



CENTRE FOR POLICY ANALYSIS

GHANA

SELECTED ECONOMIC ISSUES

No. 17

2007

**Public Expenditure Management
in Ghana: 2001-2006**

© 2007
Centre for Policy Analysis
No. 11 Amilcar Carbral Road
Airport-Accra

Mailing Address:
P. O. Box AN 19010
Accra-North
Ghana

Tel: (233-21) 778035/779364-5
Fax: (233-21) 773670

For enquiries on publications Email: library@cepa.org.gh
Website: www.cepa.org.gh

ISSN: 0855-6598
ISBN: 9988-8313-7-4

ISSUES IN PUBLIC EXPENDITURE MANAGEMENT

Guided by lowering the public debt-to-GDP ratio, Ghana has made considerable progress in fiscal management toward achieving the macroeconomic goals of its poverty reduction strategy. Despite the improvements in several areas of fiscal management, recent years have seen off-trend rise in the domestic debt-to-GDP ratio largely because of expenditure overruns financed by domestic borrowing. At issue are (1) the credibility and control of budget implementation; and (2) the planning and control of the public sector wage bill. There is urgency in the credibility of the budget, in the predictability and control in budget execution, and in improving the framework for the management of the public sector wage bill. Failing that budget implementation will continue to weaken because the wage bill will progressively crowd out other important areas of spending.

I. Introduction

The launching of the Ghana Poverty Reduction Strategy, GPRS I (2003-2005) was in many ways an acknowledgement that Ghana's successive programmes with the Bretton Woods Institutions (International Monetary Fund (IMF) and the World Bank (WB)) had to a large degree failed to deliver on the most important development goal: improve the living conditions of citizens. Indeed, the Ghana-IMF programme — Poverty Reduction and Growth Facility (PRGF) — launched in May 1999 was abandoned in September 2002, two months earlier than its expiry date of November 2002. Weak public expenditure management was the primary reason for terminating the PRGF. Sharp increases in the international prices of petroleum and petroleum products in the midst of the exchange rate crisis of 2000, posed a major socio-political challenge to the new Kufuor Administration. A full pass-through of the cost to consumers was seen as likely to cause sharp upward price hikes too early in the new Administration. The sizeable price subsidies in turn added to the budget deficit and caused Ghana to fail in satisfying an important quantitative performance criterion in the PRGF programme with the Fund. Meeting public financial management requirements has been central to Ghana's programme with the IMF. In fact, a

satisfactory performance with IMF programmes has been used as a pre-condition in defining Ghana's relations with the WB and bilateral donors. Public financial management was and remains central to Ghana's ability to raise external resources both from donors and in the open market.

We review in this monograph two broad issues in current public financial management: (a) credibility and control of the budget; and (b) planning and managing the public sector wage bill. We review in section 2 of the monograph the recent public financial management study conducted by the WB and the UK Department for International Development (DFID). This is followed in section 3 by a detailed analysis of the credibility of the budget. Our interest here is in the composition of discretionary expenditures – general administration, economic services, infrastructure, social services, and public safety. The planning and management of the wage bill is the central focus in section 4.

II. Public Expenditure Management (PEM) Review by the World Bank and DFID

Weak public expenditure management is often a sign of poor budgeting in its planning and design, weak budget execution, weak accounting and recording of public expenditures, weak monitoring, and vulnerabilities of the budget to external shocks. Good public expenditure management is a central element in the implementation of the GPRS II with its focus not only on macroeconomic stability, but also on growth. Although PEM has improved recently, it still has major weaknesses. An external review of the Public Financial Management (PFM) carried out by the UK Department for International Development (DFID) and the World Bank in 2006 concluded as follows:

“Assuming the Government maintains its present commitment to sound economic and fiscal policies, Ghana can expect similar growth in incomes in the near future. If the business environment can be further improved, and public investments made more efficient, economic growth in the medium term could be in the 6-8 percent range. In turn, this would improve Government revenues, which together with the savings in the fuel subsidy and reduction in domestic debt repayments should create the fiscal space necessary to accommodate further poverty-reducing expenditures, the pressure for which is growing, particularly in the education and health sectors. Strong growth would also

facilitate the Government's program of public sector reform" (Main Report, Vol. 1 paragraph 9).

The Review assessed performance against six objectives and concluded as follows:

(i) Credibility of the Budget

Aggregate expenditure outturns contained in the Reports of the Auditor General have broadly matched budget provisions in the Appropriations Act over the 2003-2005 period. However, budget credibility has tended to be diminished by the large variations — measured by the budget deviation index (BDI) — across budget heads, reflecting in particular weaknesses in budget formulation.

(ii) Predictability and Control in Budget Execution

There have been improvements in internal controls but weaknesses remain in management and oversight of control systems.

(iii) Policy-Based Budgeting

Budgets have become more policy-based in recent years but performance has been held back by limited ability to cost plans, the lack of effective wage planning, and the absence

of a transparent link between planned and executed budget activities.

(iv) Comprehensiveness and Transparency of the Budget

This improved considerably since 2004, through the incorporation of information on Internally Generated Funds (IGFs) of the Ministries, Departments and Agencies (MDAs) of government (from non-tax revenues), direct donor disbursements of project loans and grants and HIPC and statutory funds in the Budget Statement. In-year reporting, however, is less comprehensive, hampering overall budget scrutiny and management.

(v) Accounting, Recording and Reporting

The continued reliance on a predominantly paper-based system results in delays and data errors. Furthermore, analytical and technical capacity constraints hamper efforts to monitor and analyze budget performance.

(vi) External Scrutiny and Audit

There is now more timely completion of accounts and financial statements and submission of audit reports to the legislature and the general public. As a result, Parliament

has been more actively scrutinizing both budget and accounts. For example, the monthly Report and Financial Statements of the Consolidated Fund by the CAGD up to November 2006 were publicly available by February 2007. Against this progress however, the external review noted that the excessive detail of budget documents undermines effective Parliamentary scrutiny.

The Review considered total Central Government expenditure financed from all sources — the Consolidated Fund (CF), Internally Generated Funds (IGFs), donor disbursements and statutory funds. The analysis here is restricted only to discretionary expenditures that are charged on the Consolidated Fund — that is under the management of the Controller and Accountant General Department (CAGD). In recent years these expenditures have averaged about 50 percent of the overall total of Central Government expenditures in the yearly Appropriations.

The time period covered, 2002-2005 is wider than that in the 2006 external review by the inclusion of 2002. Finally, the issues discussed here are restricted to those concerning credibility, predictability and control of the budget.

III. Credibility and Predictability of the Budget

Good practice in public financial management emphasizes the importance of budget credibility and predictability as key for the achievement of planned policy objectives. Budget credibility and predictability call for fiscal discipline to help ensure that actual payment releases broadly confirm with the provisions approved by Parliament in the Appropriations Act. To evaluate the performance in recent years, Table 1 shows several budget deviation indicators:

- Total Deviation Index (TDI) captures the deviations at the aggregate level,
- Total Variation Index (TVI) captures variations at the level of Budget Heads, and
- Excess Variation Index (EVI) is the difference between the two indexes ($EVI = TDI - TVI$).

The data in Table 1 confirms the finding of the External Review that over the 2003-2005 period, there was close conformity between Voted Provisions and Actual Payment Releases — the Total Deviation Index for each year remained below 5 percent. The smaller the number, the greater the indication that government is committed to controlling spending, in line with the fiscal discipline and macroeconomic stability objective of

GPRS I. The Total Deviation Index of 32 percent for 2002 therefore signalled serious expenditure control and management difficulties and necessitated the policy regime change in 2003.

