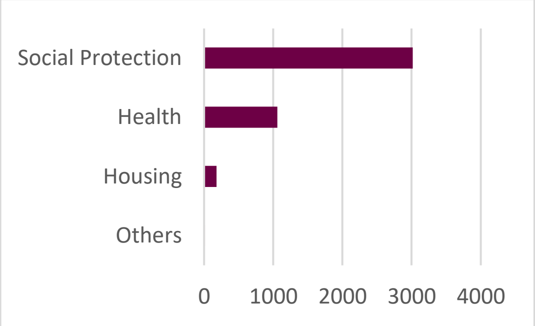
Voted Spending to May 2020: The Continuing Impact of COVID-19

PBO Publication 35 of 2020 – Expenditure Analysis series

Voted spending is now €4.3 billion above pre-pandemic expectations…

The Government's response to the COVID-19 pandemic continues to drive higher than forecast spending in a small number of fiscally significant Vote Groups, primarily Health and Employment Affairs and Social Protection. Both have effectively doubled their overspend[1] since April month end - to €1.1 billion and €3 billion, respectively. The overspend in Housing has reduced in May - down to €179 million, from €188 million in April.

Figure 1: Gross Spending v. Profile, at end-May 2020



Key Messages

- Overall Government gross voted spending is €4.27 billion above pre-pandemic expectations so far this year.
- Current spending continues to account for the overspend, with capital spending only €50 million below the original profile for 2020 spending at the end of May.
- Dáil approval (granted on 28 May) for the Revised Estimate for the Employment Affairs and Social Protection Vote (no.37) has temporarily relieved spending pressure on that Vote by providing additional funding, and by removing the 80% spending limit.
- The Minister for Public Expenditure and Reform has advised the Dáil that some Estimates will be taken at the end of June and the majority by mid-July. This should remove any immediate concerns of reaching the 80% spending limit in other Votes.
- The impact of the COVID-19 pandemic on Voted spending will become clearer as the economy reopens, and as Government decides whether or not policy areas such as Public Transport and Higher Education require State-funded interventions.
- Upon request, several Government Departments have again provided the PBO with data relevant to this analysis of the Fiscal Monitor for Members of the Oireachtas. The PBO wishes to acknowledge this co-operation, which enhances transparency and promotes parliamentary scrutiny.

Introduction

Each month, the Government reports on the money collected and spent by central government in the Department of Finance's Fiscal Monitor. This PBO Note analyses Voted spending[2] at the end of May 2020 and provides further context to inform Members in their consideration of Government spending on the public services so far this year. The absence of approved Estimates for all but one Vote (Employment Affairs and Social Protection) and the ongoing lack of detail in the Fiscal Monitor published by the Department of Finance complicates this analysis. Several Government

[1] i.e. against their unrevised spending profiles.

[2] This is the spending set out in the Estimates on Budget day, and subsequently set out in more detail in the Revised Estimates which is then scrutinised by Dáil Committees and considered by the Dáil itself.

Departments,[3] have on request, facilitated the PBO in addressing these issues and their co-operation is appreciated.

The context for public spending in 2020 continues to be the ongoing Government response to the COVID-19 pandemic. Exchequer spending on the public health and social protection aspects of this crisis (and falling tax revenues) has led to an Exchequer deficit at the end of May of €6.1 billion – almost 100 times the size of the deficit at the same stage in 2019 (€63 million). The full extent and cost of state-funded interventions relating to the pandemic are not yet clear.

The previous iteration of this publication highlighted the spending restrictions all Vote groups were then operating under (80% of the net 2019 allocation, as set out in the *Appropriations Act 2019*). PBO analysis in that publication therefore focussed on the net spend across the Votes.

