An Overview of Current and Capital Spending within Government Expenditure

Introduction

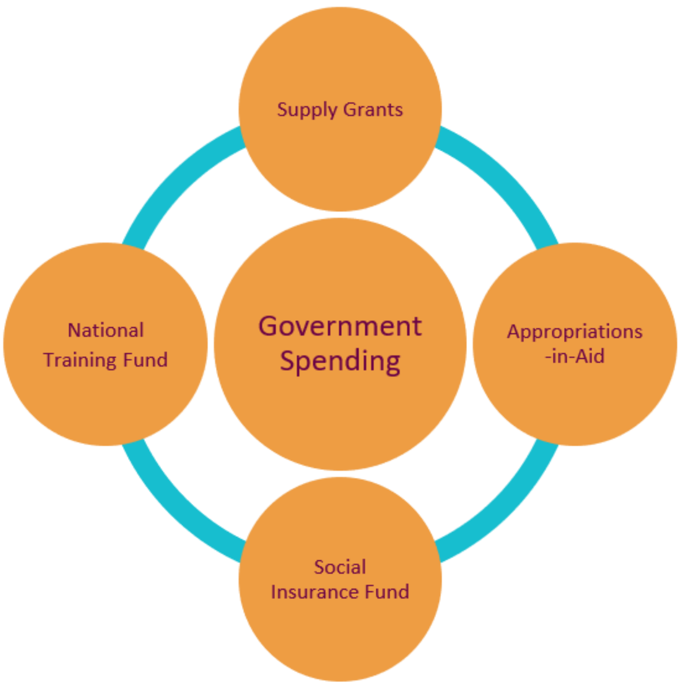
This note provides an overview of current and capital components of Government Expenditure (spending). In this note we use the term 'Government spending' to mean Government expenditure as defined in the Minister and Secretaries (Amendment) Act 2013.[1] This note includes core definitions and highlights the differences between, and importance of, each. Trends in current and capital spending are also discussed in the context of total government spending and the overall economy.

This note forms part of a series of PBO publications intended to serve as ongoing reference documents. These publications are intended to explain key concepts which are present in many of the PBO's core publications, enabling new and returning readers of PBO publications to maximise their understanding of the PBO's analysis. These publications will address issues of varying degrees of complexity.

Government Expenditure

Government expenditure, or Government spending, is money paid out by the Government to deliver goods, supply services, and provide income supports. Government spending is divided into 'current' and 'capital' spending. These can be further divided into voted and non-voted spending. Voted spending is directly approved by Dáil Éireann during the annual Budget process. Non-voted spending is provided for in legislation and is not subject to annual review or Dáil approval.