Table 1: Aggregate Domestic Expenditure (¢ billion unless stated otherwise)

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|-----------------------------------|------------|--------------|------------|------------|-----------|--------------|
| i. Voted Provisions | 3,549 | 4,534 | 7,799 | 10,509 | 13,286 | 14,279 |
| ii. Actual allocation | 3,799 | 5,985 | 7,635 | 10,136 | 13,238 | 17,289 |
| iii. Expenditure Deviation (ii-i) | <u>250</u> | <u>1,451</u> | <u>164</u> | <u>373</u> | <u>49</u> | <u>3,011</u> |
| iv. Total Deviation Index (%) | 7.0% | 32.0% | 2.1% | 3.5% | 0.4% | 21.1% |
| v. Total Expenditure Variance (%) | 33.2% | 46.3% | 16.3% | 18.2% | 33.1% | 33.3% |
| vi. Excess Variation Index (%) | 26.2% | 14.3% | 14.2% | 14.7% | 32.7% | 12.2% |

Source: Appropriation Acts for Voted Provisions and Reports of Auditor General

The public expenditure and currency crisis of election 2000 continued into 2001 and into 2002 as a result of the continued international petroleum prices increases. The decision to absorb the increases through price subsidies rather than allowing for price adjustments meant that the aggregate budget deficit exceeded its target markedly in those years, noticeably in 2002. The deficit had to be financed by recourse to massive domestic borrowing including the issuance of TOR bonds to cover losses

of the Tema Oil Refinery. As a result, the stock of public domestic debt rose sharply to 22.7 percent of national income by the end of December 2002 — almost equalling the all-time peak first reached at end-December 2000.

These developments signalled an urgent need for policy change and in particular for a more effective public expenditure management system in order to regain and sustain macroeconomic stability. As a result, GPRS I made macroeconomic stability its main objective. In February 2003, prices of petroleum products were raised by an average of 80 percent and the subsidies were withdrawn. In addition, a debt recovery levy (DRL) was instituted to finance the debt servicing charges in respect of the TOR bonds. The combined effect of these measures, as feared, was an immediate jump of the headline (year-on-year) rate of inflation by some 12 percentage points in March 2002. In the subsequent period, the adverse socio-political reaction with its potentially destabilizing consequences became much evident.

Continued petroleum price increases in 2004 were once again absorbed through price subsidies in spite of the automatic price adjustment mechanism that had been agreed with the Fund. As

in 2001 and 2002, the budget deficit again widened. Public expenditure management became problematic. There were social concerns with the inequity of the subsidy regime. Many believed that the disproportionate share of the subsidies accrued to the relatively better-off consumers of petroleum products. For these reasons, the subsidy policy was reviewed and for all intents and purposes ended in 2005, accounting partly for the low Total Deviation Index of 0.4 percent in 2005, but not so for 2006.

The Total Variation Index (TVI) measures variations within aggregates at the level of Budget Heads. It shows moderately high values for 2003 and 2004 compared to the significantly higher values for 2002, 2005 and 2006. The high values for 2005 and 2006 of 33.1 and 33.3 percent respectively, were only about 30 percent short of the 2002 index. The result shows how deceptive assessments made on the basis of gross aggregates can be and also the troubling trends since 2004.

The Total Deviation Index reveals that while government has achieved marked measure of expenditure control since 2003, 2006 proved to be a difficult year largely because of the energy crisis. Even for 2003-2005, there were large variations at the

level of budget heads. Excessive spending in respect of some budget heads was compensated for by sizeable shortfalls in others. Indeed, judging by the excess variation index, the performance in 2005 was worse than in 2002. Despite the drop in the excess variation index in 2006, there are reasons to suspect that expenditure management problems still persist and may worsen in the near future unless effective action is taken to restore greater fiscal discipline.

The BDI (at the budget heads level) was as high as 46.3 percent in 2002. In response, the 2003-2005 Ghana Poverty Reduction Strategy (GPRS I) and its first budget of 2003 instituted a new policy regime with greater focus on fiscal discipline. Consequently, the index fell by 65 percent to 16.3 percent. Since then, the BDI has followed a rising trend reaching 33 percent in 2005, but fell markedly in 2006 to 12.2 percent. The trend is a cause for concern since it indicates a weakening in fiscal discipline. These concerns are heightened by the values of the excess variation index. First, the values for 2003 and 2004 were nearly of the same magnitude as in 2002. Second, and most disturbingly, the Excess Variation Index for 2005 of 32.7 percent was more than double the 14.3 percent recorded in 2002.

There are several factors that could inflate the BDI, but as the 2006 External Review concluded even after appropriate note is taken of these, the evidence raises considerable concerns including:

- the predictability of the budget;
- the transparency of the budgetary process and management;
- the planning and control of expenditures; and
- whether the budget has enough credibility for MDAs to plan and execute their work programmes efficiently.

Table 2 shows in detail, the computation of the BDI at the level of Budget Heads over the 2001-2006 period. The index is defined as the sum of the absolute deviations over the Budget Heads as percentage of the Total Vote for the year. To make the computations manageable, the top twenty Budget Heads, (in terms of voted provisions) in each year are shown individually. The rest of the votes are grouped and shown under a one-line item as the Sum of Remaining Budget Heads.

Table 2: Discretionary Domestic Expenditure by Budget Heads, 2001 - 2006

| BUDGET HEAD | Absolute Deviations | | | | | |
|-------------------------------------|---------------------|----------------|--------------|--------------|-------------|----------------|
| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| Ministry of Edu. (incl Y&S) | 356.9 | 670.4 | 442.7 | 651.8 | 1,195.2 | 1,631.4 |
| Min. of Health (excl .NHIF) | 76.7 | 203.0 | 63.8 | 6.8 | 5.2 | 627.5 |
| Ministry of Interior | 67.9 | 432.7 | 43.8 | 2.7 | 164.5 | 529.4 |
| Ministry of Defence | 17.3 | 8.2 | 22.3 | 129.2 | 173.7 | 199.2 |
| Contingency | 0.0 | 46.3 | 121.8 | 259.6 | 1,390.2 | 0.0 |
| Revenue Agencies | 0.0 | 0.0 | 21.3 | 40.6 | 85.4 | 0.0 |
| Ministry of Foreign Affairs | 71.0 | 152.6 | 1.5 | 47.0 | 81.6 | 167.0 |
| Office of Govt. Machinery | 35.6 | 32.5 | 102.3 | 74.4 | 33.5 | 5.5 |
| Utilities | 0.0 | 0.0 | 77.8 | 242.7 | 431.5 | 0.0 |
| Ministry of Roads & Trans. | 19.4 | 29.4 | 17.0 | 30.7 | 63.6 | 213.1 |
| Min. of Fin. & Econ Plan. | 42.4 | 3.9 | 67.6 | 48.4 | 10.8 | 321.5 |
| Ministry of Food and Agric. | 22.1 | 21.7 | 31.0 | 11.1 | 33.4 | 104.3 |
| Min. of Environment & Sc | 3.7 | 2.5 | 18.0 | 17.5 | 37.6 | 40.1 |
| Min of Loc Gov& Rural Development | 26.9 | 42.8 | 23.8 | 4.7 | 9.5 | 129.8 |
| Judicial Services | 15.0 | 5.2 | 28.8 | 43.6 | 22.8 | 15.7 |
| Min of Info. & Presidential Affairs | 0.0 | 1.0 | 68.7 | 21.7 | 14.1 | 15.2 |
| Office of Parliament | 27.4 | 1.7 | 20.9 | 27.6 | 23.7 | 14.1 |
| Audit Service | 1.4 | 5.7 | 14.6 | 0.0 | 7.7 | 11.4 |
| Water Resour/Wks/Housing | 14.6 | 16.7 | 1.4 | 17.4 | 43.3 | 84.6 |
| Min. of Lands & Forestry | 14.4 | 6.0 | 2.0 | 0.0 | 0.0 | 16.2 |
| Min. of Trade and Industry | 0.0 | 0.0 | 0.0 | 43.9 | 11.8 | 10.6 |
| National Electoral Comm. | 0.0 | 2.1 | 0.0 | 128.8 | 0.0 | 0.0 |
| General Gov Services | 322.7 | 365.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Ministry of Justice | 1.9 | 0.0 | 0.0 | 0.0 | 0.0 | 41.4 |
| Min of Manpower Dev | 17.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.6 |
| Ministry of Communication | 7.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Sum of remain Budget Heads | 16.7 | 62.4 | 80.7 | 66.7 | 554.5 | 577.9 |
| Total | 250.0 | 1,897.3 | 163.8 | 372.7 | 48.9 | 3,010.7 |
| Total Variation Index | 7.0 | 36.6 | -2.1 | -3.5 | -0.4 | 21.1 |

Sources: Appropriation Acts 2002, 2003, 2004, 2005 and Reports of the Auditor General, 2002 - 2006

Further examination of Table 2 shows that the largest Budget Head is the Ministry of Education (including Youth and Sports). It is also the one Budget Head for which payment releases exceeded the voted provision in every year over the 2001–2006 period. For all other Budget Heads, there were years of spending in excess of voted provisions and vice versa. This means that both priority and non-priority Budgets Heads alike have been subject to expenditure variation over the period under review. This is consistent with the findings of the External Review in respect of policy-based budgeting, namely the absence of a transparent link between planned and executed budget activities.

