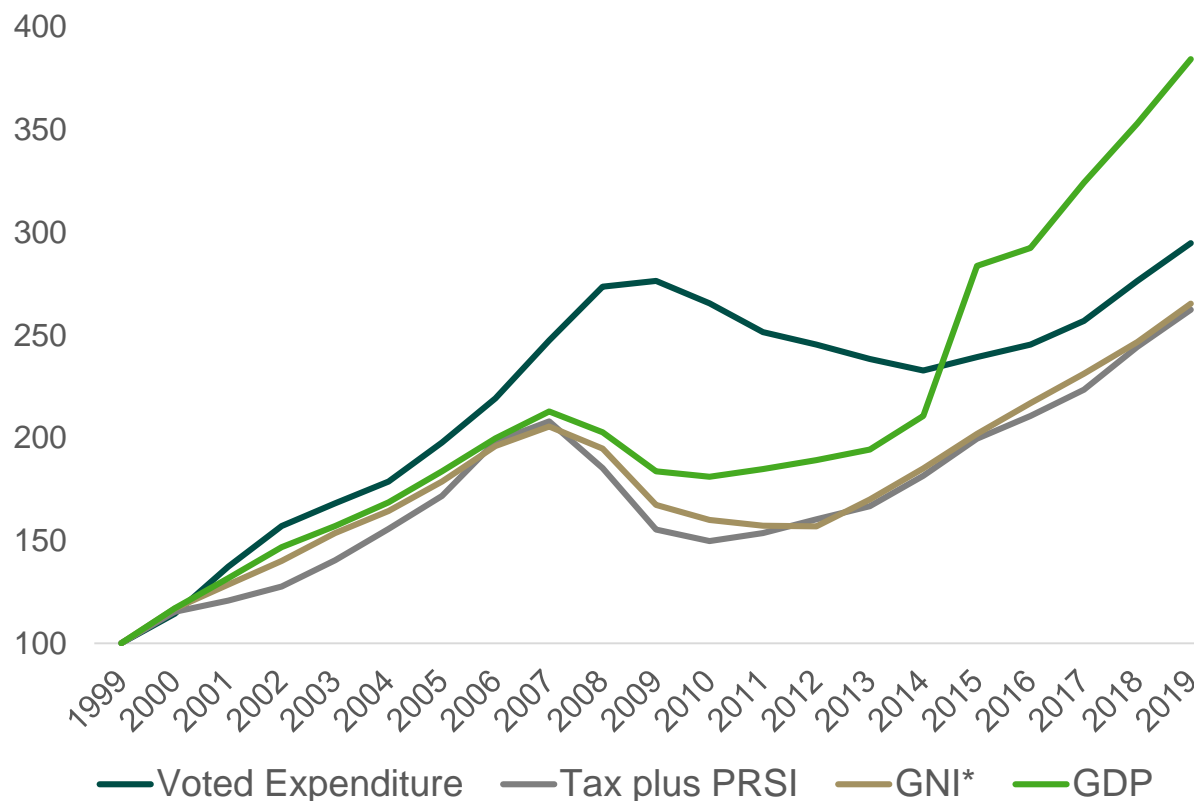
- Summer Economic Statement 2021 set out the framework
- Sustainable expenditure policy requires:
 - *Setting the core expenditure growth rate at sustainable levels (5% ideal); and*
 - *Providing ongoing improvements in public services.*