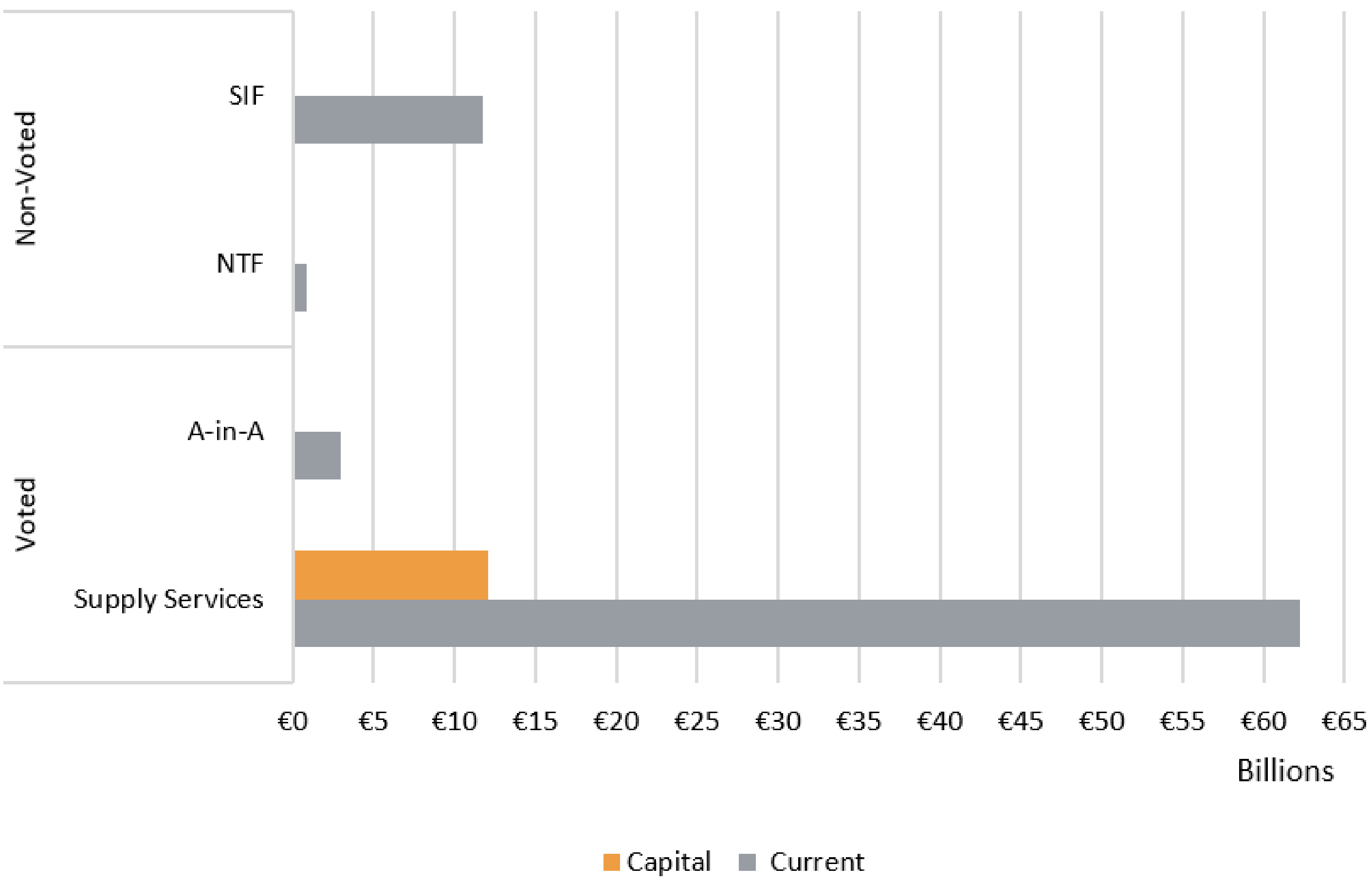
Figure 1: The Sum of Government Expenditure



Source: Ministers and Secretaries (Amendment) Act 2013.

[1] *Ministers and Secretaries (Amendment Act 2013)*.