Table 3 shows discretionary expenditures by economic items:

- Personal Emoluments (item 1)
- Administration (item 2)
- Services (items 3)
- Investment (item 4).

Some Budget Heads such as Subsidies cannot be broken down according to economic items; others like Contingency are not classified under any function by the CAGD. Both the Votes and Payment Releases in respect of these are excluded from

Appendix Tables 4 and 5, and consequently in the derived Table 3.

Table 3: Discretionary Domestic Expenditure by Economic Items, 2001-2006

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|-------|-------|-------|-------|-------|-------|
| DEVIATIONS FROM APPROPRIATIONS (€ billion) | | | | | | |
| Domestic Financed Expenditure | 250 | 1,498 | 96 | 165 | 1,511 | 3,299 |
| Personal Emoluments | 539 | 1,084 | 279 | 737 | 1,133 | 2,580 |
| Administration | -76 | 388 | -104 | 26 | 589 | 820 |
| Services | 14 | -21 | 10 | -222 | 168 | 83 |
| Investment | -228 | 46 | -89 | -377 | -379 | -184 |
| ABSOLUTE DEVIATIONS (%) | | | | | | |
| Domestic Financed Expenditure | 7.0% | 33.4% | 1.4% | 1.8% | 14.5% | 20.8% |
| Personal Emoluments | 23.4% | 34.8% | 5.4% | 12.1% | 16.2% | 29.1% |
| Administration | 11.1% | 61.9% | 16.7% | 3.0% | 36.8% | 32.9% |
| Services | 10.8% | 4.5% | 1.6% | 21.3% | 2.0% | 7.6% |
| Investment | 52.6% | 16.0% | 25.3% | 42.4% | 30.1% | 5.5% |

Source: Appropriation Acts, 2002-2005; Reports of Auditor General, 2002-05

Table 3 shows the dominance of the wage bill and the importance of its predictability for effective control of the budget. In terms of Voted Provisions, the wage bill has averaged about 70 percent of the Total Provisions. Its share in Total Payment Releases over the 2001–2006 period averaged 73.3 percent — over 3 percentage points higher. The absolute deviation of the actual from appropriations ranged between 5.4 percent in 2003 and 34.8 percent in 2002. By way of trends,

the deviations increased from 23 percent in 2001, peaked at 34.8 percent in 2002, fell markedly between 2003 and 2005, but has risen again in 2006. These variations reflect the inherent weaknesses in the budgetary process to which CEPA drew attention back in 1997.

In the context of the successive programmes over the last decade with the IMF, expenditure ceilings had remained a key quantitative performance criterion. Good fiscal discipline means that budget releases are within the expenditure ceilings without necessarily creating shortfalls. For that reason, any net increases in cash outlay on any expenditure category — say the wage bill — must be offset by cutbacks in one or more of the other expenditure categories. Whatever the gains from this strategy may be, frequent expenditure substitution undermines credibility of the budget. Moreover, it makes it difficult for MDAs to plan and manage their expenditure programmes predictably and efficiently; especially so when expenditure cuts are often made in the course of budget implementation, and without adequate warning and due consultations. In particular, expenditure substitution has often resulted in inadequate spending on repairs and maintenance, supplies and material inputs. The CAGD operates the Consolidated Fund on a

modified cash basis — expenditures are recorded as having occurred when the relevant goods and services have been received and appropriate payment vouchers are issued.

Modified payments basis means that the year of delivery of a good or service, when payment could be considered as due, need not be the same as the year in which the payment is actually made. When there are payment delays because of the need to keep the deficit in line with the limit imposed by the IMF, payment arrears develop which invariably end in proxy borrowing by government through the suppliers of goods and services in question. What this means is that one must exercise caution when interpreting the significance of large increases in the stock of credit from the banking system to public and private sector enterprises. Technical payment arrears in the sense of the above may be the cause of such large borrowing and not necessarily indicative of an economic boom. In the case of the public sector enterprises, the evidence of substantial quasi-fiscal financing especially by the utilities is well documented.

According to the External Review, the flow of resources to MDAs and service delivery units over the period has been less

than ideal in terms of both quantity and timeliness. Processing of invoices has tended to be very time-consuming, leading to arrears and higher costs through penalty interest (mainly in the area of road arrears) as well as cutbacks in planned services the following year as unpaid commitments are carried forward.

Table 4: Domestic Discretionary Expenditure by Function, 2001-2006

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|----------------------------------|--------|--------|--------|--------|--------|--------|
| SHARE OF TOTAL VOTE (%) | | | | | | |
| Domestic Financed Expenditure | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| General Administration | 29.0% | 26.0% | 19.0% | 22.0% | 22.0% | 20.0% |
| Economic Services | 7.0% | 7.0% | 6.0% | 6.0% | 6.0% | 5.0% |
| Infrastructure | 4.0% | 4.0% | 4.0% | 5.0% | 5.0% | 5.0% |
| Social Services | 46.0% | 48.0% | 54.0% | 50.0% | 54.0% | 57.0% |
| Public Safety | 14.0% | 15.0% | 17.0% | 17.0% | 13.0% | 13.0% |
| SHARE OF TOTAL ACTUAL (%) | | | | | | |
| Domestic Financed Expenditure | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| General Administration | 20.0% | 29.0% | 14.0% | 19.0% | 20.0% | 18.0% |
| Economic Services | 5.0% | 5.0% | 5.0% | 6.0% | 5.0% | 5.0% |
| Infrastructure | 4.0% | 3.0% | 4.0% | 4.0% | 4.0% | 6.0% |
| Social Services | 55.0% | 51.0% | 61.0% | 56.0% | 57.0% | 54.0% |
| Public Safety | 15.0% | 13.0% | 16.0% | 15.0% | 13.0% | 17.0% |

Source: Appropriation Acts 2002-2006; Reports of Auditor General, 2003-2006

Functional classification excludes contingency, utilities and revenue agencies

Table 4 also derived from Appendix Tables 4 and 5, provides a summary classification of discretionary expenditure by

function and item. There are five functions into which budget heads are classified by CAGD namely:

- General Administration,
- Economic Services,
- Infrastructure,
- Social Services, and
- Public Safety.

As is evident from Table 4, Social Services have had the largest share of the voted provisions. Over the 2001–2006 period, the share has ranged from a low of 46 percent in 2001 to a high of 57 percent in 2006 with an average of a little over 51 percent. And perhaps on account of it being top priority, there has been a persistent tendency to spend in excess of provision for social services. Thus, the share of expenditure on Social Services in Total Payment Releases has been even higher than in the Voted Provisions. Over the period under review, this share ranged from about 51 percent in 2002 to about 61 percent in 2003 with an average of 56 percent. On the other hand, as noted above, the 2006 External Review drew attention to the absence of a transparent link between planned and executed budget activities. The result of this lack of

linkages could be possible misclassification of expenditures as well as inefficient use of resources.

The publication Where did Ghana's HIPC Funds go? by the SEND Foundation raises a number of concerns about the use of public funds even in priority areas. A summary of the main findings of that report is provided in Box 1 below. In the final analysis, there is a need for caution in the interpretation of the impact of spending based on actual amounts spent. The 2007 budget proposes a "reclassification" of poverty expenditures "to include growth enhancing expenditures" in 2007 (paragraph 1238).

