

Multiannual Expenditure Ceilings: An effective control for spending or simply the baseline? PBO Publication 11 of 2019 - Expenditure Analysis Series

Key Messages

- Ministerial Expenditure Ceilings appear to be treated by key expenditure Departments (Health, Housing, Planning and Local Government, and Education and Skills) as the baseline for expenditure expectations, and are regularly exceeded by any unforeseen events, inefficiencies or overruns in cost.
- Between 2012 and 2017, overall outturn fell within the ceiling only in 2013.
- Ministerial Ceilings are revised in the *Budget* and the *Mid-Year Expenditure Report*, with a pattern of upward revisions each year, potentially twice per year.
- *Budget 2019* saw the largest upward revisions over the three-year period for ceilings since they were introduced.
- The ceiling for 2019 was originally set at €53.6 billion in 2016 but has now increased to €59.3 billion.

Introduction

The *Medium-Term Expenditure Framework* is a set of administrative procedures employed for the management of Voted Expenditure over the medium term by way of three-year ceilings. The legal basis for these ceilings is set out by the *Ministers and Secretaries (Amendment) Act 2013*. These ceilings were first introduced on an administrative basis in 2012, under the *Comprehensive Expenditure Report 2012-2014*, and were subsequently placed on a legal and procedural footing. EU legislation¹ requires that Member States establish medium-term budgetary frameworks covering at least three years.

Ceilings are set out in each Budget for the following three years (e.g. Budget 2019 includes ceilings for 2019, 2020 and 2021). These ceilings cover Voted Expenditure in addition to the National Training Fund and the Social Insurance Fund. The ceilings are set at an aggregate level, and also at Ministerial Vote Group level.

Capital and Current Expenditure

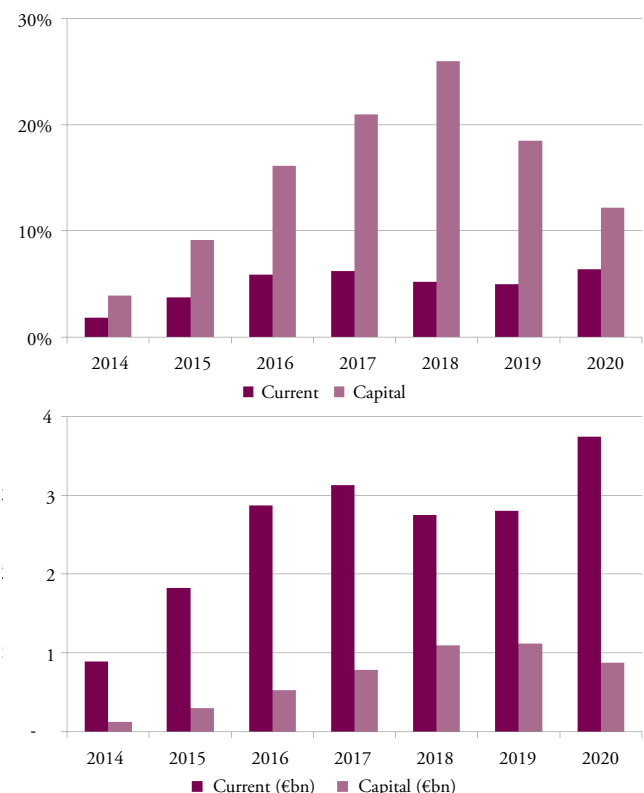
Since 2014, ceilings have been set for both capital and current expenditure in the Budget. However, the process for setting these ceilings is different. The capital expenditure ceiling is generally set and modified as part of a National Development Plan. As Figure 1 illustrates, the proportional growth in capital expenditure ceilings

1 [Council Directive 2011/85/EU](#), the “Budgetary Frameworks Directive”.

has been very significant from 2015 onwards. As capital expenditure forms a relatively small proportion of overall Voted expenditure (11%), the increase in financial allocations is less significant. Changes to the capital ceilings are predominantly based on strategic decisions and centralised long-term planning, based on projections of the capital investment required to deliver infrastructure projects.

