Rialtas na hÉireann
Government of Ireland

MID-YEAR EXPENDITURE REPORT 2019

July 2019

Prepared by the Department of Public Expenditure & Reform
www.gov.ie/per

MID-YEAR EXPENDITURE REPORT 2019

July 2019

Foreword

The Summer Economic Statement (SES) published last month sets out the framework for discussion of policy options in relation to Budget 2020. The SES, in the context of an uncertain Brexit outcome, sets out two budgetary scenarios, the first involving an orderly Brexit at the end of 2020 and the second a disorderly Brexit at the end of October this year.

Given the current position in the economic cycle, with potential risks of overheating in the economy, and taking into account the prospect of a disorderly Brexit, a cautious approach is required for Budget 2020. Consequently, as outlined in the SES the appropriate budgetary strategy is to stay within the parameters set out in the Stability Programme Update (SPU), published in April, which projected a budgetary surplus of 0.4 per cent of GDP for 2020. This would allow for an overall budgetary package of €2.8 billion for 2020. Taking into account the €0.7 billion increase in capital investment set out in the National Development Plan, €1.2 billion in current expenditure pre-commitments in respect of demographics, the Public Service Stability Agreement and the carryover of Budget 2019 measures, and an expenditure reserve of up to €0.2 billion in respect of additional costs arising in the National Children's Hospital and the National Broadband Plan, this would leave €0.7 billion to be allocated on Budget day.

The Government will decide in September which is the more likely scenario. Under the orderly scenario, any increases in expenditure or tax reductions beyond the level of €2.8 billion outlined for the total budgetary package would need to be funded by offsetting revenue raising measures. Under the disorderly scenario, the budgetary strategy would be anchored in the baseline parameters for the orderly scenario and would then also involve allowing the automatic stabilisers to provide counter-cyclical support and the provision of temporary targeted support for the regions and sectors most affected.

The Government's ability to deliver the budgetary package of €2.8 billion for next year requires that overall expenditure for this year is managed within the parameters set out in the Revised Estimates Volume 2019. At the end of June this year, overall expenditure was being managed within profile with total gross voted expenditure up 5.9 per cent in year-on-year terms, as compared to a budgeted increase of 5.8 per cent for the full year.

In relation to Health expenditure there are increased oversight arrangements in place this year. While the position as reported in the end-June Fiscal Monitor for this sector is encouraging, it is clear from engagement at the Health oversight group that there are expenditure pressures to be actively managed. In this regard, and taking into account the increase of over €1.1 billion provided this year, it is critical that the Department of Health has the appropriate measures in place to ensure that the overrun experienced in 2018 does not recur this year. Such an overrun would severely impact on the scope for Budget 2020.

The unsustainable increases in the period leading up to the fiscal and economic crisis required significant expenditure reductions at a time of increased demand over the period 2008 to

2014. However, since the end of 2014 it has been possible to increase expenditure on public services and infrastructure. These increases have been managed in a sustainable manner with voted expenditure growing by €13 billion and Exchequer tax revenue and PRSI growth of €20 billion. This has delivered an improvement in the General Government Balance, going from a deficit of €7.1 billion in 2014 to a projected surplus of €0.6 billion this year.

The SES 2016 set out the fiscal strategy for the period out to 2021. Over the last three years this strategy has been adapted with Government deciding to prioritise spending increases. This change has been targeted at dealing with emerging priorities in relation to public services and public infrastructure in order to support economic growth and the wellbeing of citizens following the period of expenditure consolidation. Capital investment has been further increased in order to enhance the resilience and growth capacity of the economy and there has been increased spending on day to day services, in particular on key frontline services. In order to help fund these increases tax raising measures have been introduced. The reallocation of resources between tax and expenditure and the implementation of tax raising measures has provided funding of almost €2 billion for additional day to day spending increases.

Looking forward, our expenditure strategy should support the Government's fiscal objectives of increased budgetary surpluses and reduced public debt, while delivering steady and sustainable increases in public services and investment in infrastructure. In light of this, the expenditure position set out in 'Scenario A' of the SES reflects a 3 ¼ per cent annual increase in current expenditure post 2020, with the capital expenditure amounts reflecting the increases set out in the National Development Plan and the Government's commitment to the National Broadband Plan. This would see annual increases in expenditure of c. 3½ per cent out to 2024, below the projected annual growth rate of the economy of c. 4 per cent as represented by GNI*. This is a sensible approach given the uncertainties arising in the external environment and the current position in the economic cycle and offers a continued sustainable medium-term pathway for expenditure growth.

As set out in this report, this strategy must continue to be supported by ongoing reforms that enhance decision making and transparency in the budgetary process. Much progress has been made in this area in recent years and includes; Performance and Equality Budgeting Programmes, the publication of additional reports such as this one and the SES, and the roll-out of the Spending Review. In continuing this process, the Government is committed to ensuring we have greater accountability regarding how taxpayer's money is spent.

Paschal Donohoe T.D.
Minister for Finance and Public Expenditure and Reform

Table of Contents

Chapter 1 – 2019 Expenditure Update and Pre-Budget Expenditure Position

The Government's Summer Economic Statement (SES), published on 25th June sets out the fiscal strategy for *Budget 2020.* Two budgetary scenarios were set out in the document. The first involves an orderly exit of the UK from the European Union at end-2020 ('*Scenario A'*) while the second involves a disorderly exit in the autumn of this year ('S*cenario B'*).

