Box C: What does "core" and "non-core" mean?

A recent feature of Irish budgets is that parts of the overall budget package have been labelled "core" and "non-core". This box revisits the principles behind what can be considered temporary and permanent measures in this context.

When was the idea introduced?

Core spending was first introduced in 2020. This was primarily to remove Brexit-related costs from total expenditure. This spending was not expected to be structurally but was instead exceptional spending which would continue over several years.

The idea of non-core spending was then extended in the 2021 *Summer Economic Statement* to include Covid-related spending. At the same time, the National Spending Rule was introduced, with the rule itself anchored on core spending.

The concept of non-core spending has since grown to cover more items. The Government has added supports for Ukrainian refugees and cost-of-living measures to this classification. Rather than being a temporary feature, it has become a recurring part of recent budgeting.

The Department's approach to forecasting non-core expenditure is to assume a base cost of zero each year, irrespective of whether measures are likely to continue or not. This is an inadequate approach as it can give the impression of really large surpluses available that could be spent in later years, when in reality there is spending that is likely to take place but is not incorporated in the forecasts. This is part of the reason why recent figures for cumulative surpluses were revised downwards (N°46).

How the Council assesses core and non-core spending

The Council prefers to stick to two guiding principles when assessing whether something is permanent or a one-off, which is one possible categorisation into non-core or temporary measures:

Principle 1: One-offs do not recur

A simple guiding principle as to whether something is a one-off or permanent budgetary measure is that one-off measures are not repeated. As a general rule of thumb, something present for more than two years is clearly not a one-off item.

Principle 2: Permanent unless proven otherwise

If a policy measure increases the deficit, it should be assumed to be permanent. This presumption gives policymakers the right incentive to fully recognise the permanent impacts of their budgetary decisions. It also emphasises that one-off measures are an exceptional part of budgeting and should only be recognised in cases where it is unambiguous that they are temporary in nature.

This assessment should be independent of how the measure is announced. This means it does not matter whether a policymaker describes the measure as temporary or permanent. What matters is whether it is inherently temporary or permanent in nature. Another consideration here is that, while they may include specific end dates initially, many budgetary measures can end up being extended indefinitely.

Other useful guidelines

There are a few other useful guidelines to consider.

First, it is not worth considering small measures worth less than 0.1% GNI*. These are more likely to constitute normal volatility of the public finances and ignoring these small measures generally avoids excessive complexity in monitoring.

Second, volatile parts of spending or revenue should not be considered one-off in nature. This is relevant where some volatility is part of the normal course of developments in the public finances.

Third, cyclical parts of spending or revenue should not be considered once-off. Their impact should be corrected for through adjustments for the cycle. In this sense, one-offs should not be used as a means of smoothing out time series.

Is capital spending one-off?

In general, the Council does not consider capital spending to be a one-off item. Even capital spending attracts ongoing commitments. For example, hospitals and schools require staffing and maintenance. As well as that, many areas of capital spending, such as on housing, are likely to be continuous rather than one-off if they are to keep pace with population growth. Even if some capital projects are completed, annual spending on public investment is likely to continue as other projects take their place. For these reasons, the Council tends to presume that capital spending is part of permanent spending unless there are clear reasons to suggest otherwise.

2024 spending

Looking at Figure N°27, we can see that €2.5 billion of spending has been allocated for humanitarian assistance for Ukrainian refugees and €1.3 billion for Covid. Both of these spending items are assessed as part of core spending by the Council. As a result, reclassifying these spending items would increase core spending by €3.8 billion in 2024.

Transparency is lacking

The fiscal numbers provided in budgetary documents have become increasingly complex in recent years. It has become more difficult to analyse expenditure outturns and projections, given the various categories of spending being used. Before 2020, total expenditure would be the focus, with an indication that some expenditure items may be one-off.

In Budget 2024, a variety of expenditure headings were used, including core, non-core, windfall capital investment and one-off (cost of living measures). Even where information is provided, some of the classifications seem unusual (see Box D on fiscal gimmickry). This added complexity makes the budgetary forecasts and outturns more difficult to analyse and less transparent.

In addition, the focus of much of the budgetary documentation is on Exchequer spending.[18] This means that almost 20% of government spending is omitted. The focus should be on general government spending and revenue, as these are the most comprehensive measures. With the Rule focusing mainly on Exchequer spending, general government spending could be growing faster than the pace set out in the National Spending Rule.[19]

Alarmingly, *Budget 2024* continues a pattern in which no assessment of core spending is provided that adjusts for tax measures. This is key to assessing compliance with the National Spending Rule, which is a net spending rule—spending net of tax changes. In addition, the Department makes no reference to the original ceilings first set out in *Budget 2022*. This too is bad for transparency.

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[18] This includes spending by the Social Insurance Fund and the National Training Fund.

[19] For example, if Exchequer spending was growing by 5% and non-Exchequer spending was growing by 10%, that would mean general government spending growing by about 6%.