Figure 1 also illustrates how the relationship between capital and current ceilings is inverted; relatively low percentage increases in current expenditure ceilings have very significant financial impacts. Based on current projections for 2018-2022, the allocations of capital expenditure vary by an average of 1% from the allocations in the *National Development Plan 2018-2027*.² Due to the financial impact of revisions to current expenditure ceilings and the planned nature of capital ceilings, this Note will focus on the operation of the current expenditure ceilings.

Figure 1: Revisions to Expenditure Ceilings (% and € billions).



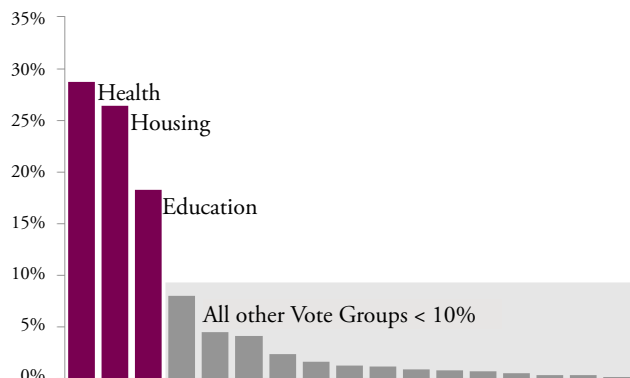
Source: *Budgets 2012 to 2019*.

2 PBO's own calculations based on *Budget 2019* and the *National Development Plan 2018-2027*.

Areas driving ceiling 'inflation'

As Figure 1 shows, the ceilings for current expenditure have faced significant upward pressures since 2014. Over the longer term, revisions to forecasts for current expenditure are largely cyclical, revising downwards during periods of economic contraction and upwards during economic expansion.³ While revisions are a part of the framework for the expenditure ceilings, the consistent upward revisions suggest that they have very limited surety of being adhered to. Figure 2 shows that the most significant drivers of these upward revisions are the Health, Housing and Education Vote Groups.

Figure 2: Share of Deviation in Ceilings by Vote Group (2017-19).



Source: PBO Own Calculations based on *Budgets 2017, 2018 and 2019*.

Expenditure Growth in Health

From 2015 to 2021, the ceiling for current expenditure under the Health Vote is currently projected to rise by 25% or €3.3 billion. In 2015, the Health Vote was at its lowest point following the recession.⁴ The current expenditure ceiling of €16.4 billion projected for 2021 is significantly in excess of its pre-crisis peak of €15 billion. Given the historical trend under this Vote Group, it is highly unlikely that the actual current expenditure in 2021 will be constrained within this €16.4 billion ceiling. As Figure 3 illustrates, since 2017 the Health Group ceilings have 'inflated' upwards each year and outturn consistently exceeds the ceiling.

³ Irish Fiscal Advisory Council, *Fiscal Assessment Report*, (2018) p. 139.

⁴ This drop was largely the result of a change to the way income in the health sector was accounted for. Appropriations-in-Aid under the Health Vote Group fell by €814 million in 2015, while Gross Expenditure fell by €397 million.

Figure 3: Health Vote Group Current Expenditure Multiannual Ceilings and Outturn, € billions.

