



Capital Carryover (Deferred Surrender) 2022

What is Capital Carryover?

Capital carryover refers to unspent capital allocations from one year ('X-1') which may be permitted to be spent in the following year ('X'). In accordance with [Section 91 of the Finance Act 2004](#), up to 10% of a capital allocation (if unspent) may be carried over (subject to an order being made by the Minister), for example, from 2021's unspent allocation into 2022. These sums are set out in the *Revised Estimates for Public Services* as the 'Application of Deferred Surrender'.

This carryover facility was introduced in 2004 alongside 5-year multi-annual capital envelopes and recognises that capital programmes can be difficult to plan and budget for in-year. It was also intended to support the efficient spending of resources to avoid wasteful spending towards year end to use up allocations. Ordinarily, unspent Voted allocations must be returned to the Central Fund at year end (surrendered). Capital carryover permits some funds (up to 10% of the Vote's total capital allocation) to be withheld from the Central Fund at year end for use in the subsequent year. If these funds are unused in the second year, they must then be returned to the Central Fund. Capital carryover may also be referred to as Deferred Surrender. Deferred surrender reflects that the funds, if not used, will be returned to the Central Fund at a later date.

[Section 91\(2\)\(b\) of the Finance Act 2004](#) provides that subject to the Ministerial Order, the obligation to return unspent monies to the Central Fund may "be discharged in the second financial year to the extent that the funds are applied towards making good supply for the capital supply services and purposes approved by Dáil Éireann for the first financial year". These orders are in the form of Statutory Instruments under the Minister for Public Expenditure and Reform. For example, [S.I. No. 78/2022 - Finance Act 2004 \(Section 91\) \(Deferred Surrender to Central Fund\) Order 2022](#) provides for capital carryover of €819.26 into 2022. These Statutory Instruments allocate funds to specific subheads.

In summary, the Minister for Public Expenditure and Reform may provide for the carryover of up to 10% of a capital allocation to a Vote (if unspent). These funds receive Dáil approval for allocation to the named subheads specified in the Carryover Order, but are accounted for as a first charge¹ i.e. the money is deemed as having been spent in the year of initial allocation. Importantly, the "deferred surrender does not have to be applied to the same capital subheads in which the under spends occurred."²

¹ Department of Public Expenditure and Reform, '[Public Financial Procedures](#)' (Accessed February 2022).

² Department of Finance, '[Circular 28/04: Implementation of Deferred Surrender of unspent capital under Multi-Annual Capital Envelopes](#)' (October 2004).

Why does Capital Carryover arise?

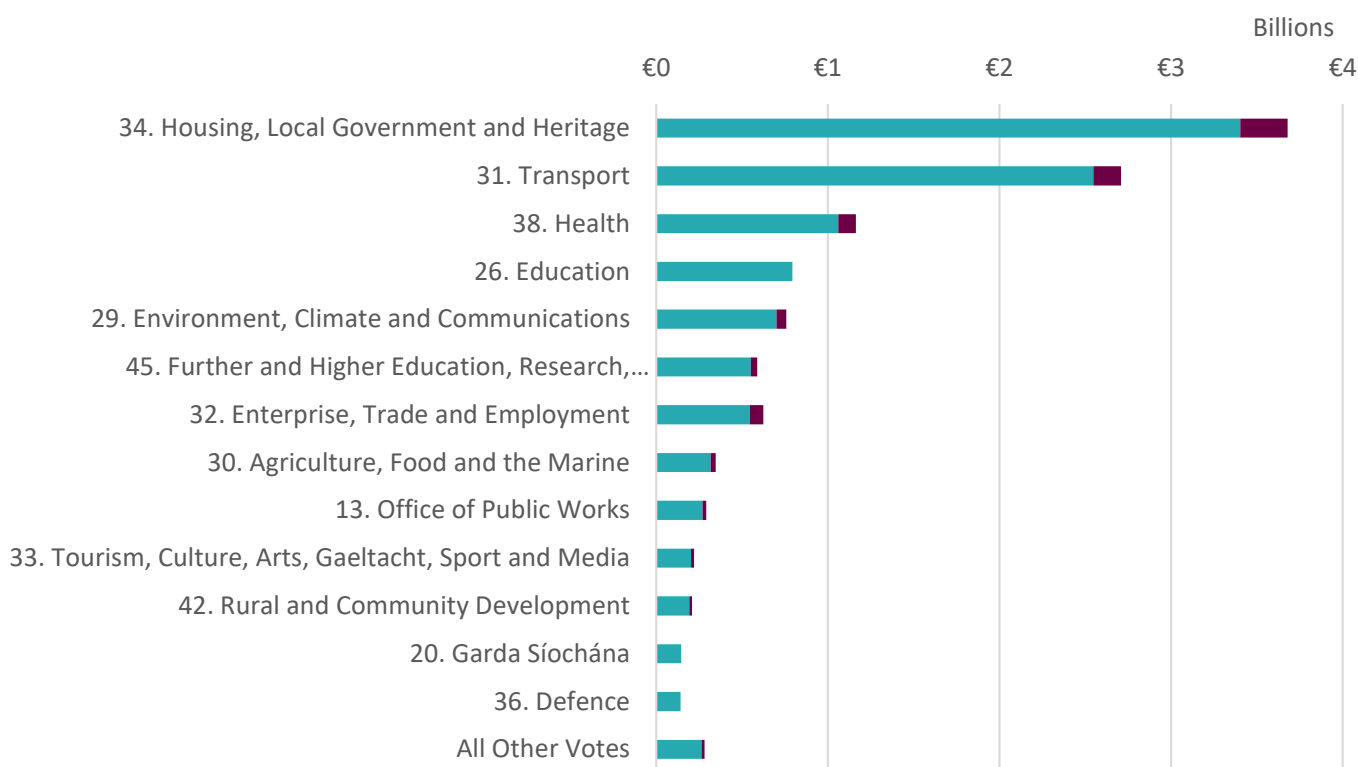
Capital carryover arises where monies allocated are unspent at year end and where the purpose for which the monies were allocated has not been satisfied in the current financial year. As such, where an underspend occurs and the underspend is due to partial or complete non-delivery of capital supply services i.e. projects and programmes, in that year. Capital carryover reflects that **the funding and delivery of capital projects is not straightforward, and that project delivery can be subject to numerous factors which could impact on the planned phased delivery (and associated spend) on a project.** As such, capital spending can be perceived as 'lumpy' i.e. large and infrequent expenditures rather than a steady stream of smaller expenditures.