The size or growth in spending could be illusory in terms of benefits or impact. There can be no substitute for monitoring and evaluation of the process of implementation and the development of indicators both at the national level (for international comparisons) and districts level for monitoring progress at the local level which is of even greater importance.

Four large public enterprises — Volta River Authority (VRA), Electricity Company of Ghana (ECG), Tema Oil Refinery (TOR) and Ghana Water Company Limited (GWCL) —

historically, have accounted for the bulk of quasi fiscal activities (QFAs), through a combination of pricing below cost recovery, technical inefficiency and system losses.

With accelerated economic growth as the primary vehicle for poverty reduction and prosperity, and the need to mobilize additional resources for infrastructure, the relatively meagre share of infrastructure in total discretionary expenditure is both revealing and disturbing. As shown in Table 4, the infrastructure share averaged less than 5 percent in the 2001–2006 period. The disturbing aspect is the tendency for cutbacks — negative variation — in periods of financing difficulty. This observation is evident in Table 3, According to the External Review government’s explanation to the cutbacks in infrastructure is that divestiture proceeds are earmarked for investment. The problem, therefore, has to do with the delays in the flow of divestiture receipts. This explanation is clearly unsatisfactory, given the importance of infrastructure development for growth.

Table 5 attempts to determine the drivers of spending in social services. It shows the breakdown of social services expenditure by economic item. It is evident that Personal

Emoluments amendments constitute by far the largest single component of spending in the sector. Over the 2001–2006 period, its share of Total Voted Provision in the sector ranged between about 82 percent in 2002 to almost 90 percent in 2006 and averaging about 84 percent. In terms of Payment Releases, the range was narrower between 89 percent in 2006 and 91 percent in 2003, with an average of 90 percent. Again this pattern of expenditure behaviour confirms other findings about the role of Personal Emoluments as the main driver of expenditures.

Table 5: Social Services Expenditure by Item, 2001-2006

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| ABSOLUTE DEVIATIONS (€ billion) | | | | | | |
| Total Expenditure | 451 | 1,498 | 529 | 643 | 1,168 | 2,822 |
| Personal Emoluments | 569 | 1,084 | 572 | 679 | 1,019 | 1,859 |
| Administration | 75 | 388 | 61 | 45 | 179 | 104 |
| Services | 23 | 21 | 41 | 37 | 21 | 173 |
| Investment | 20 | 46 | 24 | 45 | 51 | 687 |
| DEVIATION INDEX (%) | | | | | | |
| Total Expenditure | 27.7% | 33.4% | 14.6% | 14.3% | 20.7% | 37.9% |
| Personal Emoluments | 43.1% | 34.8% | 17.8% | 17.3% | 20.2% | 27.8% |
| Administration | 37.4% | 61.9% | 32.1% | 20.9% | 62.2% | 23.8% |
| Services | 42.6% | 4.5% | 24.0% | 15.3% | 11.6% | 90.9% |
| Investment | 36.2% | 16.0% | 52.7% | 44.8% | 37.3% | 503.7% |

Source: Appropriation Acts, 2002-2006; Report of Auditor General, 2002-2005

Given its priority status and share in total of expenditures, it is hardly surprising that as expenditures on Social Services go, so do Total Expenditures. Specifically, the wage bill and its management would determine the prospects for achieving the GPRS II twin-goal of stability with growth.

Box 1 Key findings of “Where Did Ghana’s HIPC Funds Go?”

- The HIPC funds were allocated without clearly stated and transparent guidelines. Disbursements were at the discretion of the Ministry of Finance and Economic Planning (MOFEP). There was no specific budget for it either. The MOFEP will authorize allocation of HIPC funds to MDAs provided an application was based on projects and programmes spelt out in the GPRS. District Assemblies were marginalized, so were vulnerable groups like the disabled.
- Poverty or the degree that a region or district was poor, compared to the others, was not the criterion for allocation; “population ratio” received more weight than poverty in calculating the allocation of funds for poverty alleviation. This made the most populous regions, rather than the poorest regions, the greatest beneficiaries of HIPC funds. Poverty alleviation was reduced to the implementation of programmes and projects.
- The expenditure of HIPC funds was not done with the approval of Parliament contrary to the relevant provisions of the Constitution. Nobody accounted for the expenditure of HIPC funds to oversight powers in general to hold any MDA accountable for HIPC funds, or to Parliament; neither did Parliament exercise its monitoring and oversight powers in general to hold any MDA accountable for HIPC funds, or to ensure that those funds were spent with authority.
- Allocations to social sector Ministries declined with time and the most marginalized ministries were that of Women and Children’s Affairs, and Food and Agriculture, as many more MDAs joined the scramble for HIPC funds.

IV. *Some Issues in Planning and Managing the Wage Bill*

Improvement in the budgetary processes about the wage bill is important for several reasons: first for its size, and second, for the fact that the wage bill has been a source of significant budget variance. A ratchet effect (Box 2) or “lock-in” phenomenon appears to describe well the trends in public sector wage bill. Put simply, the procedure has been to prepare the budget on the basis of the most recent wage bill and then provide a contingency for projected increases for the coming year. The wage bill has always moved upward as percentage of tax revenues or as percentage of national output. As a percent of Government’s discretionary expenditure, the wage bill has risen from 40% in 2006 to 66% in 2007. This represents 9.5% of GDP and is the highest in the sub-region.

Effective management of the wage bill remains a key challenge of PEM in Ghana. It is the largest single expenditure item and a regular source of spending overruns. On average, without compensating shortfalls in other areas of spending, discretionary expenditure financed from the Consolidated Fund (CF) would have had to increase by about 8 percent annually to accommodate the wage bill.

Increases in the wage bill typically come from two sources:

- Growth in public service employment, particularly new hiring of teachers. Under the Medium Term Expenditure Framework (MTEF), it is reasonable to expect that additional hiring of teachers should be known before hand, and either approved and budgeted for or denied in the budget preparation process. The problem is that in practice, ministries, department and agencies (MDAs) hardly comply with the MTEF process. The budget numbers are arbitrarily scaled up without diligent consideration of emerging or changing needs in different areas of spending. The 2007 Budget Statement recognized this problem, and as part of the broader public sector reforms, the government set up a committee to develop a framework for wage and salary administration with the goal to determine the optimal number of workers to effectively and efficiently support the delivery of public services.
- Wage rates are normally adjusted as negotiations are completed with unions or, in special instances, with the introduction of new scales following a review by a Wages and Salaries Commission. Clearly, if pay negotiations are still underway when budget preparation is concluded, then

the most practical way to handle the imminent wage bill is the provision of a contingency vote to cover the anticipated cost of new pay scales. The alternative would be a Supplementary Appropriation Bill after the financial year has begun, but this could run into political problems in Parliament.

The seriousness of the wage bill problem has not gone unnoticed. In the forward to the 2007 Budget Statement, the President touched on this matter:

There are problems at the labour front, resulting partly from a distorted public sector salary structure which is also poorly administered. Government has, therefore, decided to begin the implementation of a new comprehensive public sector pay reform that emphasizes equal pay for work of equal worth. The broad objective is to aim for wage increases in line with productivity gains, cost effectiveness and efficiency. ... To ensure order and equity all round, government is setting up a Fair Wages Commission to oversee the implementation of this new programme The public sector reforms that are being pursued will be sustained to boost private sector development through an enhanced public services delivery in order to deepen public-private sector partnerships for

accelerated growth (2007 Budget Statement, pages 5-6).

Box 2: The Ratchet Effect of Public Sector Wage Bill

A ratchet effect or ‘lock-in’ phenomenon appears to exist in public sector wage bill. That is, the wage bill has always moved upward, even at the height of the exodus of nurses, doctors, and teachers in search of greener pastures in the early 1980s. Part of the reason for the ratcheting effect comes from the incremental budgeting system that was used for so long to justify and win additional resources. Once a wage bill was accepted for a ministry for one year, it became incorporated into the ministry’s base. As a result, it often becomes virtually impossible to reevaluate them or revise them downwards in subsequent years.