Figure 2: Estimated Government Expenditure 2023



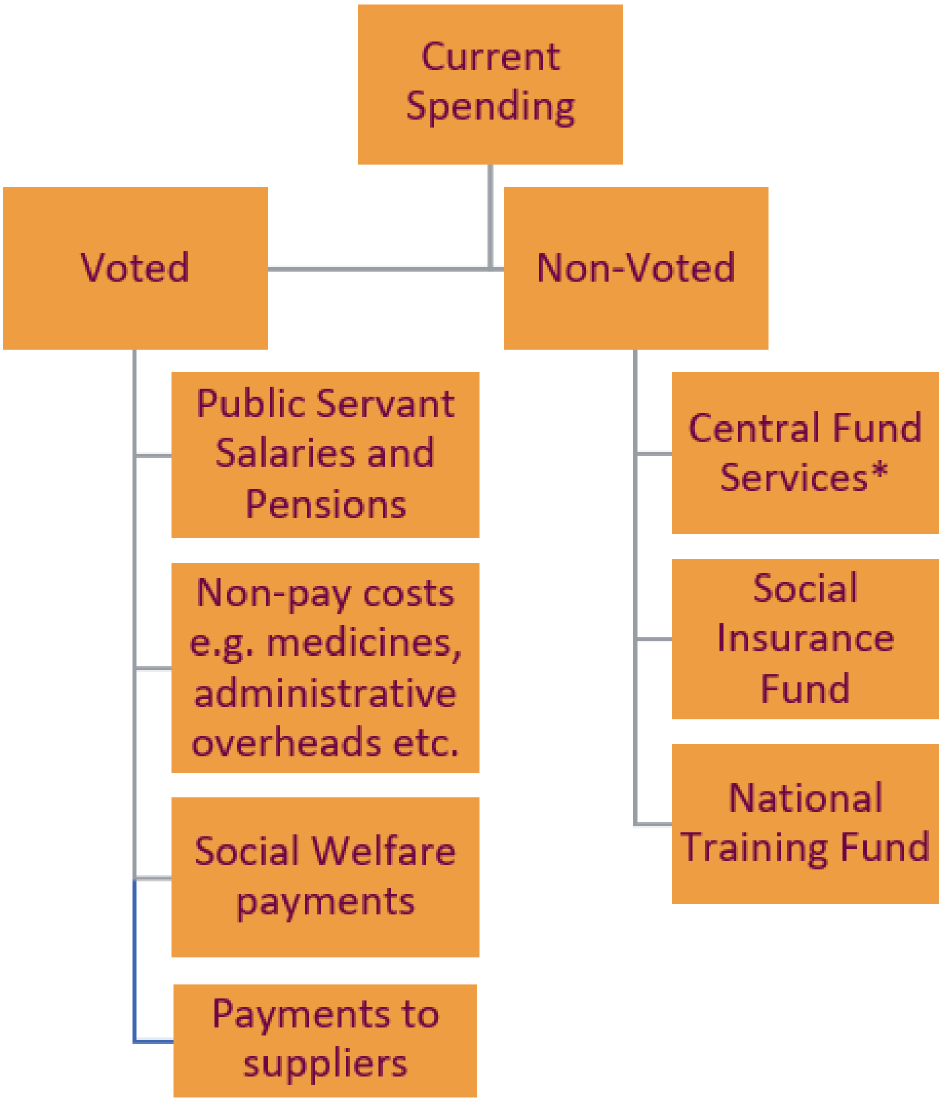
Source: DPER Databank (accessed 24 April 2023).

Current Spending

'Current spending' refers to day-to-day spending on providing public services and income supports for citizens.[2] Figure 3 below provides examples of voted and non-voted current spending.

Most Government current spending is voted on by the Dáil and allocated during the annual Budget process, typically in October of each year. However, several components of current spending are non-voted.[3]

Figure 3: Examples of Voted and Non-Voted Current Spending



***** This includes contributions to the EU budget, National Debt interest payments, judicial salaries and the costs of the Houses of the Oireachtas.

