REVEALED: THE €14.4BN BUDGET TRICK

Behind the core Budget 2024 package of €6.4bn lie shadow 'temporary' spending figures that bring the total to €14.4bn

Daniel Murray

Much has been made by this government of its prudent approach to the public finances as it heads into Budget 2024.

"It will be a prudent budget," Michael McGrath, the Minister for Finance, said at the National Economic Dialogue during the summer. "But it will also seek to respond to the pressures that are there."

The government must tread a careful line between spending enough to keep the country happy and addressing its needs but not so much as to imperil its public finances.

It has already accepted that it will breach its own 5 per cent spending rule due to higher levels of inflation. It argues, however, that it will only do so marginally, providing for a modest 6.1 per cent increase in spending next year.

According to McGrath and Paschal Donohoe, the Minister for Public Expenditure, there will be a core budget package of €6.4 billion this year. This will be made up of €5.25 billion in spending increases and €1.15 billion in tax cuts.

On the face of it, this is not dissimilar to last year's budget package of €6.9 billion, which broke down into €5.8 billion in spending increases and €1.1 billion in tax cuts.

Except that's not what the budget package was last year. The overall budget package announced last October was actually €15.8 billion, though this wasn't advertised by the government or reported anywhere in the media. And it looks likely that this year's budget will be of a similar scale.

How can that be the case?

Opaque approach

The difference in the publicised and actual budget figures has been created by the several new ways of categorising expenditure the government has come up in recent years, including core spending, non-core spending, and once-off cost of living spending.

This opaque approach to disclosing expenditure disguises just how much the state is actually spending in each budget and creates the perception that the public finances are on a more prudent and sustainable footing than they actually are.

The actual €15.8 billion figure for last year's budget package was made up of three elements: the widely cited core package of spending increases and tax cuts of €6.9 billion, €4.5 billion of so-called temporary or 'non-core' spending on the likes of Covid-19 and accommodating Ukrainian refugees; and a further €4.4 billion of once-off spending on cost of living measures.

"In the past, this would have all just been called current spending," Ciarán Casey, economic historian with University of Limerick told the *Business Post*.

"The fear is that you come up with a terminology like core and non-core and it acts as a fig leaf for doing whatever you want down the road."

So what's happened to bring about this change? And why does it matter?

When the Covid-19 pandemic hit in 2020, it was clear that extraordinary levels of state spending would be required to help the country through the pandemic.

The additional money that was provided was eventually labelled as 'Covid spending' in the subsequent budget, with the understanding that it was exceptional and temporary in nature. In Budget 2021, Covid spending of €12.7 billion took the total budget package to €17.7 billion.

Then, in Budget 2022, this type of spending was relabelled 'non-core' expenditure, made up primarily of Covid-19, but including some other 'temporary' spending too.

Suddenly there were two categories of spending: the usual core spending package, that was considered permanent and recurring, and non-core expenditure, which was considered temporary.

This new categorisation has persisted, and as new crises have arisen, new 'non-core' expenditure has appeared.

Between the pandemic, the war in Ukraine and the cost of living emergency, the government has understandably felt the need to support people on a temporary basis several times in the last number of years, thus maintaining the need for the 'non-core' element of the budget.

At this stage, significant levels of temporary spending have seemingly become a permanent feature of our new budgetary cycles. Donohoe, though, doesn't quite agree.

"This expenditure isn't in some way becoming permanent," he told the *Business Post* earlier this summer.

"We've massively reduced it over the last number of years and we'll be keen to again in next year's budget and in the budget after that – which I know we will get to, I'm confident we'll see another again," he said at the launch of the Summer Economic Statement.

Third element

But while non-core spending may be slowly reducing, last year, the third element of this new three-headed spending package – a once-off cost of living package – appeared in the mix.

€4.4 billion worth of "once-off" cost of living measures, combined with the core and non-core measures, brought the total budget package to €15.8 billion.

