Most of the slippages relative to previous plans for 2020 are set to arise in areas of spending outside of the direct control of central Government (including by local Government and by Approved Housing Bodies).[11] These 2020 slippages are sizeable. They potentially add to activity in an already fast-growing economy and they could imply an overall pace of spending growth that is not conducive to prudent economic and budgetary management.[12]

The large upward revisions to spending forecast in general government areas outside the Exchequer should be incorporated in budget plans. These impact the economy just as much as central spending and should be taken account of, with plans set on a general government basis. The Department needs to publish more information in budgetary publications on a general government basis so that government policies and compliance with fiscal rules can be comprehensively assessed. An essential starting point is to make a more comprehensive "walk" from Exchequer to general government data in gross terms available in budgetary publications (currently, this is only done on a net basis). As Box A notes, a fifth of activity tends to be missed by focusing on traditional Exchequer definitions.

Box A: The Department should improve its general government accounting

There has been a longstanding tradition that the Department of Finance focuses primarily on "Exchequer" figures when it comes to the public finances rather than on the wider "general government" figures. This box argues that the Department needs to move further towards general government accounting.

The traditional focus on the Exchequer rather than the broader measure of general government is partly a result of institutional and historical factors. The Department of Finance has traditionally had more oversight of Exchequer activities, compared with other areas of general government such as local government and non-Exchequer bodies.

Exchequer vs general government

Exchequer data have many limitations. They cover only about four-fifths of wider government spending and revenue (Figure A.1).

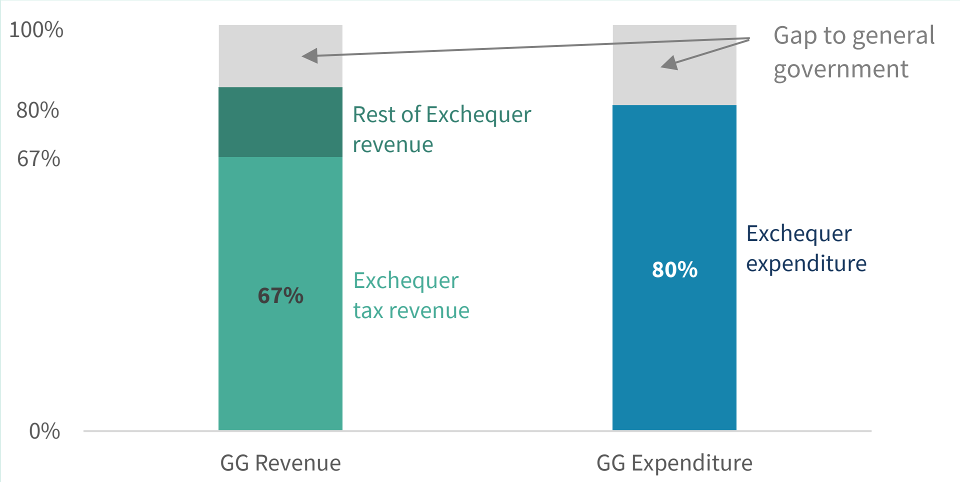
[11] Approved Housing Bodies are non-profits that provide affordable rented housing (Box L).

[12] At present, policies set out in *Budget 2020* offset a large portion of the Exchequer slippages seen in 2019, but this is only part of the picture. In Exchequer terms, just €0.4 billion of the €0.7 billion slippage in 2019 remains into 2020. Therefore, about half of the previous year's slippage can be said to have been reversed in the budget. This approach is to be welcomed. If the slippages were not reversed, then they would have added to long-lasting spending increases without being matched by any changes to sustainable sources of revenue. While aspects of the Government's approach to Exchequer spending revisions and plans for 2020 are to be welcomed, the Council's assessments of budgetary policy and its monitoring of compliance with the fiscal rules are on the basis of wider government spending (beyond the traditional Exchequer definition).

In many cases, the Department only refers to Exchequer tax receipts, which cover even less (two-thirds in the case of revenue).[13] The Exchequer data is not consolidated (so that transactions may be double-counted when including different levels of government). Exchequer data refers to cash amounts and so costs and receipts are not measured as taking place in the period they actually relate to.[14] Exchequer data are not cleaned of financial transactions that do not impact the states' financial position (for example, if assets are converted from cash to other liquid assets, such as bonds, then they show up as impacting the Exchequer data but not the general government data).