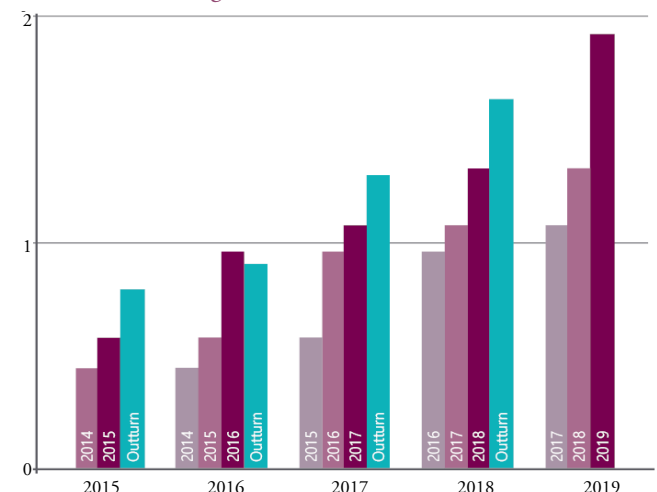


Source: *Budgets 2014 to 2019*, and DPER Databank.

Changing priorities for the Housing Vote

The Housing Ministerial Vote Group is a complicated subject for year-on-year analysis. This is because of the transfer of functions (the Community and Environment portfolios) out of the Vote and the inclusion of Irish Water expenditure from 2018 onwards.⁵ This means that a simple trend analysis may be misleading.

Figure 4: Housing Vote Group Current Expenditure Multiannual Ceilings, € billions.



Source: *Budgets 2014 to 2019*, and DPER Databank.

While Housing may be often considered as a capital expenditure focused area, the Department has increasingly relied upon current expenditure to deliver social housing units; 73% of social housing units were delivered by

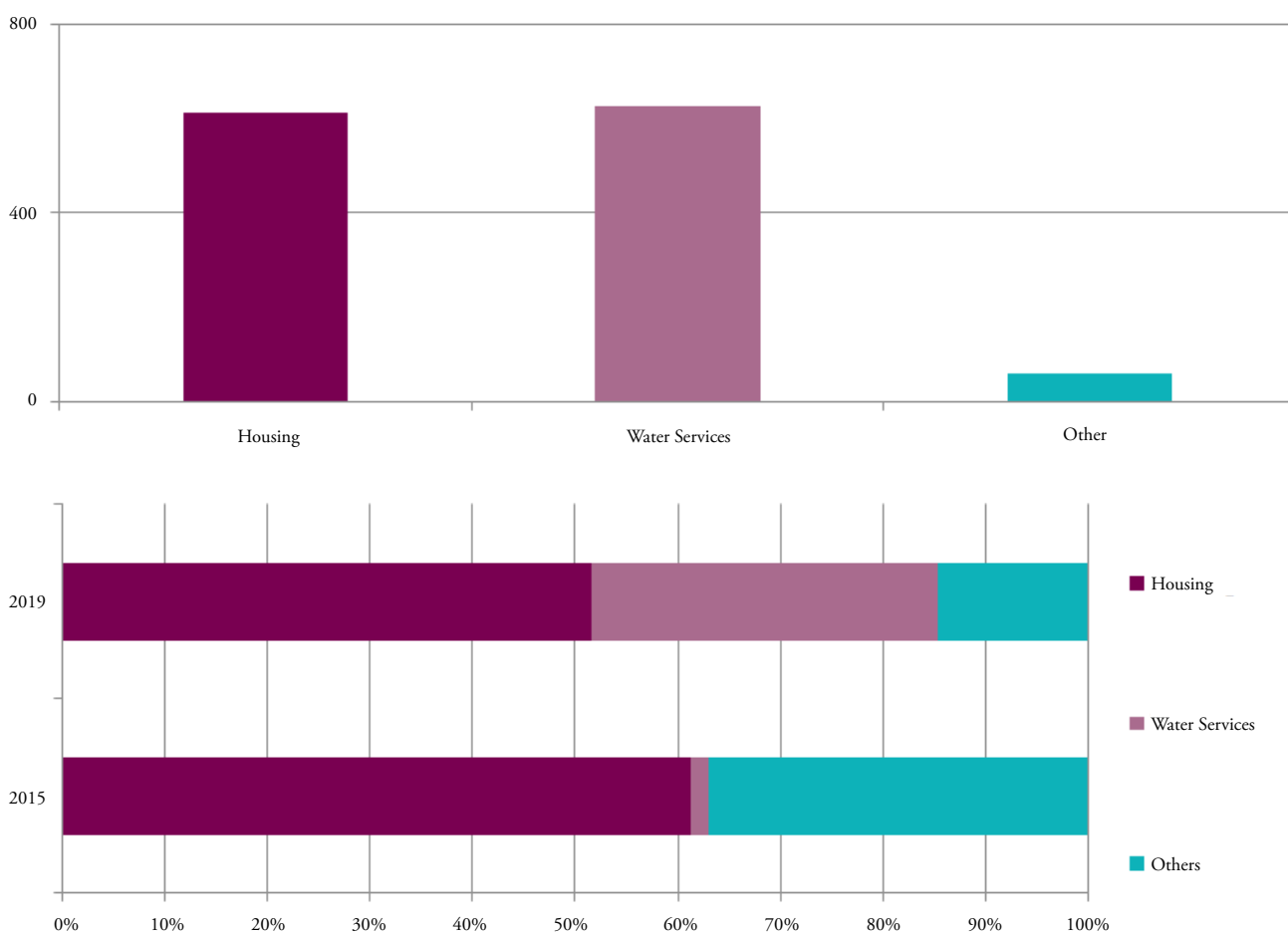
⁵ *Spending Review 2018: Trends in Public Expenditure*, IGEEs (2018) p. 155.