Unlike the core and non-core spending elements, the cost of living package wasn't catered for under gross voted expenditure at all, but seemed to be taking place completely off the books in that it wasn't accounted for in the official budget documentation.

The government certainly discussed its cost of living package widely, but the total €15.8 billion figure of the budget package was never announced publicly.

As Budget 2024 nears, the government looks set to adopt the same approach again.

It has already committed to a core package of €6.4 billion, and a non-core package for Ukrainian refugees and Covid spending. It had also created a new strand of spending outside of the spending rule called 'windfall' capital investment of €250 million, of which the Irish Fiscal Advisory Council (Ifac) has been highly critical.

An additional cost of living package of between €3 billion and €4 billion is also expected again. Yet it is nowhere to be seen in the government's Summer Economic Statement, which is meant to set out the fiscal parameters for the year ahead.

If the cost of living package is closer to €4 billion for 2024, that would mean a total budgetary package of €14.4 billion or so, which is much larger than the government is letting on.

Further muddying the waters of budget arithmetic are the departmental overruns recorded in recent years.

Last year saw one of the largest bailouts of departments across government, as current spending surged ahead of profile across the board, mostly due to inflation, but also as additional cost of living spending announcements eventually had to be accounted for within the year's budget.

The Department of Health has had the most high-profile and most serious of the departmental overruns, and is at risk of running a €1 billion to €2 billion deficit again this year.

Stephen Donnelly, the Minister for Health, has argued that this is partly because he wasn't given the necessary budgets in the first place, and that much temporary or 'non-core' Covid spending has now become permanent in nature.

Michael McMahon, the acting chairman at Ifac, told this newspaper that departmental overruns were continuing to grow, resulting in even less accuracy in the actual budget process.

"The council, and everyone assessing the government's spending plans, would benefit from projections that are clear and transparent. That means making it clear how overruns are factored in and the costs related to population ageing and the climate transition," he said.

While McMahon said he had less of an issue with the sustainability of temporary spending measures from a long-term budgetary perspective, he did have a problem with the impact of large temporary spending packages on inflation.

"We've been clear that there is little to no justification for further temporary non-core measures in Budget 2024. Energy prices are falling and more temporary measures risk adding to price pressures, potentially making everyone poorer."

While the government is currently in good financial shape due, in part, to booming corporate tax receipts and an expected €10 billion surplus this year, it is aware that these receipts could be 'windfall' in nature and therefore is planning to put a sizeable quantity of the receipts aside for new state investment funds.

But it may also need to be more upfront about just how temporary some of its spending actually is, and just how realistic its budget projections are if departments need to be bailed out come year end.

"Coming up with more palatable terms to disguise extraordinary spending makes it increasingly difficult for politicians to turn off the tap," Casey, the UL lecturer, said.

"That's not to say it's the not the right call now, but we may live to regret this," he said.

If for any reason our corporate tax bounty was to run out, the bills due for accommodation for Ukrainian refugees, or Covid-19 spending in hospitals, or cost of living supports that may be needed for those who have come to rely on them, would be much harder to meet.

Minister for Public Expenditure & Reform Paschal Donohoe and Minister for Finance Michael McGrath

How the budget numbers stack up

€6.4bn
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Majority of voters support abolition of Universal Social Charge before election

A large majority, seven out of ten, support the abolition of the Universal Social Charge (USC) in the lifetime of this government, according to new Red C poll findings.

The new poll comes following the *Business Post*'s revealing last week that the government is planning a significant cut to the USC in the upcoming budget.