Capital Carryover is associated with underspending and under (or delayed) delivery. There are many reasons why under spends may occur. **Underspending can largely be categorised as arising because of (i) poor profiling or performance targeting; or (ii) external factors.** The former arises where performance targets and/or spending projections are poorly developed. This could reflect overly ambitious performance targets which are unable to be met, or alternatively, deliberate under-delivery as higher than projected costs are encountered (higher costs could reduce the output possible from the resources allocated or may give rise to reviews or delivery delays). In many cases however, external factors will constrain spending and delivery and result in underspending. External factors are those largely or entirely outside the control of Government, these could reflect supply chain issues (e.g. the blockage of the Suez canal in 2021), rising costs (e.g. increases in the prices of fossil fuels), or trade disruption (e.g. the impact of Brexit on imports from the UK), natural disaster/extreme weather events, major international diplomatic incidents, and of course, in the event of major public health events such as the COVID-19 pandemic.

External factors which impact on the ability to deliver capital outputs (and associated spending) are often unpredictable in terms of their likelihood or magnitude. Recent significant unspent capital allocations could be presumed to be linked primarily to the COVID-19 pandemic and the public health measures which were implemented since March 2020. These measures have varied in terms of their reach and impact on society, and the economy. **In this context, expecting projections of capital spending made at the end of the preceding financial year to remain accurate is unrealistic and does not reflect that projections of spending and output are based on assumptions at a point in time.**

For example, Capital carryover in 2022 amounts to almost €819.26 million. **Gross capital spending in 2022 is projected to reach almost €11,132 million; however, that figure excludes capital carryover. When capital carryover is included, capital spending in 2022 is projected to reach almost €11,951 million.**

Figure 1: Gross Capital Spending in 2022 (including Capital Carryover)