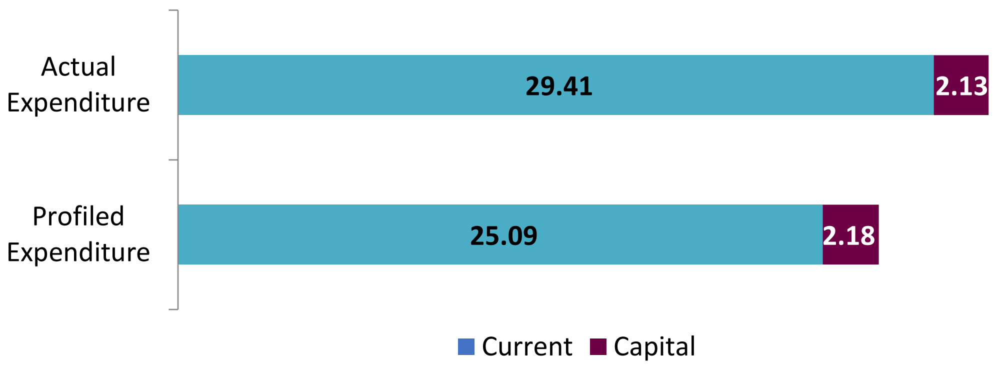
However, in his contribution to the Dáil debate on 28 May during consideration of the Revised Estimate for 2020 for Vote 37 (Employment Affairs and Social Protection), the Minister for Public Expenditure and Reform advised that he believed that most of the remaining Revised Estimates would be introduced to the House at the end of June and mid- July.

As Vote 37 received approval for a Revised Estimate from the Dáil in May, and presuming that the other fiscally significant Vote Groups will receive an allocation at least as high as originally set out for 2020 (in December 2019), this publication will revert to assessing the **gross** spend across the Vote Groups. The PBO has previously noted that there may be scope for some re-prioritisation of spending in Votes whose activities may have been curtailed by the pandemic, but there has been no public discourse on that issue.

Overall Voted Spending

Voted spending across all groups at end May 2020 was €31.5 billion, 15.6% ahead of the originally profiled €27.3 billion. As Figure 2 shows, cumulatively, the overspend is entirely driven by current spending of €4.3 billion versus an underspend on the capital side of €50 million. However, a capital underspend is not unusual at this stage of the year, and this is a relatively minor variance.

Figure 2:Comparison of Profiled Gross Voted Expenditure to Actual Gross Expenditure (in € billions) in the year to May 2020



Source: PBO, based on the May 2020 Fiscal Monitor (Department of Finance, 3 June 2020).

[3] The Departments of Employment Affairs and Social Protection, Children and Youth Affairs, Business, Enterprise and Innovation, Health and Transport, Tourism and Sport.

Employment Affairs and Social Protection

On 28 May, the Dáil passed the Revised Estimate for the Employment Affairs and Social Protection Vote (no.37) which provided for an additional €5.5 billion in voted spending (rising to €6.8 billion in overall Departmental spending when the increase from the (non-voted) Social Insurance Fund (SIF) is included). This increased the total Voted allocation for 2020 to €16.29 billion, with spending from the SIF increasing to €11.52 billion. PBO publication 32 of 2020 provided a more detailed overview of the additional Social Protection spending measures. The profiled figures in the Fiscal Monitor have not yet been updated to reflect the new voted allocation or SIF spending, or the introduction of the pandemic employment and unemployment supports.

The phased reopening of the economy up to 10 August and the anticipated gradual return to the workforce would be consistent with a reduction in spending on pandemic related employment and unemployment supports in the coming weeks. The scale of that reduction is difficult to anticipate.

In the Revised Estimate 2020 approved by the Dáil, the allocation for the **Pandemic Unemployment Payment (PUP)** was set at €2.23 billion. The Department has advised the PBO[4] that spending to the end of May on the PUP is approx. €1.7 billion leaving a remaining €0.5 billion in funding available for this scheme. Figures released on 2 June by the Department show 543,200 individuals currently in receipt of the PUP (down 36,200 from the previous week) with a payment of €190.2 million being issued.[5] If the number of recipients were to remain at this level the PUP would only have funding available for an additional 2.5 weeks of payments. The status of the PUP has been previously discussed by the Government with media reports suggesting that some part-time workers may be moved to the standard job-seekers allowance (€203 per week).[6]

The Department have also advised the PBO that spending on the **Temporary Wage Subsidy Scheme (TWSS)** was an estimated €1.2 billion at the end of May against an allocation of €2.07 billion, with a total of 508,100 recipients being registered at that time.