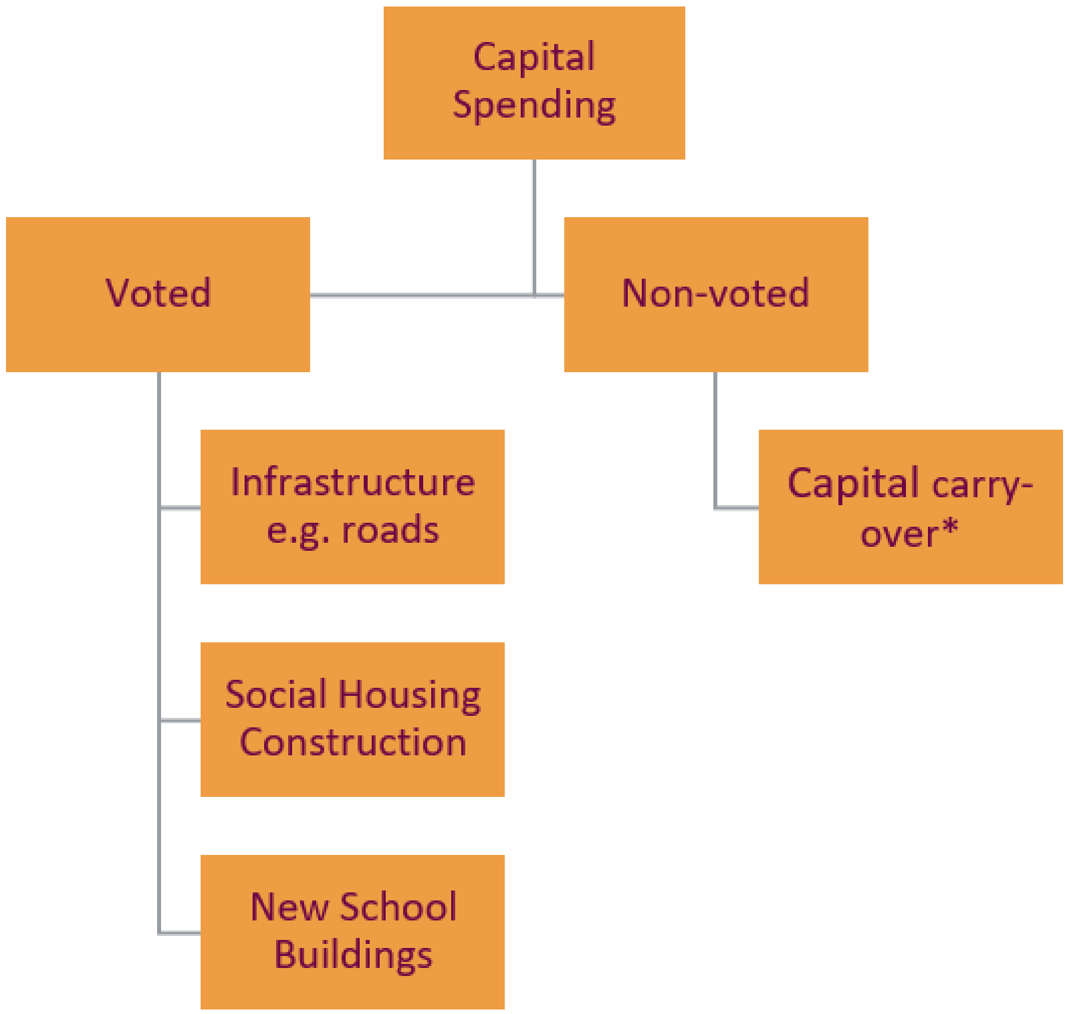
Current spending is important because it ensures that the day-to-day costs of Government Departments and Agencies are met and provides for the running and delivery of public services. When revenues fall, Governments have to correct the shortfall by cutting current spending to bridge the gap between income and spending, also known as 'fiscal consolidation'.[4] Such cuts are politically sensitive as they can have an immediate negative impact on public services.[5]

2 Department of Public Expenditure and Reform (2012) ***Public Spending Code: A Guide to Evaluating, Planning and Managing Current Expenditure***.
3 Parliamentary Budget Office (2019) ***General Government Expenditure: How its composition constrains decisions about government spending***.
4 Bedogni and Fitzgerald (2020) ***Revenue volatility and the role of the Rainy-Day Fund: Potential mechanisms for identifying and setting aside excess receipts***.
5 Ibid.

Capital Spending

'Capital spending' refers to the acquisition, construction or enhancement of significant fixed assets including land, buildings, and equipment that will be of use or benefit for more than one financial year.[6] It can also include less tangible assets such as IT software. Spending on such projects is often multi-annual and can be subject to long lead-in times. Cuts to capital spending are less sensitive, as the negative impact is less palpable, particularly in the short term.[7] A greater number of citizens are more likely to be aware of and be impacted by a cut to social welfare rates than pausing or delaying building a new bypass, for example. As a result, capital spending tends to be reduced first during fiscal consolidation.[8] Figure 4 below provides examples of government capital spending. Capital spending is generally voted on by Dáil Éireann as part of the annual Budget process. Non-voted capital spending is relatively minor and not considered a key area of government spending.[9]

Figure 4: Examples of Voted and Non-Voted Capital Spending



***** Capital carry-over is legislated for in the Appropriation Acts and Statutory Instruments at year-end.[10]

6 Department of Public Expenditure and Reform (2012) ***Public Spending Code: A Guide to Evaluating, Planning and Managing Current Expenditure***.
7 Bedogni and Fitzgerald (2020) ***Revenue volatility and the role of the Rainy-Day Fund: Potential mechanisms for identifying and setting aside excess receipts***.
8 Ibid.
9 PBO (2019) ***General Government Expenditure: How its composition constrains decisions about government spending***.
10 Parliamentary Budget Office (2022) ***Capital Carryover (Deferred Surrender) 2022***.