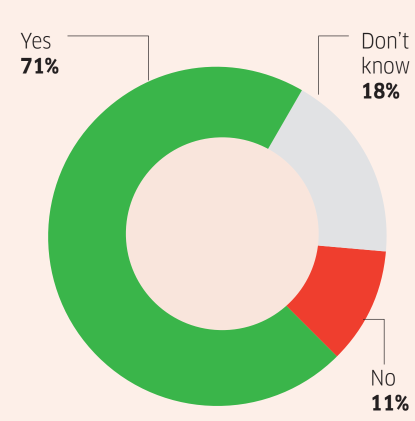
The USC was introduced in 2011 as a tiered income tax that increases with the level of income. It replaced the income levy and the health levy. The tax brings in approximately €5 billion in revenue every year. The rates of USC are staggered depending on income level from 0.5 per cent to 11 per cent, with the main rate for middle income earners being 4.5 per cent.

When it was announced by Brian Lenihan at the height of the financial crisis in 2010, the belief was that the tax would be temporary in nature. However, the 'bailout tax' has been rolled over repeatedly by governments for over a decade.

Today's poll findings show overwhelming support for the abolition of the tax before the end of this government's term. But while the government is preparing to cut the rate of USC in the upcoming budget, it has always resisted the idea that it would abolish the tax altogether.

"It will not be abolished. We have to be honest with people. All of the time, there are increasing demands on public expenditure," Micheál Martin, leader of Fianna Fáil, told Today FM last year.

I would support the abolition of the USC within the lifetime of the current government



But a cut to the rate was all but confirmed last week as a key aspect of the income tax package being prepared by the government ahead of the budget. Michael McGrath, the Minister for Finance, emphasised that any tax cuts would have to ensure "people on low and middle incomes as well as those on higher incomes benefit". This was code for cutting the USC and not just fiddling with tax bands.

"So I am examining the role the USC can play in that regard but have come to no final decision yet," he said.

While 71 per cent of people in today's Red C poll said they would be in favour of abolishing the tax, 11 per cent said they would be opposed to its abolition within the lifetime of this government, and 18 per cent said they didn't know.

Separately, 63 per cent of people said they did not have high expectations that they would personally benefit from tax cuts in the budget. Additionally, 31 per cent said they would be disappointed if they don't benefit from tax cuts.

A split emerged over whether people would support more spending on tax cuts than public services. Some 44 per cent of respondents said they believed the government should spend more of the available funds on tax cuts than public services, while 45 per cent said the government should prioritise public services. And 11 per cent said they didn't know or had no preference.

The poll has bad news for the state's fiscal watchdog, as only 37 per cent said the government should follow the advice of the Irish Fiscal Advisory Council which has been warning the government to limit spending and stick to its own 5 per cent spending rule.

When asked, 50 per cent said the additional funds available from corporate tax receipts should be used to spend more in the upcoming budget, while 13 per cent said they didn't know or didn't have a position.

Daniel Murray

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BUDGET 2024

Daniel Murray: All things must pass – the era of extraordinary budget spending included

While the financial ministries preach prudence, the segregation of spending into core and non-core categories has allowed government to keep splashing the cash

DANIEL MURRAY | SEPTEMBER 18, 2023

Michael McGrath, the Minister for Finance (left) and Paschal Donohoe, Minister for Public Expenditure (right). Picture: Damian Storan/PA

In the early 1970s, the Keynesian idea of governments running budget deficits as a means of stimulating the economy first reached Ireland.

"The worry was that once the politicians got wind that you could do this, then they would want to do it all the time," Ciaran Casey, economic historian with University of Limerick told the *Business Post*.

"We basically gave politicians intellectual cover for running current deficits in the 70s. It was small at first, but then there was the oil crisis in '73 and '74 and suddenly they were running current deficits hand over fist, which led to problems."

As reported by the Business Post on Sunday, similarly technical but **hugely important changes** to the prevailing wisdom around how the Irish state should run its finances have been taking place over the last few years. This has involved the establishment of new spending categories by the government, including core, non-core and once-off spending.

The segregation of spending into these different categories has allowed the government to continue spending Covid-era levels of money at budget time, while pretending that is spending much less and being far more prudent that it actually is.