Every MDA sees its wage bill as its proprietary resources, a measure of the inputs needed to undertake its public responsibilities or in the delivery of public goods. Any attempt to reevaluate MDAs’ wage bill is seen as a loss of its resources to the benefit of other ministries. This partly explains the reluctance of some MDAs to cooperate in purging payroll of ghost names. For decentralized MDAs, such as education and health, the opposition to cleaning up payroll is most pervasive at the district level, with district directors in charge of payroll, accountants, payroll officers and internal auditors as the least cooperative. This is not to suggest that they are actively resistant to payroll clean up in an obvious way. If a head count was commissioned, they would comply. They may not want to risk being seen as being obstructive. They would, however, seek to manage the process and therefore the outcome.

Source: Joe Amoako-Tuffour, “Ghost Names, Shadow Workers, and the Public Sector Wage Bill”, Institute of Economic Affairs Occasional Paper, March 2002.

A Fair Wages Commission was proposed in the 2007 Budget Statement. Among other things, the Commission is expected to address the staffing levels and policy cost drivers of the wage bill as well as to develop a new pay policy that gives greater regard to the local labour market for professionals and skilled technicians. This is in line with the broad policy of Government as stated also in the 2007 Budget Statement to enhance wages in line with increased productivity and streamlining the administration of payroll.

In addition, it is hoped that the public sector wage negotiation process would be better synchronized with that of budget preparation, so that negotiations are completed ahead of submission of the Appropriation Bill. This would help address the issue identified in the 2007 budget as “... *significant reduction in productivity in the public sector due to the absence of a framework for rational discussion and decision-making over wages and salaries*”. A decision can then be made on the size of the annual adjustment and included in the estimates under the Personal Emoluments of each budget head.

Over the period, the wage bill has been about 70 percent of the Total Vote appropriated for discretionary expenditure from the

Consolidated Fund. Because of the persistent tendency for overspending, the payroll share of the payment release is almost 75 percent. Non-wage discretionary expenditures are typically restrained through slow disbursements of funds to the various MDAs. With the exception of the wage bill, disbursements to MDAs have historically remained below their sectoral ceilings. In 1999 for instance, MDAs only received their non-wage allocations for the first two quarters of the year. The situation worsened in the election 2000 when the MDAs only received allocations for just one quarter in order to accommodate the wage bill.

To summarize the evidence:

The wage bill constitutes the largest economic item in discretionary expenditures on the CF — almost 75 percent, and judged among the highest in Africa in 2006.

- The tendency for Actual Releases to exceed the Voted Provisions drives total discretionary spending to exceed the budgetary provisions.
- In order for fiscal discipline to conform with expenditure ceilings imposed by the IMF, wage bill pressures have often forced compensatory shortfalls in releases for other economic items, notably investment. This often leads to the

build-up of technical payment arrears and pre-finance by contractors.

- Increased donor dependence for infrastructure.

Simply stated, the large wage bill crowds out other categories of discretionary spending, making funding for these other categories overly dependent on external aid from development partners. There are other consequences. The greater the proportion of government expenditures that rely on donor funding, the greater the loss of ownership in executing the budget, and the greater the vulnerability of the budget to the unpredictability of aid flows.

Furthermore, existing policy in sectors such as education requires the continued hiring of teaching and non-teaching personnel in order to meet the enrolment ratio objectives in the MDGs. The wage bill can be brought under control only when the deep seated public sector reform issues, specifically, the factors that drive wage bill in the priority social sectors of education and health, have been effectively tackled. This would be a key issue to be addressed by the Fair Wages Commission.

Over the longer term, the wage bill is driven by decisions about the scope of government, about the role of government in economic activities, and about the manner in which services are delivered. These should be important considerations for both public sector reform and for the Fair Wages Commission.

In the near-term, the wage bill is also influenced by both budgeting and technical issues. On the budgetary side, control over the wage bill by the MOFEP is complicated by the staffing demands of MDAs. Discussions on wage bill requirements for the following year's budget often take place late in a compressed budget preparation calendar.

An allocation is determined for the overall increase in the wage bill, and appears in the Appropriations Act as a 'contingency reserve' to be distributed later on in the course of the year. Typically, the strongest driver of the wage bill has been the education sector, specifically the Ghana Education Service (GES) and the National Council for Tertiary Education (NCTE). The present situation is unsatisfactory because it depends on the adequacy or otherwise of the contingency reserve provision. The process of budget preparation would be better served if the wage bill is properly estimated as an

integral part of the budget submission of the relevant MDAs. The goal is to provide the opportunity for the wage demands to be considered as part of the claims for resources by MDAs with the view to making some savings and or turning down the request for increased staff.

Providing fully for the wage bill during budget preparation could:

- strengthen the credibility of the Medium Term Expenditure Framework (MTEF);
- increase the predictability and control of the execution of the budget
- improve the prospects that spending will remain within the range of the hard budget constraint that is needed to maintain macroeconomic stability; and
- underpin the principle of Parliament giving prior approval to the spending of public funds through the Appropriations Act (see also footnote on page 5 in respect of Statutory Funds outside the Consolidated Fund).

The case for a wage bill contingency is, moreover, not especially strong because the numbers of new staff coming on board at the start of the school year are ‘accordingly known in

advance'. The practice of budgeting on the assumption of unchanged staff strength is therefore inexcusable. For example, according to the 2006 External Review, it was known that 9,000 graduate teachers were expected to join the GES in October 2004. The increase should therefore have been budgeted for in the Ministry's submission. This would have created the opportunity for the increase to be accepted and incorporated in the 2005 budget or disallowed. Instead, after the passage of the Appropriations Act, the Ministry of Education requested an increase in its wage bill provision by €530 billion. Sixty percent of this amount was for the Ministry and GES and the remainder for tertiary education (paragraph 333).

Admittedly, there is a stronger case for the wage bill contingency based on uncertainty over pay adjustments. This is often the outcome of wage negotiations between union and the GES and its parallel in the health sector. This makes contingency provisions almost unavoidable although, the constitutionally preferable option could be for Government to return to Parliament with a Supplementary Appropriation Bill to cover the cost of the new pay scales as well as to indicate how they will be financed.

Box 3: Wage Issues

Currently workers in the health sector seem to be in a quandary as to how to go about negotiating with government for salaries and benefits. The Ghana Medical Association has put out a press statement outlining the sequence of events in the negotiation process with Government and their frustration with what they see as Government's disregard for and breaking of the law in its dealings with them.

According to the statement, directives from the Labour Commission have been ignored by Government. This has led to the Commission issuing a statement that "it is to be recognized that there is a paradigm shift in industrial relations and the Law enjoins all parties in an employment relationship to discuss every issue that affects the other party in the relationship before any decision is taken".

The statement also refers to multiple bodies representing Government in the negotiation process and calls on Government to "harmonize the activities of the many bodies that seek to rationalize salary administration issues in this country". This is at odds with the 2007 Budget Statement which states that "a Fair Wages Commission will be legally mandated to administer the new comprehensive pay structure, and the mandates of existing similar institutions will be rationalized".

From a political perspective, however, this option could be impractical. The ideal would be for all wage negotiations to be completed before completing the budget estimates so that the new pay scales would come into effect at the beginning of the fiscal year. The advantage of this option is that all the relevant determinants of the wage bill such as due regard to the local

labour market for professionals and skilled technicians, staffing levels and policy cost drivers would be fully addressed and the principle of Parliamentary oversight appropriately respected.

There are technical problems that also impede control over the wage bill. Payroll audits since 2000 have made important contributions in the effort to clean up the public sector payroll. Thousands of ghost workers have been reportedly removed from the rolls especially in the Ghana Education Service (GES). The number of ghost workers “identified in GES fell to less than 100 in 2004” (paragraph 337). The problem of ghost workers, however, is not yet eliminated and “... *continual cleaning exercises are still required*” (ibid).

An adequate degree of verification is not available for the subvented agencies since MOFEP has no independent means of verifying the payroll lists submitted to it by these agencies. Moreover, in the case of tertiary education the wage bill is paid in block to the NCTE which then pays out to the subvented agencies falling under it.