The allocations in the new subheads for the PUP and the TWSS in the Revised Estimate 2020 for Vote 37 is based on the cessation of both of these schemes in June. In that context, the allocations for both Jobseekers Benefit (JB) and Jobseekers Allowance (JA) were also increased in the ‘new’ Revised Estimate for the Vote. If either, or both, the PUP and TWS schemes are extended in their current or in a revised form then the Department will likely have to rely on savings from the JB and JA subheads to fund them after mid-June.[7] While the Department now has sufficient funding for the immediate future, a Further Revised or Supplementary Estimate will probably be required in the autumn.

Other factors leading to the Department’s overspend against the original 2020 profile are:

- Jobseeker’s Allowance and Jobseeker’s Benefit are €41.2m ahead of profile due to higher Live Register (PUP payments are not included in Live Register) as a result of the pandemic, and the bringing forward of payments for the first week of June to May (cost approx. €10m);
- Fuel Allowance is estimated to be €29.5m above profile due to the fuel season being extended by four weeks;

[4] Correspondence dated 2 June 2020.
[5] Press release: Update on payments awarded for COVID-19 Pandemic Unemployment Payment and Enhanced Illness Benefit - Department of Employment Affairs and Social Protection, 2 June 2020
[6] 'There will be war about this' - pandemic payment to be cut by 40pc for part-time workers. Irish Independent, 3 June 2020
[7] A media report today, 5 June, suggests that both the PUP and TWSS may be extended to end-August. See ‘Covid-19: Wage subsidy and unemployment payment extended to end of summer’.

- Expenditure on COVID-19 Illness Benefit (which was not in the original 2020 Revised Estimate) is estimated at €27m;
- Rent Supplement is €9.4m ahead of profile due to upward pressure on recipients arising from higher unemployment;
- Advance payments of circa €15m for some schemes in respect of the first week of June were brought forward to the last week of May.

The Social Insurance Fund

While not directly related to Voted spending, Social Insurance Fund income and spending is of relevance to Vote 37. It is noteworthy that PRSI receipts are running slightly ahead of profile. This may reflect a trend identified in the sister PBO publication to this one which was published on 4 June which noted that,[8]

> Income Tax has exceeded expectations for May and has proven relatively robust to-date. As highlighted by the PBO, the relative stability of Income Tax likely reflects the sectoral distribution of receipts, and the concentration of payments, as well as the targeted nature of COVID-19 related administrative restrictions. Generally, those contributing relatively more in Income Tax are less likely to have been impacted by COVID-19 related closures.

Health Vote and HSE spending

Spending on the Health Vote (no.38) stood at approx. €8.3 billion at end May, €1.1 billion (15%) above the original 2020 profile. This represents a further €0.5 billion increase in actual spending, compared to profile, by comparison with April month end (€0.6 billion). The overspends in this Vote are almost entirely related to the response to the pandemic and are concentrated in the HSE current spending allocation.

In response to the PBO's request for detailed spending data for May, the Department has advised of a 'Cash Acceleration Request' (18 May) by the HSE totalling €503 million. The basis for the HSE request is set out in Table 1. Principally, the funds were sought for use on COVID-19 related measures including €320 million for additional Personal Protection Equipment (PPE) for 2020, and €96 million required to fund the co-option agreement with the private hospitals to increase bed capacity. €69 million was due to be used on statutory distributions (€35 million), additional costs in the Primary Care Reimbursement Services (€27 million), and €7 million to meet shortfalls in working capital of Section 38 bodies due to a significant decline in fundraising income.

Table 1: Vote 38 spending – HSE Cash Acceleration Request (€000s)

Total spend Vote 38 - May		**€1,945,000**
of which:		
HSE Cash Acceleration Request		
PPE	€320,000	
Private Hospital Agreement	€96,000	
Statutory Distribution	€35,000	
Primary Care Reimbursement Service	€27,000	
Section 38 funding shortfall	€7,000	
	485,000	
Balance		€1,460,000

Source: Department of Health correspondence to the PBO dated 2 June 2020.

[8] PBO Publication 34 of 2020, *Fiscal Monitor for May 2020 – Revenue Analysis*, (p.3).

HSE Capital spending is €20 million below profile, though the Department has stated that this is a timing issue and that they are, overall, on target in this area.