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Revealed – the €14.4bn budget trick

But at some stage, the era of extraordinary spending ushered in by this government will have to come to an end. That will require politicians being honest about just how much they are actually spending.

While Michael McGrath, the Minister for Finance, and Paschal Donohoe, the Minister for Public Expenditure, like to preach prudence, they are about to oversee the fourth budget of eye-watering levels of spending, carefully packaged into the more palatable categories of core, non-core and once-off.

"It is definitely concerning. In the past this would have all just been called current spending. It is spending that is being repeated, and it's not a capital investment. So you can call it whatever you want, but that's what it is," Casey said.

"So the fear is that you come up with a terminology like core and non-core and it acts as a fig leaf for doing whatever you want down the road. We may live to regret this. That's not to say it's not the right call right now, but coming up more palatable terms to disguise extraordinary spending makes it increasingly difficult for politicians to turn off the tap."

Categorisation of spending

Core spending includes current and capital spending and is considered recurring or pre-committed to. It is therefore the subject of self-imposed (and repeatedly broken) fiscal rules, such as only increasing spending by 5 per cent each year.

> **Controlling core spending is a high priority of the government's, because if you increase recurring spending without the necessary recurring revenues to fund it, then you could have to make painful cuts in the future.**

Until Budget 2022, all expenditure was considered core. But during Covid-19, European fiscal rules were suspended and extraordinary budgets began to be spent, including in Ireland, where in Budget 2021 a package of €17.7 billion was announced, €12.7 billion of which was "temporary" Covid spending.

By Budget 2022, a new term had been coined for this so called "temporary" emergency spending: non-core.

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Voters want to see USC axed, and big spending in budget

In Budget 2022, the non-core package was €7.5 billion, nearly twice the core spending package of €4.2 billion, taking the overall package including tax cuts to around €12.2 billion.

This trick has continued up to the present day, despite the fact that significant amounts of temporary spending have been repeated time and time again, and are beginning to look semi-permanent in nature.

The government had actually projected back in 2021 that non-core spending would be nearly completely unwound by 2023, as the pandemic subsided.

But that's not what happened. Crisis followed crisis, and to its credit the government has stepped in on all occasions. Whether to support businesses and people during the pandemic, or to ease the burden of inflation, or to accommodate the waves of Ukrainian refugees who have been fleeing war, the government has had to find new "non-core" money every year to support people on a "temporary" basis.

Then last year, the government came up with a third strand of funding: once-off cost of living packages.

The reason this is considered a third and separate strand of spending is that different to core and non-core, it is not accounted for in the budget arithmetic at all, not to mention in the spending rules.

This further budgetary witchcraft is achieved by delivering much of the cost of living package in advance of the budgetary year being planned for, and therefore funding it mostly out of current year surpluses, rather than next year's budget.

But all that does is make a mockery of the former year's budget, by acting like additional and very significant budgets can be announced during the year at the whim of the government, and simply funded through supplementary estimates, also known as bailouts for departments who exceed their allocated budget.

Departmental bailouts themselves are becoming an increasing reality for a variety of reasons, and that raises serious questions about the credibility of the state's financial planning, which is meant to be done through the budget.

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Last budget before election creates irresistible temptation to spend, spend, spend

This year's budget is expected to be made up of the widely cited core package of €6.4 billion, a non-core package of €4 billion for "temporary" spending on Ukrainian refugees and Covid, and a once off cost of living package that could be as much as €4 billion. While the cost of living package has not been announced yet, a €4 billion package would take the total budgetary package to €14.4 billion, not far off the dizzying budgets of the pandemic.

Much is made of protecting the state's coffers against any potential decline in the bumper corporate tax revenues which are expected to be windfall or temporary in nature. The first place to start is on spending, and ensuring the levels of spending that we have become accustomed to in recent years could actually be unwound if needed.

This government is about to oversee its fourth budget of extraordinary spending. At some stage, it will have to end.

But, with a general election coming down the tracks - it isn't clear the government has come to terms with that yet.