There also appears to be evidence of incentives for the subvented agencies (SAs) to overrun the payroll. This is partly

because some of these agencies use part of the wage bill provided to them to increase their non-wage spending. This partly explains the discrepancy between the Controller and Accountant General Department (CAGD) estimates and the spending for SAs' under items 1 and 2 of subvented agencies' estimates" (paragraph 338).

Better control of the wage bill over the longer term requires comprehensive public sector reform, including rationalizing the number of government agencies. It also requires revising the way in which current policies are delivered, and the dividing line between the state and private/community provision. This is necessarily a long-term task.

The Appropriations Act is the legal instrument that governs budget allocations from the consolidated fund (CF). It is passed after Parliament and Cabinet have fine-tuned the budget, indicating details of all expected disbursement and ensuring the availability of funds to cover projected expenditures. The projected expenditures are submitted by the MDAs to cover their programme for the year, and are supposed to take into consideration all expected increases.

Box 4: Public Sector Wage Reform

The Government is aware of the inequities in the administration of wages and salaries and the potentially destabilizing impact of agitations in the labour front to correct the anomaly. There has been a significant reduction in productivity in the public sector due to the absence of a framework for rational discussion and decision-making over wages and salaries. Yet the wage bill component of Government's discretionary expenditure is growing, from 40% in 2006 to 66% in 2007. This represents 9.5% of GDP and is the highest in the sub-region.

The broad policy of Government continues to be (a) improvements in wages in line with productivity increases and (b) streamlining the administration of payroll. A decision has been made to implement a new framework within which public sector salaries, wages negotiations grading and pay administrations will be implemented. The process was started in 2006. The government held consultations with organized labor, private sector employers for solutions to the problem of low wages and salaries. A technical team supported by a steering committee has also been working to develop recommendations on wage and salary administration. The final result from this work is expected to reflect the following:

- Linking the public sector pay structure with productivity, position and qualification.
- Maintaining the competitiveness of public sector incomes relative to the private sector.
- Determining the optimal number of workers to effectively and efficiently support the delivery of public services.
- Proposing a package of incentives for employees who will opt for early retirement and out-placement as part of a right-sizing and right-matching.
- Carrying out job content and evaluation analysis
- Eliminating the assortment of non-cash benefits through monetization.

A Fair Wages Commission will be legally mandated to administer the new comprehensive pay structure, and the mandates of existing similar institutions will be rationalized. The commission is to deliver a holistic employment reform programme to be implemented over a 3-5 year period.

The process of consolidating various pay-roll systems into the Integrated Personal and Pay-roll Database which commenced in 2006 will continue in 2007.

There will be mandatory installation of biometric clock-in technology in all institutions

There will be no new permanent additions to the public sector pay-roll unless market conditions dictate otherwise.

The distortions in the Ghana Universal Salary Structure have been removed, and it will be abolished in 2008.

The necessary financial outlays resulting from these adjustments have been programmed into the 2007 Budget.

Government will be looking for opportunities to consolidate public institutions with overlapping activities and eliminate institutions no longer needed. This together with decentralization and devolution will improve the efficiency of Government.

Appendix Table 1: Deviations by Budget Heads (2001 - 2006)

| BUDGET HEAD | Budget / Votes (€ billion) | | | | | | Actual Allocation (€ billion) | | | | | |
|--------------------------------|----------------------------|----------------|----------------|-----------------|-----------------|-----------------|-------------------------------|----------------|----------------|-----------------|-----------------|-----------------|
| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| Ministry of Edu. (incl. Y & S) | 1,294.3 | 1,623.8 | 2,637.3 | 3,331.9 | 3,920.2 | 5,370.5 | 1,651.2 | 2,294.2 | 3,080.0 | 3,983.7 | 5,115.4 | 7,001.9 |
| Ministry of Health (excl.NHIF) | 287.1 | 466.7 | 893.4 | 1,027.5 | 1,551.9 | 1,920.1 | 363.8 | 669.7 | 957.2 | 1,020.7 | 1,546.8 | 2,547.6 |
| Ministry of Interior | 215.8 | 322.0 | 592.1 | 674.5 | 624.4 | 1,770.9 | 283.7 | 754.7 | 548.3 | 677.2 | 788.9 | 1,241.5 |
| Ministry of Defence | 207.5 | 285.3 | 439.2 | 636.1 | 408.1 | 671.1 | 224.8 | 293.5 | 461.5 | 506.9 | 581.8 | 870.3 |
| Contingency | - | 46.3 | 410.0 | 870.8 | 1,989.2 | - | - | - | 288.2 | 611.2 | 599.0 | - |
| Revenue Agencies | - | - | 331.8 | 387.6 | 497.9 | - | - | - | 310.52 | 347.0 | 412.5 | - |
| Ministry of Foreign Affairs | 188.2 | 200.5 | 322.0 | 474.2 | 511.7 | 515.5 | 117.2 | 353.1 | 320.5 | 521.2 | 593.3 | 682.5 |
| Office of Gov't Machinery | 123.6 | 168.6 | 321.5 | 526.7 | 523.2 | 656.7 | 159.2 | 201.1 | 219.2 | 452.3 | 489.7 | 662.2 |
| Utilities | - | - | 290.0 | 319.0 | 349.5 | - | - | - | 212.2 | 76.3 | 781.0 | - |
| Ministry of Roads and Trans. | 59.5 | 105.7 | 200.5 | 325.5 | 428.7 | 620.9 | 78.9 | 76.3 | 183.5 | 294.8 | 365.0 | 834.0 |
| Ministry of Fin. & Econ Plan. | 129.3 | 181.2 | 143.2 | 177.3 | 729.8 | 831.5 | 171.7 | 177.3 | 75.6 | 225.7 | 719.1 | 510.0 |
| Ministry of Food and Agric. | 83.8 | 102.6 | 136.7 | 142.6 | 222.3 | 272.7 | 61.7 | 80.9 | 105.7 | 131.5 | 188.9 | 377.0 |
| Ministry of Env. and Science | 64.5 | 93.2 | 132.7 | 157.8 | 127.9 | 180.4 | 68.2 | 95.7 | 114.7 | 175.3 | 165.5 | 220.5 |
| Min of Loc. Govt & Rural Dev | 73.8 | 76.0 | 127.3 | 172.0 | 181.3 | 199.8 | 100.7 | 118.8 | 151.1 | 176.7 | 190.8 | 329.6 |
| Judicial Services | 36.7 | 49.7 | 95.9 | 130.4 | 157.4 | 147.3 | 51.7 | 54.9 | 67.1 | 86.8 | 134.6 | 163.0 |
| Min of Info. & Pres. Affairs | - | 49.0 | 87.2 | 83.5 | 85.5 | 78.1 | - | 50.0 | 18.5 | 61.8 | 71.4 | 93.3 |
| Office of Parliament | 20.5 | 39.2 | 85.7 | 133.7 | 119.9 | 163.7 | 47.9 | 40.9 | 64.8 | 106.1 | 143.5 | 177.8 |
| Audit Service | 23.6 | 26.0 | 78.4 | - | 88.3 | 115.1 | 22.2 | 31.7 | 63.8 | - | 80.6 | 103.7 |
| Min of Wat Res., Wks and Hsg. | 48.9 | 49.1 | 59.7 | 98.2 | 92.2 | 109.2 | 34.3 | 65.8 | 61.1 | 80.8 | 135.5 | 193.8 |
| Ministry of Lands and Forestry | 59.0 | 39.0 | 57.5 | - | - | 80.6 | 44.6 | 33.0 | 55.5 | - | - | 96.8 |
| Ministry of Trade and Industry | - | - | - | 94.4 | 97.4 | 82.3 | - | - | - | 50.5 | 109.2 | 71.7 |
| National Electoral Commission | - | 27.3 | - | 206.6 | - | - | - | 29.4 | - | 77.8 | - | - |
| General Government Services | 447.5 | 377.9 | - | - | - | - | 124.8 | 743.0 | - | - | - | - |
| Ministry of Justice | 19.0 | - | - | - | - | 87.1 | 17.1 | - | - | - | - | 128.5 |
| Ministry of Man.Dev | 19.6 | - | - | - | - | 78.9 | 37.3 | - | - | - | - | 79.5 |
| Ministry of Communication | 36.6 | - | - | - | - | - | 44.5 | - | - | - | - | - |
| Sum of remaining Budget Heads | 110.3 | 861.7 | 356.7 | 538.7 | 579.5 | 326.2 | 93.6 | 924.1 | 276.0 | 472.0 | 25.0 | 904.1 |
| Total | 3,549.1 | 5,190.8 | 7,798.8 | 10,509.0 | 13,286.4 | 14,278.6 | 3,799.1 | 7,088.1 | 7,635.0 | 10,136.3 | 13,237.5 | 17,289.3 |