Investment in capital spending is significant for several reasons. As per the Department of Public Expenditure, NDP Delivery and Reform, it is essential to develop and maintain a stock of high-quality infrastructure across the country.[11] This enables the State to lay the foundations for future economic growth and social progress; it also enhances the State's ability to respond to demographic changes and economic shocks.[12] Furthermore, public capital investment is seen as essential to achieving climate action objectives and the transition to a green economy.[13] Spending on capital infrastructure also has indirect benefits, including job creation.[14]

Balancing Current and Capital Spending

Balancing current and capital spending is critical for both current levels of public service delivery and preparing for the future. Cuts to current day to day spending, as noted above, can have an immediate negative impact. However, cuts to capital spending, while less noticeable in the short term, can have a profoundly negative impact in subsequent years.

This has been highlighted recently by the PBO in relation to social and state supported housing.[15] The Public Capital Programme was cut substantially following the economic crash in 2008, including investment in housing, reaching a low in 2013. During this period, current spending increased to support those who would normally qualify for social housing but could not be provided with a Local Authority-built unit. While capital spending has been gradually increasing year-on-year since 2013, current spending has also increased significantly helping to compensate for the under-investment and to support those deemed to have an unmet social housing need.

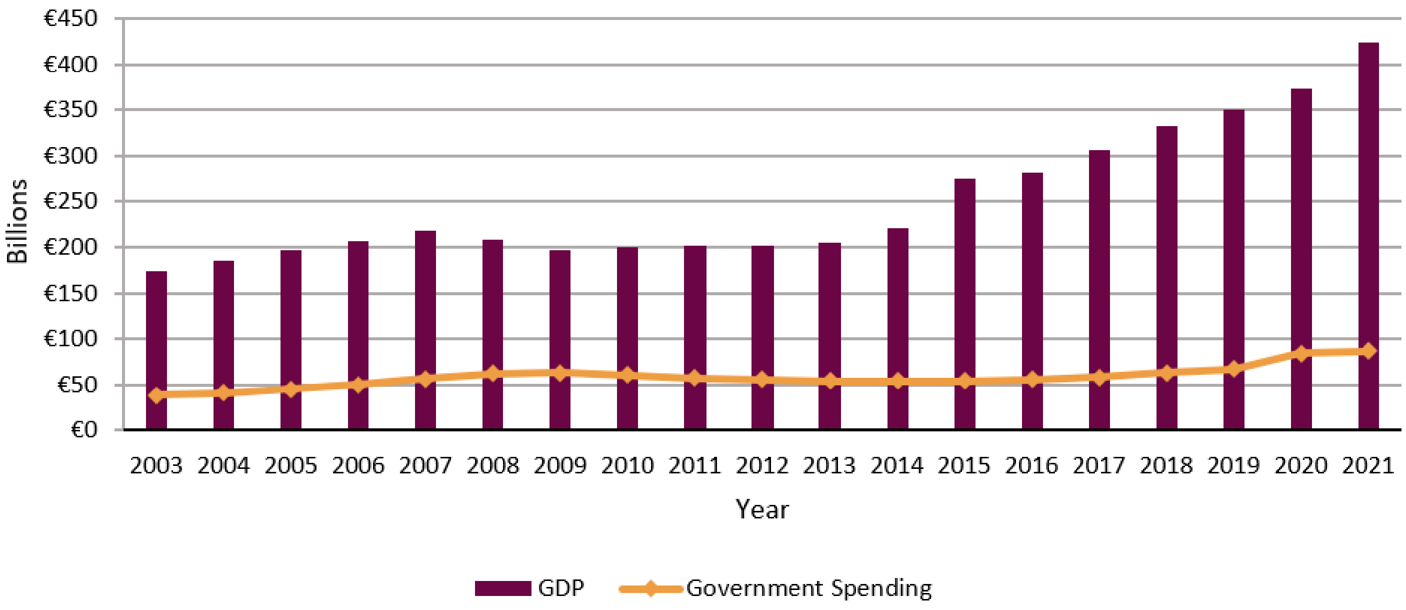
Trends in Government Spending

Government Spending, Gross Domestic Product and Modified Gross National Income

Gross Domestic Product (GDP) is a measure of the total value of the economy at a given point in time.[16] Government spending is a significant component of GDP. Over the period 2003 – 2021, Government spending has ranged from accounting for 18.9% of GDP in 2018 to 32% of GDP in 2009. Typically, Government spending increases and decreases in line with GDP. This is because, as noted by the PBO previously, government fiscal policy has historically been pro-cyclical.[17] This means spending increases when the economy is growing (and Government revenues increase) and falls when the economy contracts.