In non-HSE related expenditure, delays in drawdown by a number of agencies and projects has led to a below profile spend of almost €45 million to date.

Other Votes

While the majority of the overspend value is concentrated in the Health and Social Protection Votes (combined total €4.09 billion), other groups have continued to spend ahead of their original 2020 profile to a comparatively high level. **Housing, Planning and Local Government (Vote no.34)**, for example, is showing an overspend in May of €179 million, and is somewhat of an outlier in that the above profile spending is on both the current (+€95 million) and capital (+€84 million) sides. The PBO asked the Department to provide supporting data for this publication but **no response was received**.

The Department of **Transport, Tourism and Sport (Vote no.31)** ended May with current spending ahead of profile by €79 million. This was offset by capital spending under profile by €36 million, leaving an aggregate overspend for the Vote of €45 million. The Department has highlighted to the PBO a €79 million overspend (+60%) for the Public Service Provision Payment due to the collapse in both passenger numbers and associated revenue of public transport operators, as a direct consequence of the COVID-19 crisis. The National Transport Agency (NTA) has been providing payments (ahead of profile) to operators in attempt to offset the impact of the revenue shortfalls.[9]

Children and Youth Affairs (Vote no. 40) has spent slightly ahead of profile (€11 million or 1.7%). Within the Vote, TUSLA is running an overspend of €52.7 (17%) million at the end of May although most of this relates to a 'float' and to the timing of weekly drawdowns. In their correspondence to the PBO, the Department acknowledge concern about the level of TUSLA non-pay spending within the agency - mainly in the areas of residential care and Domestic, Sexual and Gender Based Violence (DSGBV) services. The Department states that TUSLA have committed to identifying where cost savings can be made and redirected to address increasing cost pressures. The Department also notes that an IGEES paper[10] on Private Residential costs is scheduled to be published in July which should provide further insight into this area of demand led spending. Aggregate spending in the Vote is reduced due to considerable savings of €38.1 million, or 15%, in three Early Years subheads linked to childcare subsidies (currently suspended). Potential savings in this Vote were profiled in a recent PBO publication.

Business, Enterprise and Innovation (Vote no.32) is another Vote which is significant in the response to the pandemic – however, it is effectively on profile. The PBO intends to publish a paper in the near future which will address the Department's pandemic-response policies.

Performance Measurement

New versions of the original Revised Estimates for Public Services 2020 for most Votes are expected to be published in the next few weeks. They will then be subject to Dáil consideration. Scrutiny,

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[9] PBO Publication 33 of 2020 – *Covid-19 and State-owned companies in the Irish transport sector*, examines the potential impact of the Covid-19 crisis on some of the main State-owned companies in the Irish transport sector.

[10] This PBO infographic illustrates IGEES' role in relation to the work of Oireachtas' committees scrutiny of the Estimates.

consideration and approval (or rejection) of the Estimates for Public Services is one of the most important functions and powers of the legislature.

The PBO has consistently pointed out that prioritising public services and ensuring value for money is a crucial aspect of Government spending and that Parliament has a vital role in promoting this approach. Additional spending on public services promotes public well-being but only when that money is spent efficiently and effectively. It is of paramount importance then that the outputs produced by the money spent on public services are measured appropriately and presented in a transparent manner.

The publication of the new Revised Estimates for 2020 in the next few weeks provides an opportunity then to present not only the money being sought from the Dáil but clearer and better performance metrics, especially output targets. Scrutiny and debate of these new Estimates may be enhanced if the Public Service Performance Report for 2019 has been published when the Estimates are presented.

Health

Approval for a new Revised Estimate for the Health Vote will presumably be sought from the Dáil in the next few weeks. Most of that money that will be spent by the HSE, and the PBO has previously outlined the difficulty in aligning the money allocated in the Estimate with the National Service Plan. Related to that is the issue of the HSE's performance data from Divisions, such as Acute, Mental Health, Social Care, Primary Care, Health and Wellbeing. This is normally published some time in arrears in the HSE's performance reports but none has been published since September 2019. At a time when Health is a priority for the delivery of public services and additional spending is being proposed, the lack of data to facilitate scrutiny of that spending is regrettable.

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