5% Growth Rate, Medium Term Expenditure Strategy

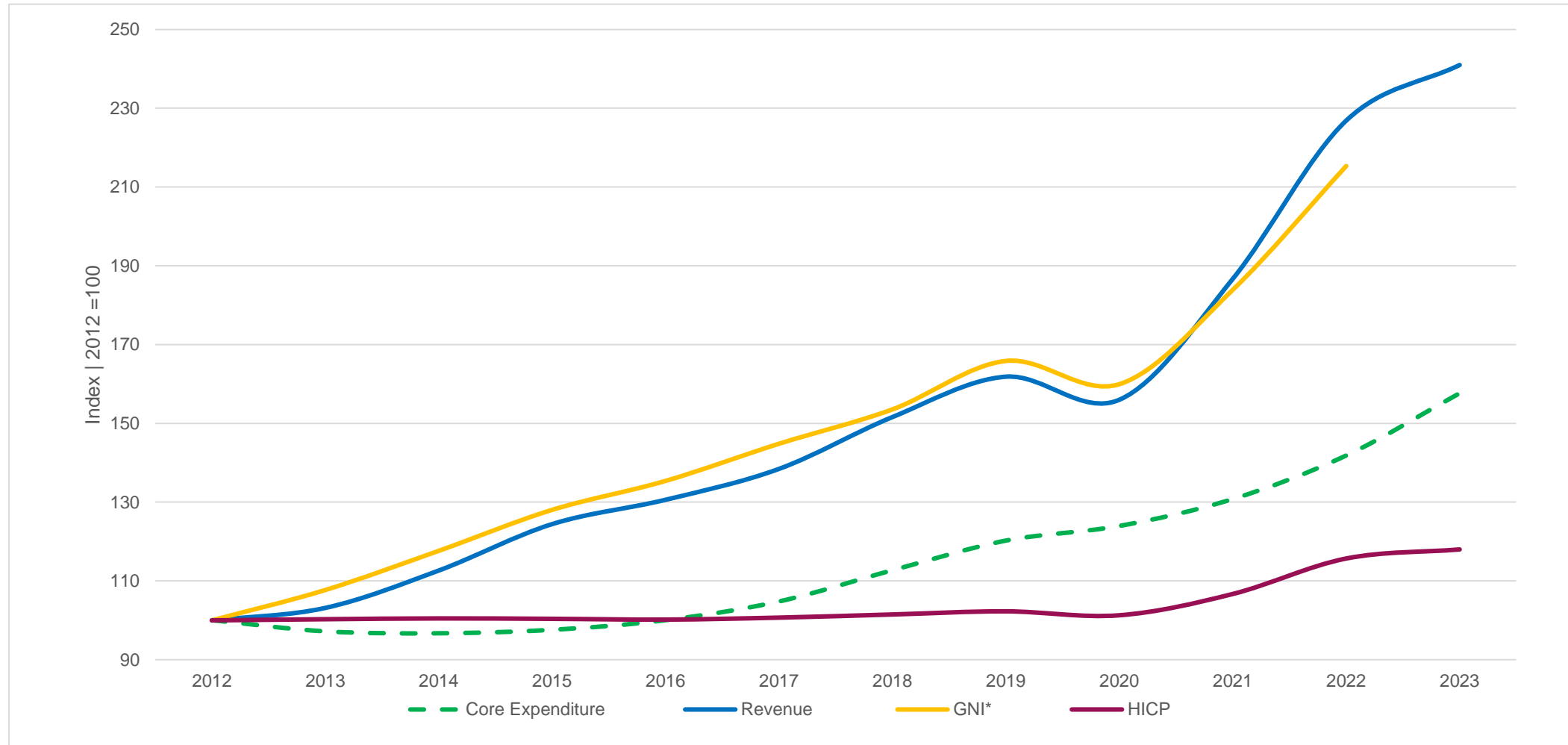


- Link core expenditure growth to trend growth rate of the economy.....
(20 yr lookback)
- Annual growth rate of **core** expenditure of approx **5 %**:
 - *3% long term real*
 - *estimated **2%** inflation.*

Expenditure v Revenue and Economic Growth 1999-2019



More Recent 11 year trend



ELS Provision 3% of Core Current Expenditure



- Consider a range of factors:
 - *Actual demand & potential changes*
 - *Specific price pressures*
 - *Any capacity constraints which may exist*
- Financial Management & Policy Evaluation Key