Figure A.1: Exchequer data miss a portion of government

% of general government (GG) revenue and expenditure (2018)



Sources: CSO; Department of Finance; and Fiscal Council workings.

A more comprehensive definition of the government and a budgetary measure preferred by the Council is based on the general government sector accounts. General government data conform to the main internationally recognised governmental accounting standards. They are much broader measures that cover revenue and expenditure of all arms of government, as well as many state-owned independent bodies. They are compiled on a mixed cash and accruals basis.

The general government can be characterised as consisting of both Exchequer and non-Exchequer revenue and expenditure. In terms of revenue, the non-Exchequer parts included in general government data are mainly represented by PRSI contributions to the Social Insurance Fund and other fund receipts. In terms of expenditure, the non-Exchequer parts are mainly related to local government spending (including Approved Housing Bodies).

What is the problem with Exchequer accounting?

Less comprehensive: By focusing predominantly on Exchequer measures and by providing less detail on general government data, there is a risk that analysis of the public finances is less comprehensive and that large parts of government activity is not given adequate focus. Using the narrower measure creates a risk that activities in other parts of government go unnoticed.

Less clarity on policy: Transactions—important from a policy perspective—may be outside of the Exchequer so that there is less clarity on actual policy. There can also be an incentive to move things outside of the Exchequer so that it gets less focus.

[13] By "wider" here, we mean general government expenditure and general government revenue.

[14] Accrual accounting involves recognising the economic events at the time at which they occur, regardless of when the related cash receipts and payments take place (OECD, 2019). Accrual accounting also recognises all stocks of assets and liabilities in balance sheets.

Fiscal rules: In addition, the focus on Exchequer measures does not allow for clear assessments of the fiscal rules, which are set on a general government basis.

What can be done?

The Government has recently agreed to ambitious reforms to how it presents its budgetary data. This is based on OECD recommendations (OECD, 2019) and builds on similar recommendations in the IMF's (2013) Fiscal Transparency Assessment of Ireland. The OECD roadmap for reforms include introducing accruals accounting and upgrading financial reporting systems across departments. The OECD report notes that practices in Ireland lag behind other countries due to (1) limited accrual information, (2) narrow institutional coverage, and (3) long time lags for publishing information.

The Minister has said that the reforms recommended by the OECD would be introduced progressively, and that stakeholders and financial managers across the public service would be consulted. This is a welcome development. It is important that the Government makes progress in relation to these reforms as a priority.

As well as addressing how government departments report, there should also be more detail provided on general government forecasts in budgetary publications. An ongoing problem is that the Department does not provide estimates in budgetary publications of how it moves from its Exchequer figures to the wider general government figures other than in net terms (the so-called "walk"). That is, it only shows the move from the Exchequer balance to the general government budget balance. It does not show the gross spending or gross revenue amounts making up the gap between the two measures. This is poor as regards transparency, especially when the implications of government policy actions can differ across the two measures — as happened with *Budget 2020*. Reforms to how forecasts and policies are presented would also help to improve wider transparency for the public finances.

The Government's net policy spending plans for 2020 have been revised up substantially. The Government's plans for 2020 set out as recently as in April's *SPU 2019* pointed to a net policy spending increase of €2.5 billion in 2020. If the revised plans for spending in 2019 and 2020 are taken together (as in, if the original *SPU 2019* plans for 2019 are compared against the new *Budget 2020* plans for 2020), the increase is now closer to €4.6 billion — a €2.1 billion upward revision. This implies a fast pace of increase equivalent to growth of 5.6 per cent year-on-year that is beyond the sustainable growth rate of the economy.

The Government incorporated some of the upward revisions to Exchequer spending in its budgetary plans for 2020, but these measures are outweighed by higher non-Exchequer spending and the potential cost of the Brexit contingency. As Figure 1.10 shows, Exchequer spending increases—beyond what was planned in April's *SPU 2019*—were mostly offset by €0.9 billion of additional revenue-raising measures. The revenue-raising measures were mainly made up of an increase in stamp duty on non-residential property from 6 per cent to 7.5 per cent, a carbon tax increase, and