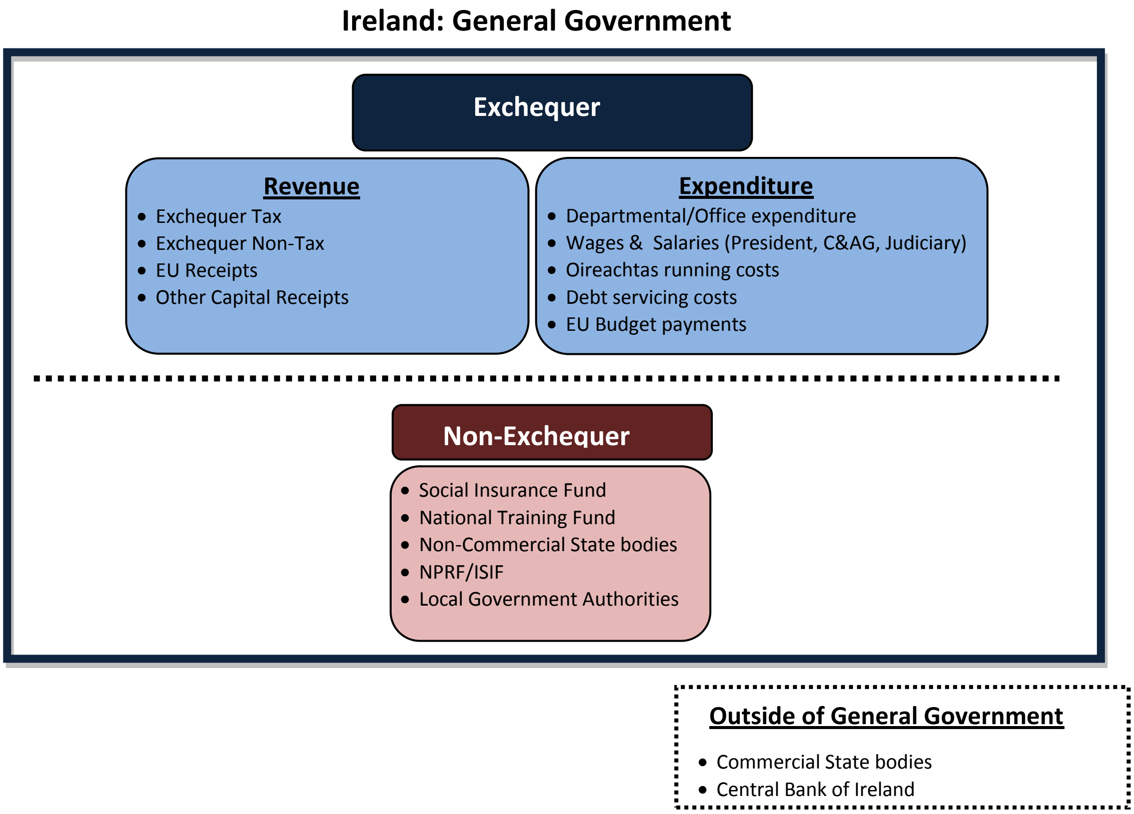
Appendix E: The General Government Sector

Government finances are measured and reported on the basis of different accounting aggregates. Typically, developments in the Irish public finances are monitored from month-to-month at the level of the Exchequer. However, the Exchequer represents only a portion of the total government financial position and as a result it is also important to track developments in the main fiscal aggregates on a General Government basis.

The main internationally recognised governmental accounting aggregate is the General Government – a much broader measure that covers the revenue and expenditure of all arms of government and of many state-owned independent organisations. Figure E.1 provides an overview of the split between Exchequer and non-Exchequer classifications under General Government in Ireland. The rest of this Box examines the two measures in more detail.

FIGURE E.1: ILLUSTRATION OF GENERAL GOVERNMENT COMPONENTS



Note: This typology ignores cash versus accrual and other accounting treatments differences.

The Exchequer

The Exchequer comprises the Central Fund, which is the Irish central government's main treasury account. It is held at the Central Bank of Ireland and is recorded on a cash basis.