Medium Term – Expenditure Considerations



- MTES : ensure levels of spending are affordable over the medium term.
- Consider prioritisation and trade offs within the overall fiscal framework.
 - *Future Ireland Fund (won't have to cut capital) Vs 'spend, spend, spend'*
- Covid expenditure drove increase in public debt 2020/21.
- External and domestic risks could place demands on expenditure:
 - *Public health restrictions?*
 - *Supply chain disruption;*
 - *Further Energy shocks (Middle East Conflict & Oil)*
 - *Ukraine Humanitarian Provision & IPAS Obligations*
 - *Lack of Housing Stock & Full Employment*



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Expenditure Strategy 2024

Context:



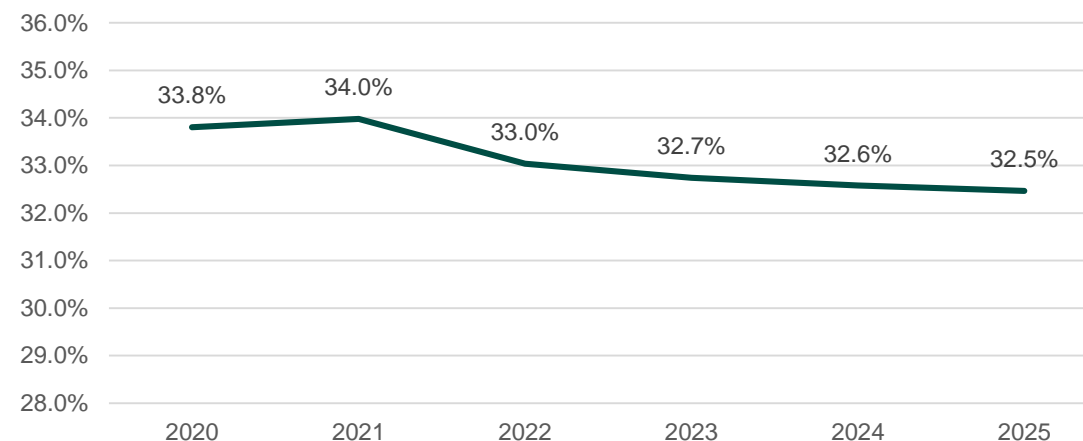
- 4 successive **external shocks**
- **Economy** rebounded strongly in 2022 /23, **but** remains in an **elevated inflationary** environment
- **€17.5 billion** of supports since Budget 2022 on **Cost of Living** (incl Tax and Excise revenue measures)
 - *continued priority* *-not so much as to be inflationary* *-combine CORE with temporary measures to protect most vulnerable*
- **Strong Fiscal Position**: Flexible approach that supports fiscal sustainability
- **Stick to the anchor** in the MTES (smooth path back from 2025 on)