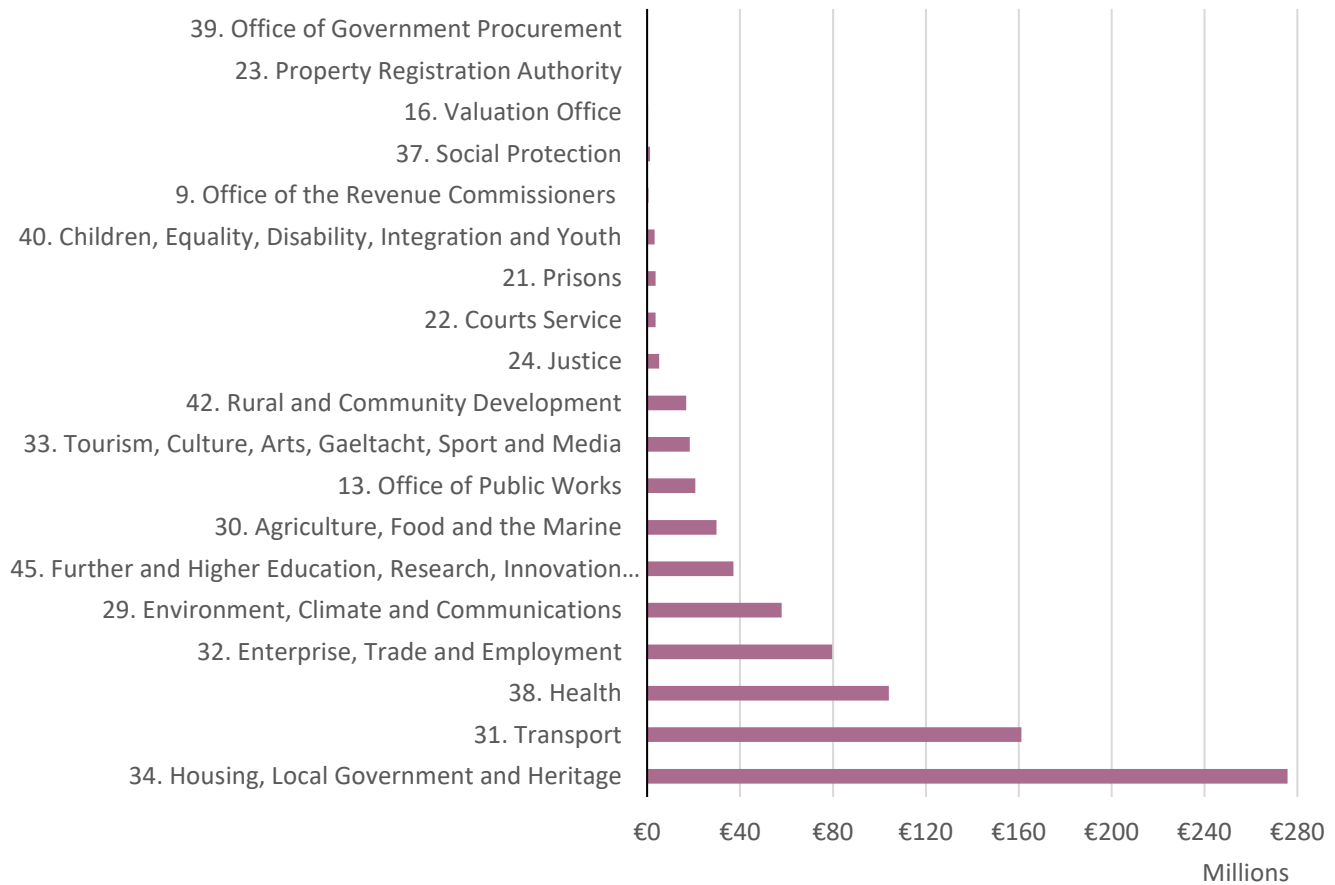
Source: PBO based on [Revised Estimates for Public Services 2022](#) (December 2021).

Capital Carryover in 2022

Capital carryover in 2022 amounts to almost €819.26 million. Based on the provisional outturn of capital spending for 2021 (almost €10,502 million) when compared to the approved capital allocation for 2021 (over €10,526 million) it would appear approximately €24 million of the 2021 capital allocation was unspent and was surrendered to the Exchequer. This carryover comprises unspent 2021 allocations for 19 Votes which is being deferred to 2022. The distribution of capital carryover in 2022 is illustrated in Figure 2. Of the 19 Votes concerned, 9 have capital carryover exceeding €10 million; however, just 3 Votes represent €540.9 million (66%) of the total deferred surrender. These Votes are:

- **Vote 31: Transport:** €161.1 million (19.7% of total capital carryover);
- **Vote 34: Housing, Local Government and Heritage:** €275.8 million (33.7% of total capital carryover); and
- **Vote 38: Health:** €104 million (12.7% of total capital carryover).