Total Expenditure Variation Index

Sources: Appropriation Acts 2002, 2003, 2004, 2005 and Reports of the Auditor General, 2002-2006

Appendix Table 2: Expenditure Shares by Functional Classification

| | Budget Allocation (€ billion) | | | | | | Actual Allocation (€ billion) | | | | | |
|------------------------------------|-------------------------------|---------|---------|---------|----------|----------|-------------------------------|---------|---------|---------|----------|----------|
| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| Discretionary Domestic Expenditure | 3,549.1 | 4,487.5 | 6,757.0 | 8,935.7 | 10,427.0 | 13,141.9 | 3,799.1 | 5,985.1 | 6,852.9 | 9,080.2 | 11,938.3 | 18,863.6 |
| Gen. Admn | 1,039.0 | 1,170.2 | 1,224.7 | 1,909.6 | 2,310.1 | 2,629.0 | 765.6 | 1,764.1 | 974.7 | 1,713.1 | 2,417.4 | 3,404.5 |
| Economic Services | 243.9 | 310.1 | 433.5 | 563.0 | 611.6 | 712.2 | 208.3 | 271.3 | 351.9 | 512.3 | 620.5 | 882.8 |
| Infrastructure | 145.0 | 165.8 | 300.8 | 472.1 | 569.4 | 584.0 | 157.7 | 156.0 | 261.8 | 402.3 | 522.8 | 1,041.1 |
| Social Services | 1,629.1 | 2,149.9 | 3,617.0 | 4,484.8 | 5,635.5 | 7,455.9 | 2,080.3 | 3,039.0 | 4,146.1 | 5,127.3 | 6,803.3 | 10,278.1 |
| Public Safety | 492.1 | 691.5 | 1,181.0 | 1,506.2 | 1,300.4 | 1,760.8 | 587.2 | 754.7 | 1,118.4 | 1,325.2 | 1,574.3 | 3,257.1 |

Sources: Appropriation Acts 2002, 2003, 2004, 2005 and Reports of the Auditor General, 2003-2005

Functional classification excludes contingency, utilities and revenue agencies.

Appendix Table 3: Social Services Expenditure by Item (2001-2006)

| | Voted Provision (€ billion) | | | | | | Actual Payment (€ billion) | | | | | |
|----------------|-----------------------------|----------------|----------------|----------------|----------------|----------------|----------------------------|----------------|----------------|----------------|----------------|-----------------|
| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| Total | 1,629.1 | 4,487.4 | 3,617.0 | 4,484.7 | 5,635.5 | 7,455.9 | 2,080.3 | 5,985.2 | 4,146.1 | 5,127.3 | 6,803.3 | 10,278.1 |
| Personal Emol. | 1,320.6 | 3,112.0 | 3,212.3 | 3,932.5 | 5,033.1 | 6,693.4 | 1,889.2 | 4,195.7 | 3,784.3 | 4,611.4 | 6,052.0 | 8,552.6 |
| Admn | 199.9 | 627.8 | 188.7 | 214.2 | 287.1 | 436.4 | 125.2 | 1,016.2 | 128.2 | 259.0 | 465.8 | 540.4 |
| Services | 52.8 | 458.1 | 171.4 | 238.5 | 179.5 | 189.8 | 30.3 | 437.5 | 212.5 | 202.0 | 200.3 | 362.3 |
| Investment | 55.8 | 289.6 | 44.6 | 99.5 | 135.8 | 136.3 | 35.6 | 335.8 | 21.1 | 54.9 | 85.2 | 822.8 |

Sources: Appropriation Acts 2002, 2003, 2004, 2005 and Reports of the Auditor General, 2002-2005

Appendix Table 5: Expenditure By Functional Classification and Items

| Appendix Table 4: Expenditure by functional Classification and Items | | | | | | | | | | | | |
|--|-------------------------------|----------------|--------------|--------------|----------------|----------------|---------------------------|-------------|-------------|-------------|-------------|-------------|
| | Absolute Deviation (billion) | | | | | | Deviation Index (percent) | | | | | |
| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| Gen. Administration | 273.4 | 593.9 | 250.0 | 196.5 | 107.3 | 775.5 | 26.0 | 51.0 | 20.0 | 10.0 | 5.0 | 29.0 |
| Personal Emoluments | 78.1 | 58.0 | 192.5 | 102.9 | 63.2 | 262.4 | 17.0 | 9.0 | 27.0 | 14.0 | 7.0 | 26.0 |
| Administration | 53.5 | 392.5 | 12.1 | 16.2 | 25.8 | 244.6 | 20.0 | 166.0 | 7.0 | 5.0 | 3.0 | 25.0 |
| Services | 38.9 | 63.0 | 14.6 | 110.8 | 149.4 | 48.9 | 89.0 | 34.0 | 6.0 | 21.0 | 62.0 | 16.0 |
| Investment | 180.7 | 80.4 | 30.8 | 184.9 | 129.1 | 219.6 | 68.0 | 75.0 | 39.0 | 66.0 | 35.0 | 61.0 |
| Economic Services | 35.6 | 38.8 | 81.6 | 50.7 | 8.9 | 170.6 | 15.0 | 13.0 | 19.0 | 9.0 | 1.0 | 24.0 |
| Personal Emoluments | 14.7 | 3.9 | 50.5 | 30.5 | 59.1 | 86.8 | 9.0 | 2.0 | 17.0 | 10.0 | 20.0 | 25.0 |
| Administration | 12.1 | 7.0 | 4.6 | 5.0 | 27.0 | 24.5 | 24.0 | 16.0 | 9.0 | 7.0 | 34.0 | 26.0 |
| Services | 3.9 | 21.4 | 19.9 | 48.3 | 25.6 | 98.3 | 30.0 | 42.0 | 35.0 | 50.0 | 39.0 | 172.0 |
| Investment | 4.9 | 6.4 | 6.6 | 37.9 | 51.6 | 10.0 | 24.0 | 29.0 | 23.0 | 39.0 | 29.0 | 5.0 |
| Infrastructure | 12.7 | 9.8 | 39.0 | 69.8 | 46.6 | 457.1 | 9.0 | 6.0 | 13.0 | 15.0 | 8.0 | 78.0 |
| Personal Emoluments | 10.1 | 0.2 | 7.5 | 13.7 | 11.1 | 52.4 | 16.0 | 0.0 | 10.0 | 19.0 | 12.0 | 62.0 |
| Administration | 3.6 | 0.8 | 9.4 | 5.3 | 8.6 | 12.6 | 15.0 | 4.0 | 30.0 | 14.0 | 18.0 | 41.0 |
| Services | 1.6 | 2.4 | 2.5 | 11.5 | 4.7 | 37.9 | 22.0 | 20.0 | 8.0 | 32.0 | 29.0 | 215.0 |
| Investment | 7.8 | 8.0 | 19.6 | 66.7 | 61.6 | 379.4 | 16.0 | 11.0 | 12.0 | 21.0 | 15.0 | 84.0 |
| Social Services | 451.2 | 889.1 | 529.1 | 642.6 | 1,167.8 | 2,822.2 | 28.0 | 41.0 | 15.0 | 14.0 | 21.0 | 38.0 |
| Personal Emoluments | 568.6 | 989.6 | 572.0 | 678.9 | 1,018.9 | 1,859.2 | 43.0 | 56.0 | 18.0 | 17.0 | 20.0 | 28.0 |
| Administration | 74.7 | 10.9 | 60.5 | 44.8 | 178.7 | 104 | 37.0 | 6.0 | 32.0 | 21.0 | 62.0 | 24.0 |
| Services | 22.5 | 57.9 | 41.1 | 36.5 | 20.8 | 172.5 | 43.0 | 37.0 | 24.0 | 15.0 | 12.0 | 91.0 |
| Investment | 20.2 | 31.7 | 23.5 | 44.6 | 50.6 | 686.5 | 36.0 | 59.0 | 53.0 | 45.0 | 37.0 | 504.0 |
| Public Safety | 95.1 | 63.2 | 62.6 | 181.0 | 273.9 | 1,496.3 | 19.0 | 9.0 | 5.0 | 12.0 | 21.0 | 85.0 |
| Personal Emoluments | 53.0 | 40.2 | 42.6 | 89.1 | 19.2 | 319.3 | 18.0 | 9.0 | 5.0 | 9.0 | 3.0 | 44.0 |
| Administration | 68.2 | 13.0 | 17.0 | 34.4 | 350.7 | 508.8 | 51.0 | 9.0 | 10.0 | 14.0 | 107.0 | 66.0 |
| Services | 3.4 | 1.9 | 5.5 | 14.4 | 28.1 | 150.6 | 21.0 | 3.0 | 6.0 | 10.0 | 42.0 | 155.0 |
| Investment | 29.5 | 11.9 | 8.5 | 43.1 | 85.7 | 517.6 | 68.0 | 34.0 | 22.0 | 49.0 | 51.0 | 320.0 |
| Disc. Dom. Fin. Exp. | 250.0 | 1,497.8 | 95.9 | 164.5 | 1,511.3 | 5,721.7 | 7.0 | 33.0 | 1.0 | 2.0 | 14.0 | 44.0 |