Context: Spending falls as % of Economy

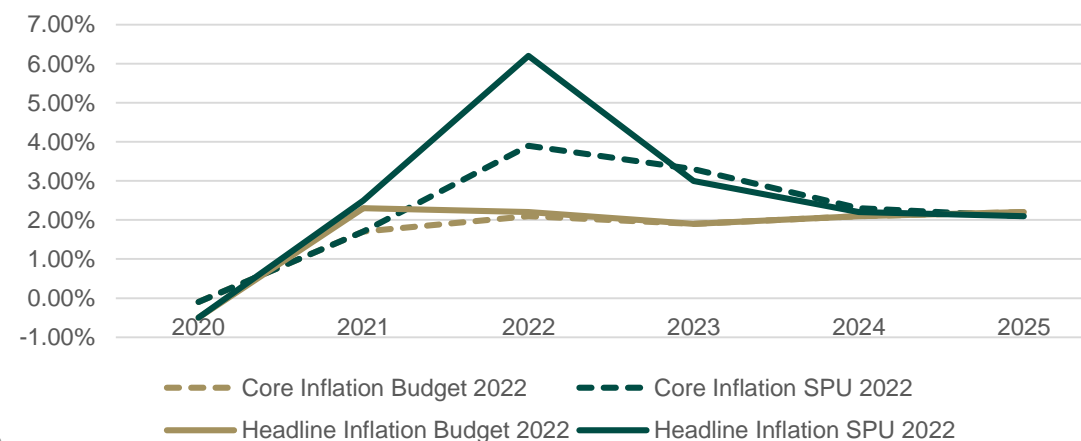


- In setting spending framework at 5%, this included 3% real growth and an inflation expectation of 2%.
- With higher than expected inflation it becomes more difficult to keep to the spending level specified in nominal terms without real falls in the levels of services provided.
- For the MTES to be sustainable it requires both:
 - *Setting the core expenditure growth rate at sustainable levels, and*
 - *Providing ongoing improvements in services*

Core Voted Expenditure as % of GNI* (SPU 2022)



Headline vs Core Inflation Budget 2022 vs SPU 2022

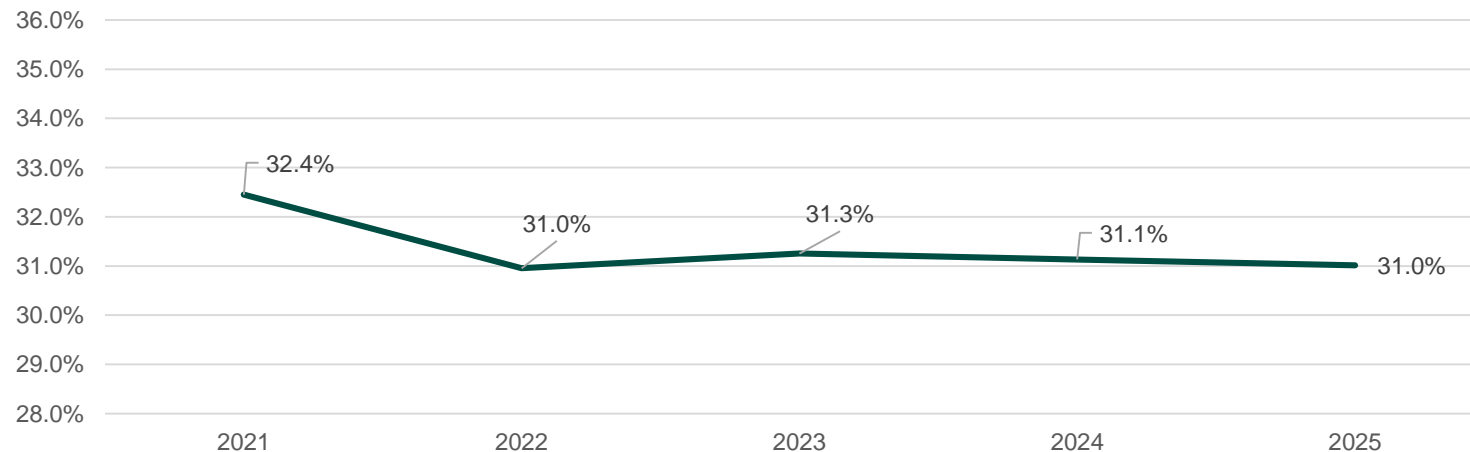


Adjustment to Medium Term Expenditure Strategy (Anchor)



- Balancing
 - Increase required to deliver on priority areas, including extension of pay agreement,
 - Avoiding adding further inflationary pressures and unsustainable permanent increases in expenditure.
- Temporary Adjustment to the Medium Term Expenditure Strategy – Two Pronged Approach
 - Core Expenditure Package of €5.8 billion
 - Non-Core €4.5 billion plus Winter Cost of Living Package

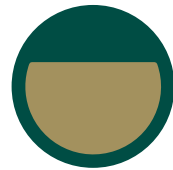
Core Expenditure as % of GNI* (Budget 2023)



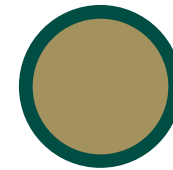
Core Expenditure



Capital
NDP



ELS
3 per cent



New Measures
Including Pay
agreement
extension

- Analytical inputs
 - *Consideration of Government priority issues and Votes fiscal position*
 - *Analysis by Departments and Votes on ELS and new measures*
 - *Engagement with D/Finance on fiscal position and macro impacts*
 - *Analysis by DPER on pay agreement*