Unless otherwise provided for by law, all government receipts and expenditure are accounted for by the Central Fund. Receipts into the Central Fund consist of Exchequer tax and non-tax revenues, EU receipts and other capital receipts, while expenditure out of the Central Fund includes Departmental/office spending, wages and pensions of the President, the C&AG, and the judiciary, running costs of the Oireachtas, debt servicing costs, and EU Budget payments. Non-Exchequer funds include semi-state bodies, the social insurance fund, the National Pension Reserve Fund (NPRF), the Irish Strategic Investment Fund (ISIF) and local authorities.

Non-Exchequer

Exchequer revenues account for ¾ of total General Government revenue and expenditure, with the remaining ¼ of each accounted for by non-Exchequer funds.

Figures E.2A and E.2B show the gap between Exchequer expenditure/revenue and General Government expenditure/revenue as made up by non-Exchequer components. PRSI contributions to the Social Insurance Fund and other fund receipts account for the bulk of non-Exchequer revenues (approximately €12 billion in 2015).

Figure E.2A: Gross Voted Exchequer and Total General Government (GG) Expenditure

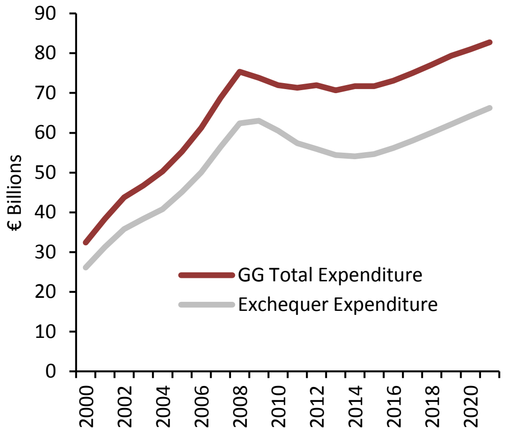
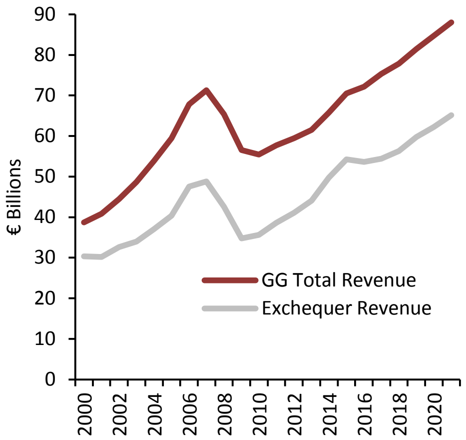


Figure E.2B: Exchequer and General Government Revenue



Sources: Budget 2017 and CSO Government Finance Statistics; and Finance Accounts, 2000-2014.
Notes: Expenditure excludes capital transfers.

General Government

The General Government classification is a standardised EU accounting aggregate compiled in accordance with the European System of Accounts (ESA) 2010.

In broad terms, the General Government sector can be understood as comprising the Central Government (which the Exchequer is part of), Local Government (county, town and city councils), and extra-budgetary funds such as the Social Insurance Fund (SIF), the National Training Fund

(NTF), the National Pension Reserve Fund (NPRF), the Ireland Strategic Investment Fund (ISIF) and non-commercial State sponsored bodies. Commercial State bodies and the Central Bank are not included.

Rather than simply being the sum of Exchequer and non-Exchequer components, General Government figures also comprise a number of important accounting treatments. In particular, General Government estimates are compiled on a mixed cash and accruals basis as compared to the Exchequer estimates which are solely produced on a cash basis. In addition, General Government accounting does not recognise financial transactions as revenue when they are simply the exchange of one asset (e.g., equity or securities) for cash or another form of financial asset.

The move between the Exchequer balance and the General Government balance is referred to as the 'walk', and is shown in Table E.1 on the basis of *Budget 2017* estimates. Generally speaking, the main drivers of the difference between the two balance measures are the result of any surpluses in the Social Insurance Fund[1], the impact of accruals and changes in the ISIF/NPRF funds. However, in years where large equity/loan transactions take place (such as in the case of disposal of state-owned bank assets), this can account for a large proportion of the difference. A notable example is the redemption of the AIB CoCos (some €1.6 billion) in 2016. This is excluded from the General Government balance. In later years, the majority of the amounts in item (b) relate to Central Bank surplus income.

Indicative amounts to be allocated in respect of the Government's proposed Rainy Day Fund are accounted for under row (k). The cumulative €3 billion RDF provision is provided for within the Exchequer envelope. However, the annual amounts indicated would not count as General Government expenditure unless amounts are actually drawn down and used for General Government expenditure purposes in the same year.