11 Department of Public Expenditure and Reform (2021) ***National Development Plan 2021 - 2030***.
12 Irish Government Economic and Evaluation Service (2017) ***Review of the Capital Spending Plan 2016 - 2021***.
13 Ibid.
14 Department of Public Expenditure and Reform (2021) ***National Development Plan 2021 - 2030***.
15 Parliamentary Budget Office (2022) ***Housing Ireland: Trends in Spending and Outputs of Social and State Supported Housing 2001-2020***.
16 Parliamentary Budget Office (2023) ***Introduction to the Irish Economy: Economic Growth***.
17 Bedogni and Fitzgerald (2020) ***Revenue volatility and the role of the Rainy-Day Fund: Potential mechanisms for identifying and setting aside excess receipts***.

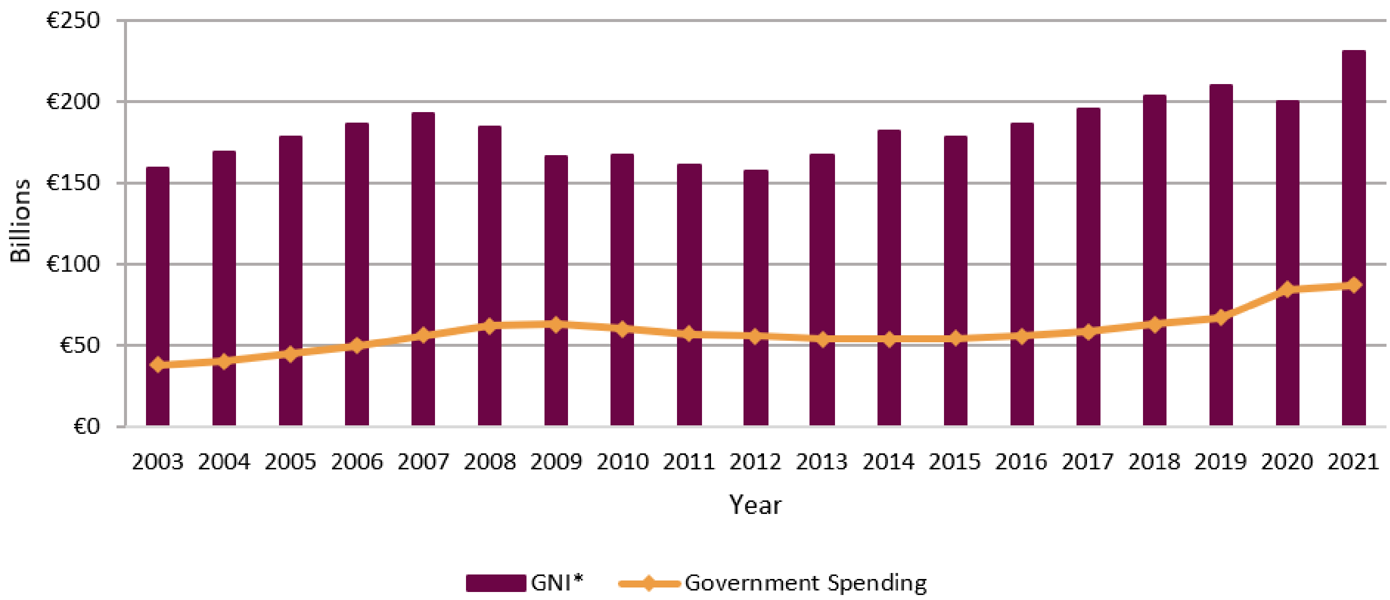
Figure 5: Trends in Government Spending and GDP 2003 - 2021 (€Bn)



Source PBO based on DPER Databank (accessed 6 March 2023) and CSO 'NA002 Modified Gross National Income at Constant Market Prices (2020)' (accessed 9 March 2023).

Modified Gross National Income (GNI*) also measures the value of the whole economy, similar to GDP. However, GNI* adjusts for money being received from and paid to abroad, such as EU subsidies and budget contributions, and is therefore a more precise measure. As a result, Government spending follows a similar trend in relation to GNI* as it does to GDP. Government spending as a proportion of GNI* over the period 2003 – 2021 has fluctuated from a low of 24% in 2004 to 42.4% in 2020.