Responsive Approach to External Factors : **Non-Core**



- Cost of Living Package(s).....should be last one!!
- Wind down of Covid expenditure across Dept's
- Ukraine Expenditure – based on high arrivals in 2023
- Brexit Adjustment Reserve (EU) and National Recovery and Resilience Plan (EU) expenditure

Expenditure Strategy 2024

Case for another Adjustment



- Elevated inflation level has significant implications for the fiscal and expenditure strategy. Is coming down but....
- Responsive to altered economic landscape.
- Real value of public services – adjustment required.
- Additional, but minor (relatively) capital spend (outside NDP)

Risks and Challenges



- Maintaining MTES anchor approach and two pronged approach to non core in our Expenditure Policy (i.e. temporary non core measures)
- Preventing non-core expenditure getting ‘baked in’
- Fiscal rules – need to be prudent but not overly so
- Misleading ‘non-core’ expenditure as way of dealing with core spend



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Improved Analysis: Spending Reviews

What is a Spending Review?



International Context:

- Since Global Financial Crisis dramatic increase in use across OECD.
- 2 main purposes, to improve
 - *Control over level of aggregate expenditure*
 - *Expenditure prioritisation*

Irish Context:

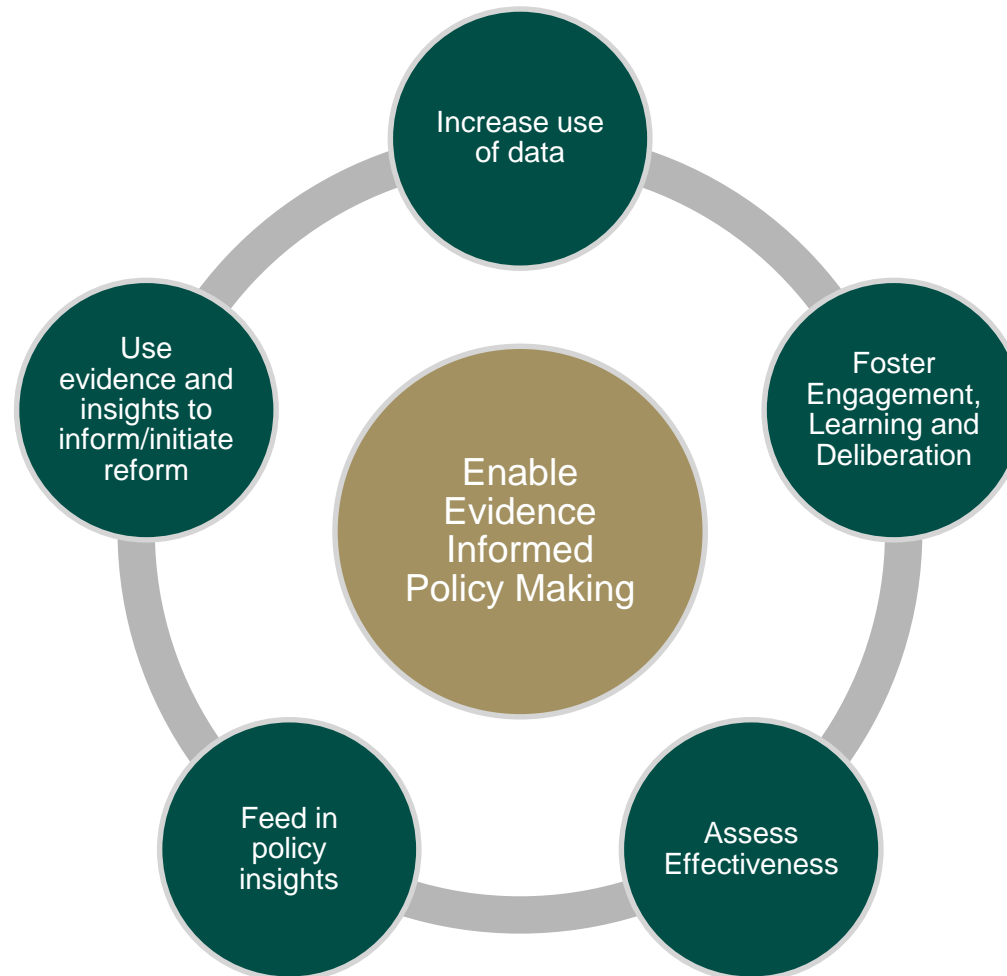
- Improve how public expenditure is allocated
 - *Support evidence informed policy making*

