

BOX F: THE MEDIUM-TERM EXPENDITURE FRAMEWORK

BACKGROUND

The *National Recovery Plan 2011-2014* published by the Department of Finance in November 2010 outlined a range of budgetary reforms including a Medium-term Expenditure Framework (MTEF) with multi-annual ceilings on expenditure. These proposals were then incorporated into the agreement entered into with the EU/IMF in 2010. Specifically, the EU/IMF Programme included an explicit commitment on the part of Ireland to introduce effective multi-annual expenditure ceilings.

The initial proposal for a MTEF was expanded upon as part of the Department of Finance discussion document *Reforming Ireland's Budgetary Framework*.⁶³ The new Government detailed its proposed approach in the *Comprehensive Expenditure Report 2012-2014* in December 2011 (CER). This also introduced gross current departmental ceilings for 2012 to 2014 on an administrative basis.⁶⁴ The Council documented these ceilings in its previous *Fiscal Assessment Report* (IFAC, 2013a).

Two further steps to finalise the implementation of the MTEF were taken in 2013.

- (i). The enactment of the *Ministers and Secretaries (Amendment) Act 2013*. This Act sets out the coverage of the three year aggregate ceilings and provides that both the aggregate ceiling and Ministerial ceilings must be set and revised by Government decision.

and

- (ii). The publication of a more detailed administrative Circular on the rules and procedures applying to the ceilings. The administrative Circular provides for: the circumstances in which both the aggregate and Ministerial three-year ceilings may be revised (escape clauses) and for a reconciliation with previous ceilings where this occurs; the carryover of savings between years; the sanction mechanisms applying where Departments exceed ceilings; and for periodic comprehensive reviews of expenditure. The Circular also links the setting of ceilings with the expenditure benchmark requirements at a European level. The expenditure benchmark is discussed in Box I.

Annex H sets out more detail on the operational arrangements of the MTEF.

The MTEF represents a significant move to top-down multi-annual budgeting from the more incremental, bottom-up approach that was previously in place. The traditional estimates process focused on the following year's expenditure allocation with Departments submitting incremental 'demands', which were then negotiated between Ministers. The multi-annual

⁶³ <http://www.finance.gov.ie/documents/publications/guidelines/budgetref.pdf>

⁶⁴ <http://www.budget.gov.ie/budgets/2012/Documents/CER%20-%20Estimates%20Final.pdf>

dimension of expenditure planning was seen as indicative, non-binding and subject to future budgetary processes. The approach led to significant weaknesses in multi-annual planning rather than in budget execution.⁶⁵ The new approach puts in place binding three-year ceilings on Departmental expenditure, which are set within the overall fiscal rules established in the *Fiscal Responsibility Acts 2012 and 2013*.

REVISED EXPENDITURE CEILINGS

The revisions to the administrative ceilings for 2013 and 2014 since the CER are shown in Tables F1 and F2.

TABLE F1: REVISIONS TO GROSS DEPARTMENTAL EXPENDITURE CEILINGS FOR 2013

€ millions	Budget Planning		Budget Execution
	Comprehensive Expenditure Report 2012-2014	Expenditure Report 2013	Revised Estimates Volume 2013
	Ceiling Dec 2011	Ceiling Dec 2012	Original Estimate Apr 2013
Social Protection	19,906	20,246	20,233
Health	13,565	13,627	13,624
Education, incl. NTF	8,525	8,514	8,456
Justice	2,198	2,200	2,163
Agriculture	1,057	1,057	1,049
Others	5,429	5,594	5,606
Unallocated	-91	-170	15
TOTAL (GEC)	50,589	51,068	51,146

It can be seen that there have been aggregate revisions of €0.6 billion to the ceilings in 2013 and €0.9 billion in 2014. The majority of this 'slippage' appears to arise from (i) the impact of the weaker macroeconomic outlook on unemployment-related welfare payments and (ii) policy decisions to raise expenditures in selected Departments.⁶⁶ The recent *Expenditure Report 2014* presents reconciliations of both aggregate and individual Ministerial ceilings.

⁶⁵ Volume I of the *Report of the Special Group on Public Service Numbers and Expenditure Programmes (2009)* compared the three-year expenditure projections that were published each year in the annual Budget volumes for 2000 to 2006 against the actual outturns for expenditure in each of those years and determined that while the first-year outturns typically came within 1 per cent of the projection, the second-year outturns came in ahead of projection by 6 per cent on average, while the third-year outturn overran by around 12 per cent on average.

⁶⁶ *Budget 2013* explicitly provided for increases to the Social Protection and Health gross current ceilings for 2013 of €150 million and €60 million respectively. *Budget 2014* provided for increases on Social Protection (€150 million); Health (€187 million) and Justice and Equality (€77 million), with more minor increases for a number of other Departments. Additional, more minor, increases were also made to ceilings for other Departments for both years.

While these reconciliations represent a significant step forward in transparency, the increase of €400 million arising from “changed composition of consolidation” and further €45 million arising from “expenditure decisions” fall outside of the defined “escape clauses” for increasing the aggregate ceiling and consequently breach the provisions of the Circular.⁶⁷

As part of *Budget 2014*, the current expenditure ceiling for 2014 was revised upwards by €0.4 billion to €49.6 billion (Table F3). This reflects the decision to scale back on the planned consolidation effort for 2014 by €0.4 billion. All other things being equal, the ceilings should have been lowered by €0.2 billion on account of better than expected labour market conditions. Revisions to the capital expenditure ceiling over the period to 2016 were marginal.

TABLE F2: REVISIONS TO GROSS DEPARTMENTAL EXPENDITURE CEILINGS FOR 2014

€ millions	Budget Planning		
	Comprehensive Expenditure Report 2012-2014	Expenditure Report 2013	Expenditure Report 2014
	Ceiling Dec-11	Ceiling Dec-12	Ceiling Oct-13
Social Protection	19,296	19,633	19,631
Health	13,359	13,420	13,263
Education, incl. NTF	8,453	8,453	8,219
Justice	2,083	2,065	2,097
Agriculture	1,029	1,029	1,019
Others	5,270	5,392	5,402
Unallocated	-774	-760	-25
TOTAL (GEC)	48,716	49,232	49,606

TABLE F3: BUDGET 2014: CURRENT EXPENDITURE CEILINGS TO 2016

€ Billions	2014	2015	2016
Gross Current Expenditure	49.6	48.3	48.6
Health	13.3	13.1	13.1
Social Protection	19.6	19.4	19.4
Education	8.2	8.2	8.2
Other Departments	8.5	7.7	8.0
Unallocated Savings	0.0	0.8	0.4

⁶⁷ As the escape clauses are not defined in the *Ministers and Secretaries (Amendment) Act 2013*, these increases do not breach the legislation. The Commission has also highlighted concerns that providing for “escape clauses” in the Circular rather than the legislation leaves room for ad hoc modifications of the ceilings, (see [://ec.europa.eu/economy_finance/publications/occasional_paper/2013/pdf/ocp162_en.pdf](http://ec.europa.eu/economy_finance/publications/occasional_paper/2013/pdf/ocp162_en.pdf))