Figure 2: Capital Carryover in 2022



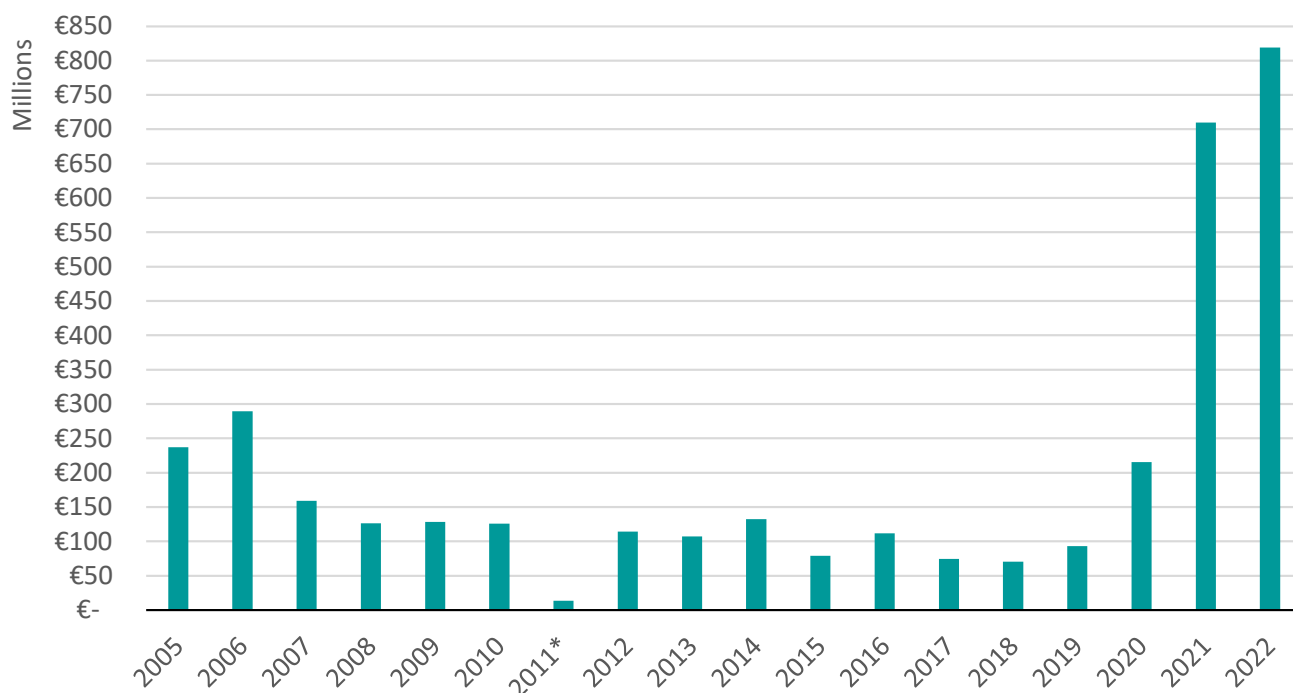
Source: PBO based on [Revised Estimates for Public Services 2022](#) (December 2021).

Looking at all subheads receiving capital carryover exceeding €50 million in 2022 we find that just **four subheads account for €547.917 million (66.9%) of capital carryover in 2022:**

- Vote 29 Environment, Climate and Communications: B.4 Residential/Community Retrofit Programmes (€57.9 million);
- Vote 31 Transport: B.5 Public Transport Investment (€148.2 million);
- Vote 34 Housing, Local Government and Heritage: A.3 Local Authority Housing (€247.3 million); and
- Vote 38 Health: M.2 Buildings & Equipment (€94.5 million).

Figure 3 illustrates capital carryover for the period 2005 to 2022. Each year reflects the amount carried over from the preceding year i.e., approximately €237 million was made available in 2005 from unspent capital allocations in 2004.

Figure 3: Capital Carryover (2005-2022)



Source: PBO based on [various Statutory Instruments \(2005-2022\)](#).

* Two Statutory Instruments (SI) were published in 2011. It appears the second SI reflected Vote restructuring i.e., a lateral transfer of the allocation to reflect a transfer of functions rather than an additional sum of money being made available.

Placing capital carryover in context, gross Voted spending in 2019 (pre-pandemic) was €67,265 million. In 2019 an additional €93 million was available by way of capital carryover. The quantum of capital carryover was just 0.14% of the in-year gross spend. By comparison, gross Voted spending (excluding the non-Voted Social Insurance Fund and National Training Fund) of €71,024 million is projected for 2022. In addition to this, a further €819.26 million is available by way of capital carryover. This represents 1.13% of projected in-year gross Voted spending.

The impact of the pandemic on capital spending, and specifically on capital carryover, is clearly illustrated in Figure 3. The challenges in delivering capital spending during the pandemic has resulted in abnormally large amounts of unspent capital allocations at year-end being deferred into subsequent years. It should be noted that there was substantial capital carryover from 2019 to 2020 – suggesting that there had been challenges in capital spending in 2019 – with nominal capital carryover reaching levels not seen since the mid noughties.



Accounting for Capital Carryover

Capital carryover presents a challenge in terms of consistent and clear reporting of spending. Capital carryover is brought forward into the new year as a first charge ([Section 91\(5\) of the Finance Act 2004](#)). This has the effect that the capital carryover is accounted for as part of the outturn in the year it was initially allocated (e.g., 2021) rather than in the year to which it is being deferred (e.g., 2022). As previously observed by the PBO, classifying “the carryover amounts as being already spent in this manner will cause transparency issues when scrutinising the final spending figures” for the earlier year and for future spending in the year to which funds are carried over.³

For example, the €819.26 million capital carryover from 2021 to 2022 will be accounted for as having been spent in 2021, whereas the actual spending of this allocation should occur in 2022.⁴

³ PBO, '[Fiscal Monitor – Expenditure to December 2020: A Visual Presentation and Analysis](#)' (January 2021).

⁴ If these funds are not used in the second financial year they are surrendered to the Central Fund.