[1] The net lending of the Social Insurance Fund is added (item h). Any amounts not required to meet the current expenditure of the Fund are transferred to the Fund's investment account. Any shortfall in the current account in respect of liabilities is met from the investment account in the first instance, and otherwise by moneys provided by the Oireachtas from the Central Fund. This figure can be positive in a period when receipts exceed payments from the Fund, or negative in a period when the shortfall is met from investments. As unemployment is forecast to fall over the forecast period from 2017-2021, the SIF is projected to move into surplus as shown in line(h). Current projections indicate strong growth in the SIF surplus, which improves the General Government balance over the horizon. See the Department of Finance note on the GG accounts here:
http://www.finance.gov.ie/sites/default/files/Methodological%20Note%20-%20Reconciliation%20Table_1.pdf

Table E.1: The Walk From Exchequer to General Government (€ million)

€ million	2015	2016	2017	2018	2019	2020	2021
(a) Exchequer balance	-60	-1,445	-2,150	-2,260	-1,785	-1,020	610
(b) Exclude equity and loan transactions	-4,600	-2,635	-1,025	-980	-1,260	-1,025	-1,055
(c to e) Adjust for accruals	945	1,210	815	785	785	835	420
(f) Net lending/borrowing of non-commercial State bodies	-400	-75	135	140	0	190	215
(g) Impact of ISIF/NPRF	-1,460	205	335	350	355	365	365
(h) Net Surplus of the SIF	30	370	665	1,050	1,425	1,780	2,150
(i) Net Surplus of other EBF's	60	-25	-15	25	20	15	15
(j) Net (Borrowing)/Surplus of Local Government	695	0	0	0	0	0	0
(k) Rainy Day Fund	0	0	0	0	1,000	1,000	1,000
(l) General Government balance (=a to l)	-4,785	-2,400	-1,235	-890	540	2,135	3,720

Source: Budget 2017.

Table E.2 reproduces *Budget 2017* figures for revenue and expenditure over 2015-2017 using the standard General Government classifications.

In terms of revenue, taxes on production and imports (€22.5 billion in 2015) and current taxes on income and wealth (€27.9 billion) make up the majority of General Government revenue. Both of these are expected to grow in line with nominal GDP over the forecast horizon. The other large revenue component, social contributions (€11.4 billion), relates primarily to PRSI contributions to the SIF.

On the expenditure side, social payments (€28.3 billion in 2015) are the largest category of expenditure. This includes expenditure by the SIF and the Department of Social Protection. Compensation of employees (€18.9 billion) is the next largest component, and includes a provision for the Lansdowne Road Agreement in 2017 and 2018. Intermediate consumption (€9.3 billion), which covers expenditure by the State on goods and services, excluding fixed assets, is the next largest category. Interest expenditure on national debt (€6.7 billion) is the fourth largest category, but is expected to decline steadily over the forecast horizon. Public investment spending, categorised as Gross Fixed Capital formation (GFCF), amounted to €4.3 billion in 2015.

The General Government balance in Table E.2 is given by the difference between General Government revenue and expenditure, and is identical to the balance obtained from the 'walk' above.

TABLE E.2: GENERAL GOVERNMENT RECEIPTS AND EXPENDITURES (€ BILLIONS)

	2015	2016	2017
Revenue			
Taxes on production and imports	22.5	23.4	24.7
Current taxes on income, wealth	27.9	29.3	30.5
Capital taxes	0.4	0.4	0.4
Social contributions	11.4	11.9	12.4
Property Income	2.7	1.9	1.8
Other	5.8	5.1	5.5
Total revenue	70.5	72,15	75,32
Expenditure			
Compensation of employees	18.9	19.7	20.6
Intermediate consumption	9.3	9.9	9.7
Social payments	28.3	28.1	28.8
Interest expenditure	6.7	6.2	6.1
Subsidies	1.8	1.7	1.7
Gross fixed capital formation	4.3	4.6	5.1
Capital transfers	3.5	1.4	1.5
Other	2.6	3	3.2
Resources not allocated	-	-	-
Total expenditure	75.3	74.6	76.6
General government balance	-4.8	-2.4	-1.2

Source: Budget 2017.