Irish Spending Reviews- History



- Aligns with European-wide adoption following financial crisis
- Initial Spending Reviews focused on cuts, more recently promote spending efficiency and effectiveness in the context of the MTES
- Revise that thinking?

Purpose and Objective of Spending Review 2020-2022



Spending Review 2017- 2022: Overview



- 7 years completed (well almost)
 - *182 research papers to date (8 more due in Feb)*
 - *Swing from DPENDPR 'Vote' papers to 50:50 with Dept's*
 - *Joint papers growing*
- Range of topics: health, education, justice, enterprise supports, civil and public service staffing, pay and pensions, foreign affairs, children, climate change, agriculture, defence, transport, housing and state property.
- Wide range of Departments and Agencies involved.



7 Enhanced Policy Debate

Irish Government Economic and Evaluation Service



- Established 2012
- Initially centralised in DPER, IGEES units now in all policy Departments:
 - *producing and reviewing business cases*
 - *undertaking policy analysis*
 - *Spending Review papers and other evaluations*
- Feed evidence into the Whole of Year Budgetary

Irish Fiscal Advisory Council



An independent statutory body with a mandate to:

- Assess and endorse the Government's official economic forecasts
- Assess budgetary forecasts
- Assess the Government's fiscal stance
- Monitor fiscal rules

Fiscal Assessment Report

November 2022

A Budget in the time of inflation

 Irish Fiscal Advisory Council



Parliamentary Budget Office



- The Parliamentary Budget Office (PBO) provides independent and impartial information, analysis and advice to the Houses of the Oireachtas.
- Ex-ante scrutiny of budgetary matters
- Reviews Budgetary documents



Budget 2023 Publications

Budget 2023 may be described as a 'cost-of-living' budget, with many measures potentially being implemented on a 'once-off' basis.

Read some in-depth commentary on the possible effect of measures in advance of Budget 2023 or use our ready reckoner for a quick overview.

-  Pre-Budget 2023, Parliamentary Budget Office Commentary
-  PBO Pre-Budget 2023 Ready Reckoner
-  Preliminary Review of Budget 2023
-  Post-Budget 2023 Debt Infographic



Budget 2023 Analysis

Check out our visualisations to see the potential effects in Budget 2023 of tax and welfare changes, the costs of providing extra public servants, the distributional effect of the forthcoming budget and the progressivity of targeted versus universal measures.

-  PBO Pre-Budget 2023 Tax and Welfare Exchequer Budget Tool
-  Annual Cost of Extra Public Servants Calculator
-  Real Distributional Impact - Selected Potential Budget 2023 Tax and Welfare Measures
-  Progressivity of Targeted Versus Universal Measures
-  Post-Budget Debt Infographic

Summary



- Irelands Budgetary Framework is framed in the context of the EU and Domestic Fiscal Rules
 - *But this has limitations – complicated and one size fits all (GDP?), should fiscal policy be responsive to its context?*
- A wide variety of reforms are in place to strengthen this framework including:
 - *The whole of year budgetary approach*
 - *The Medium Term Expenditure Framework*
 - *The Spending Review / Staff Papers / VFM reviews (Local Auth)*
 - *Enhanced Policy Debate through IGEES and other actors*
 - *Performance and Equality Budgeting.....Wellbeing too*