Figure 6: Trends in Government Spending and Modified GNI* 2003 - 2021 (€Bn)

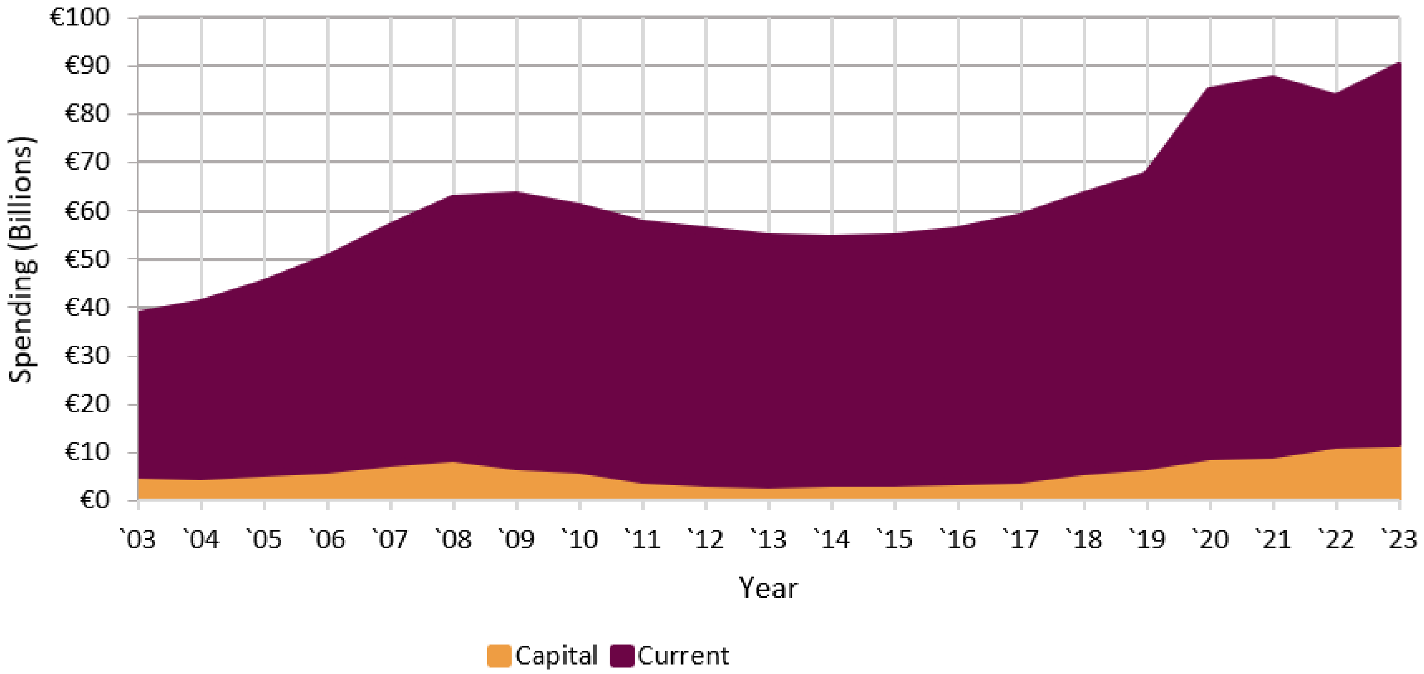


Source: PBO based on DPER Databank (accessed 6 March 2023) and CSO 'NA008 Expenditure on Gross and Net National Income at Constant Market Prices (2020)' (accessed 9 March 2023).

Changes in Current and Capital Spending

Figure 7 below further highlights the pro-cyclical tendency of government fiscal policy. From 2003 to 2008, both capital and current expenditure increased year-on-year. However, following the economic crash in 2008, overall government spending fell, with capital spending falling at a greater rate than current spending. Following Ireland's exit from the EU-ECB-IMF Fiscal Adjustment Programme in December 2013, spending has gradually increased year-on-year. Current spending in particular increased significantly in 2020 in response to the COVID-19 pandemic. Increases in capital spending have been steadier. The IMF and OECD have highlighted that Ireland requires additional spending, capital and current, to support and grow the economy.[18 – 19]