Housing Assistance Payment and Rental Accommodation Scheme in 2017.⁶ The Department's targets expect this share to fall to 45% by 2021.⁷ However, due to this policy, there have been significant upwards revisions to the current expenditure ceilings out to 2019. As Figure 5 shows, the vast majority of the increase between 2015 and 2019 was targeted at the two areas of Housing and Water Services. These two areas rose from 63% to 86% of the total allocation under the vote between 2015 and 2019. This is largely the result of the re-allocation of €1.1 billion in Irish Water expenditure to the Vote in 2018. Thus, the large increase in this Vote's ceiling must be viewed in the context of the large changes to its portfolio over the period.

Education

The Education and Skills Vote Group is the final source of major variation identified in Figure 2. As Figure 6 shows, this Vote also displays a pattern of annual upwards pressure on current expenditure ceilings. Since 2013, final outturn has only remained within the ceiling in two (2013 and 2016) out of the six years. During the period between 2015 and 2019, expenditure on primary and post-primary education rose by €1.25 billion, while all other areas (i.e. Further and Higher Education) rose by €370 million. This large concentration on one area of expenditure may be expected, given the sustained growth in primary and post-primary student numbers since before the economic crisis, as illustrated in Figure 7.

Figure 5: Housing Vote Gross Expenditure by Programme, 2015-2019, € millions.

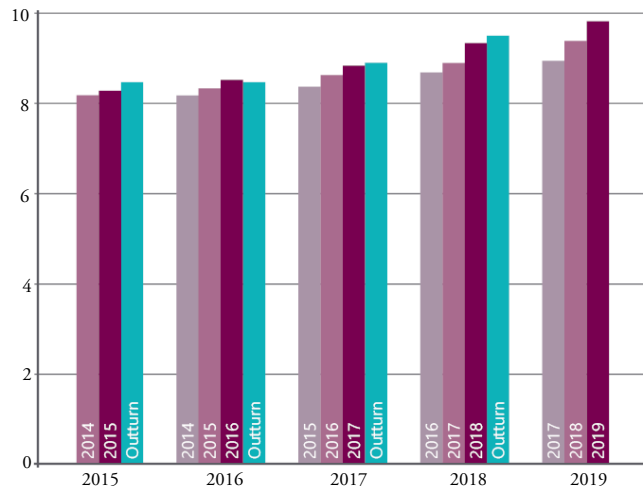


Source: *Budget 2015* and *Budget 2019*.

⁶ *Ibid*, p. 165.

⁷ *Ibid*.