Sources: Appropriation Acts 2002, 2003, 2004, 2005 and Reports of the Auditor General, 2002-2005

| | Budget Allocation (€ billion) | | | | | | Actual Allocation (€ billion) | | | | | |
|-------------------------------|-------------------------------|----------------|----------------|----------------|-----------------|-----------------|-------------------------------|----------------|----------------|----------------|-----------------|-----------------|
| | 2001 V | 2002 V | 2003 V | 2004 V | 2005 V | 2006 V | 2001 A | 2002 A | 2003 A | 2004 A | 2005 A | 2006 A |
| General Administration | 1,039.0 | 1,170.2 | 1,224.7 | 1,909.6 | 2,310.1 | 2,629.0 | 765.6 | 1,764.1 | 974.7 | 1,713.1 | 2,417.4 | 3,404.5 |
| Personal Emoluments | 457.4 | 643.0 | 709.5 | 762.1 | 844.9 | 990.4 | 379.3 | 701.0 | 517.0 | 865.0 | 908.1 | 1,252.8 |
| Administration | 274.1 | 237.1 | 178.1 | 317.4 | 861.8 | 973.4 | 220.6 | 629.6 | 166.0 | 333.6 | 885.6 | 1,218.0 |
| Services | 43.7 | 182.7 | 258.8 | 529.9 | 239.6 | 303.6 | 82.6 | 245.7 | 244.2 | 419.1 | 389.0 | 352.5 |
| Investment | 263.8 | 107.4 | 78.3 | 280.3 | 363.8 | 361.6 | 83.1 | 187.8 | 47.5 | 95.4 | 234.7 | 581.2 |
| Economic Services | 243.9 | 310.1 | 433.5 | 563.0 | 611.6 | 712.2 | 208.3 | 271.3 | 351.9 | 512.3 | 620.5 | 882.8 |
| Personal Emoluments | 161.1 | 194.6 | 295.7 | 300.8 | 292.1 | 352.9 | 146.4 | 190.7 | 245.2 | 331.3 | 351.2 | 439.7 |
| Administration | 49.6 | 43.1 | 51.0 | 68.4 | 78.3 | 92.9 | 37.5 | 36.1 | 46.4 | 73.4 | 105.3 | 68.4 |
| Services | 12.9 | 50.5 | 57.5 | 97.2 | 65.0 | 57.1 | 9.0 | 29.1 | 37.6 | 48.9 | 39.4 | 155.4 |
| Investment | 20.3 | 21.9 | 29.3 | 96.6 | 176.2 | 209.3 | 15.4 | 15.5 | 22.7 | 58.7 | 124.6 | 219.3 |
| Infrastructure | 145.0 | 165.8 | 300.8 | 472.1 | 569.4 | 584.0 | 157.7 | 156.0 | 261.8 | 402.3 | 522.8 | 1,041.1 |
| Personal Emoluments | 64.0 | 60.4 | 78.1 | 72.8 | 94.5 | 84.4 | 74.1 | 60.2 | 70.6 | 86.5 | 105.6 | 136.8 |
| Administration | 24.5 | 22.0 | 31.4 | 38.7 | 46.6 | 31.1 | 20.9 | 22.8 | 22.0 | 33.4 | 55.2 | 18.5 |
| Services | 7.3 | 12.0 | 31.2 | 35.5 | 16.3 | 17.6 | 5.7 | 9.6 | 28.7 | 24.0 | 11.6 | 55.5 |
| Investment | 49.2 | 71.4 | 160.1 | 325.1 | 412.0 | 450.9 | 57.0 | 63.4 | 140.5 | 258.4 | 350.4 | 830.3 |
| Social Services | 1629.1 | 2,149.9 | 3,617.0 | 4,484.7 | 5,635.5 | 7,455.9 | 2,080.3 | 3,039.0 | 4,146.1 | 5,127.3 | 6,803.3 | 10,278.1 |
| Personal Emoluments | 1,320.6 | 1,756.1 | 3,212.3 | 3,932.5 | 5,033.1 | 6,693.4 | 1,889.2 | 2,745.7 | 3,784.3 | 4,611.4 | 6,052.0 | 8,552.6 |
| Administration | 199.9 | 183.0 | 188.7 | 214.2 | 287.1 | 436.4 | 125.2 | 172.1 | 128.2 | 259.0 | 465.8 | 540.4 |
| Services | 52.8 | 156.7 | 171.4 | 238.5 | 179.5 | 189.8 | 30.3 | 98.8 | 212.5 | 202.0 | 200.3 | 362.3 |
| Investment | 55.8 | 54.1 | 44.6 | 99.5 | 135.8 | 136.3 | 35.6 | 22.4 | 21.1 | 54.9 | 85.2 | 822.8 |
| Public Safety | 492.1 | 691.5 | 1,181.0 | 1,506.2 | 1,300.4 | 1,760.8 | 587.2 | 754.7 | 1,118.4 | 1,325.2 | 1,574.3 | 3,257.1 |
| Personal Emoluments | 298.4 | 457.9 | 871.4 | 1,043.2 | 738.6 | 731.2 | 351.4 | 498.1 | 828.8 | 954.1 | 719.4 | 1,050.5 |
| Administration | 134 | 142.6 | 172.2 | 237.8 | 327.4 | 770.6 | 202.2 | 155.6 | 155.2 | 203.4 | 678.1 | 1,279.4 |
| Services | 16.1 | 56.2 | 98.3 | 138.0 | 66.2 | 97.4 | 19.5 | 54.3 | 103.8 | 123.6 | 94.3 | 248.0 |
| Investment | 43.6 | 34.8 | 39.1 | 87.2 | 168.2 | 161.6 | 14.1 | 46.7 | 30.6 | 44.1 | 82.5 | 679.2 |
| Disc. Dom. Fin. Exp. | 3,549.1 | 4,487.4 | 6,757.0 | 8,915.7 | 10,427.0 | 13,141.9 | 3,799.1 | 5,985.2 | 6,852.9 | 9,080.2 | 11,938.3 | 18,863.6 |

Sources: Appropriation Acts 2002, 2003, 2004, 2005 and Reports of the Auditor General, 2002-2005

Functional classification excludes contingency, utilities and revenue agencies.

NOTE : 2006 Total Votes excludes contingency.