Figure 7: Total Government, Current and Capital Spending 2003 - 2023 (€Bn)

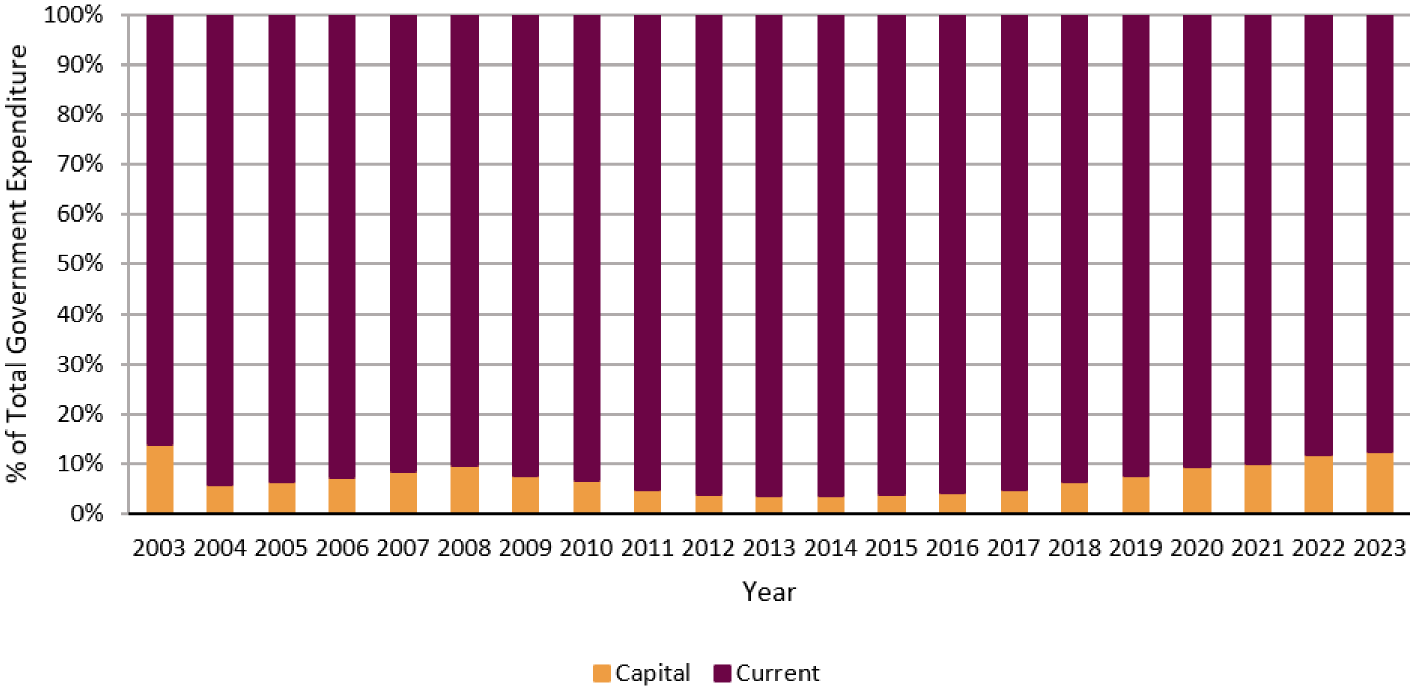


Source: PBO based on DPER Databank (accessed 6 March 2023).

Capital spending as a proportion of Government Spending has fallen from a peak of 14% in 2003 to a low of 3.4% in 2013. As noted above, capital spending has been increasing steadily since. Capital spending is expected to increase as a proportion of GNI* over the coming years, in line with the National Development Plan 2021 – 2030.[20]

[18] International Monetary Fund (2022) ***Ireland Country Report 2022***.
[19] Organisation for Economic Co-operation and Development (2022) ***OECD Economic Surveys: Ireland 2022***.
[20] Department of Public Expenditure and Reform (2021) ***National Development Plan 2021 - 2030***.

Figure 8: Current and Capital Spending as a % of Total Government Spending 2003 - 2023



Source: PBO based on DPER Databank (accessed 6 March 2023).

Summary

Government spending is comprised of current and capital spending. Both components have different purposes, balancing the two is important for the current and future delivery of public services and to unlocking the growth potential of the economy.