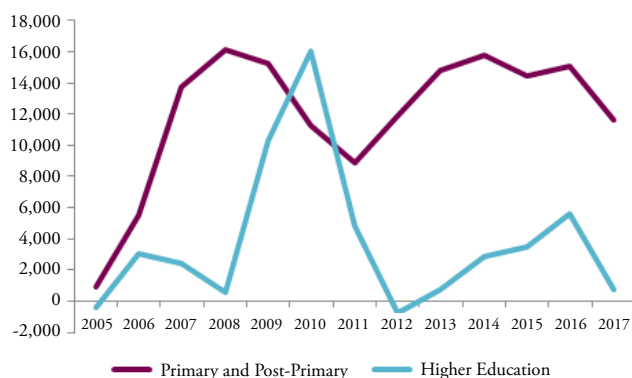
Figure 6: Expenditure and Skills Vote Group Multiannual Current Expenditure Ceilings, € billions.



Source: *Budget 2014 - 2019*, and DPER Databank.

However, the Department's own enrolment projections predict that demand for primary and post-primary education will peak in 2020.⁸ At this point, the importance of the primary and post-primary sectors within the Vote should begin to decrease. Tracking developments post-2020, when demand for some of these services can be expected to decrease, will illustrate whether the government can control expenditure as the underlying cost pressures decrease. Overall expenditure ceilings for this Vote Group may not decrease, as demand will be moving from primary and post-primary education to further and higher education.

Figure 7: Year-on-Year change in pupil numbers.



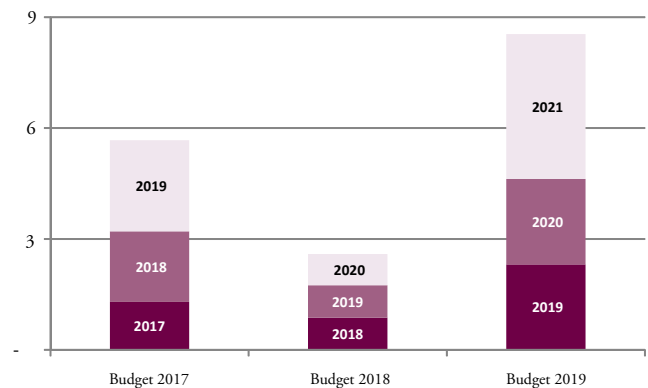
Source: CSO, Table EDA37.

⁸ *Projections of Full-Time Enrolment: Primary and Second Level, 2018-2036*, Department of Education and Skills (2018) p. 7-10.

Conclusions

Budget 2019 appears to mark a transition point for the management of public finances, and of the application of the Multiannual Expenditure Ceilings. As Figure 8 shows, the change in the ceilings made in Budget 2019 is significantly larger than in previous years.

Figure 8: Revision to ceilings in Budgets 2017-2019, € billions.



Source: *Budget 2017-2019* and *Mid-Year Expenditure Report 2016*.

Since their introduction, expenditure ceilings have been regularly revised upwards, and end-outturn has usually exceeded the final ceiling. It appears that the function of the Multiannual Expenditure Ceilings in the budget framework is to set an agreed upon starting position for expenditure.

Disclaimer: This document has been prepared by the Parliamentary Budget Office (PBO) in accordance with its functions under the Houses of the Oireachtas Commission Act 2003 (as amended) for use by the Members of the Houses of the Oireachtas to aid them in their parliamentary duties. It is not intended to be either comprehensive or definitive. The PBO may remove, vary or amend any information contained therein at any time without prior notice. The PBO accepts no responsibility for any references or links to or the content of any information maintained by third parties. Staff of the PBO are available to discuss the contents of these papers with Members and their staff, but cannot enter into discussions with members of the general public or external organisations.

Contact: PBO@Oireachtas.ie

Go to our webpage: www.Oireachtas.ie/PBO

Publication Date: 08 March 2019