Under Scenario A, a headline surplus of 0.4 per cent of GDP is being projected for next year. As outlined in the SES, the Government will not adopt spending and/or taxation measures that result in a budgetary position below this level. As such, based on the fiscal projections in the SES, a budgetary package of €2.8 billion can be accommodated for 2020, of which €1.9 billion has been pre-committed to expenditure increases. In addition to this, an expenditure reserve of up to €0.2 billion is to be established in 2020 to accommodate funding requirements for the National Broadband Plan (NBP) and National Children's Hospital (NCH). This leaves €0.7 billion for further allocation to tax and expenditure measures to be distributed next year as part of the estimates process. Any unfunded tax or expenditure measures that go beyond this level would necessarily involve more borrowing and would result in a subsequent reduction in the General Government Balance.

Under Scenario B, a headline deficit in the region – ½ to –1½ per cent of GDP is projected for next year, depending on the magnitude of the economic shock derived from a disorderly Brexit. The wide range reflects the uncertainty surrounding the budgetary impact of such an unprecedented shock. This Scenario builds on the projections in Scenario A and also includes the impact of automatic stabilisers and targeted temporary funding supports for the sectors most affected by Brexit.

As set out in the Stability Programme Update (SPU), published in April, a headline surplus of 0.2 per cent of GDP is projected for 2019. It is assumed in this projection that revenue and expenditure for 2019 are in line with the overall budgetary parameters for this year. In this context, this report reviews the expenditure position at the end of June and considers the potential impact on the full year position.

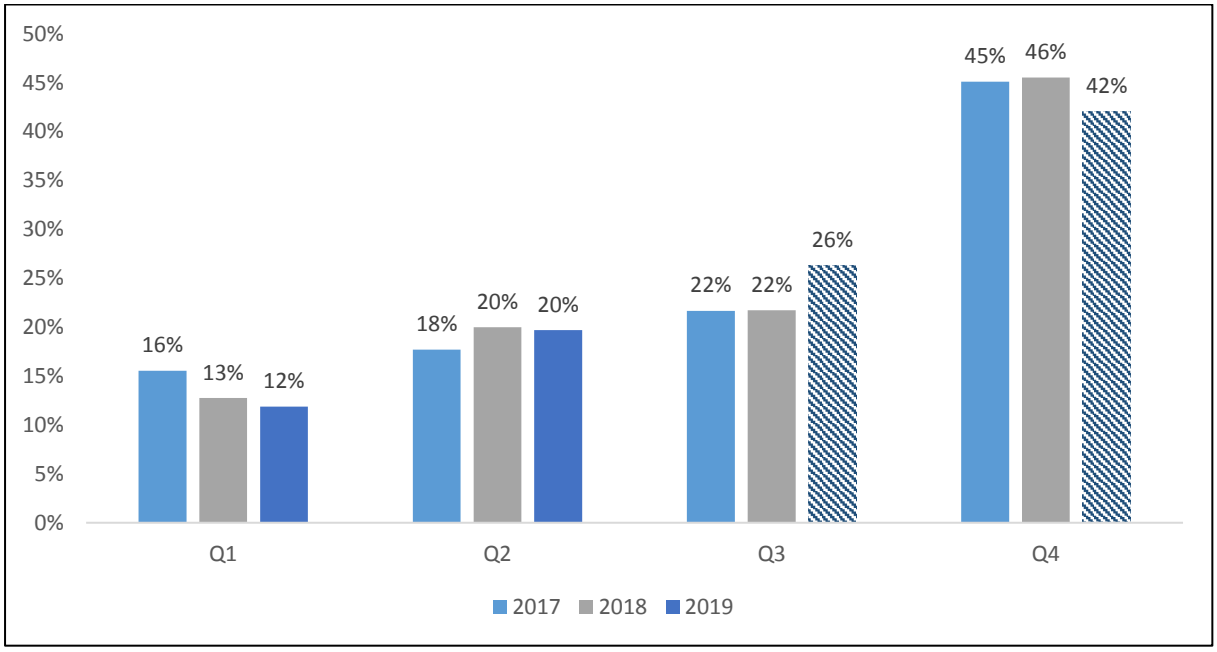
1.1 Expenditure in 2019

As set out in the June Exchequer Statement, total gross voted expenditure at end-June 2019 amounted to €31,256 million. This is €244 million, or 0.8 per cent, below profile and €1,737 million, or 5.9 per cent higher than the same period in 2018. Gross current expenditure of €28,938 million is 0.4 per cent, or €102 million, below profile and up 5.0 per cent, or €1,387 million, year-on-year. Gross voted capital of €2,318 million is €142 million, or 5.8 per cent below profile and up €350 million, or 17.8 per cent on the same period in 2018.

Year to Date Capital Expenditure

On a cumulative basis, gross voted capital expenditure of €2,318 million for the first half of the year amounts to 31.6 per cent of the total gross voted capital allocation for 2019 of €7,342 million. In 2018, gross capital expenditure of €1,968 million amounted to 33.1 per cent of the total capital outturn for the year of €5,928 million.

Figure 1.1 Quarterly Phasing of Gross Voted Capital Expenditure 2018 to Date



Source: End-June 2019 and 2018 Exchequer Returns and 2019 expenditure profiles.

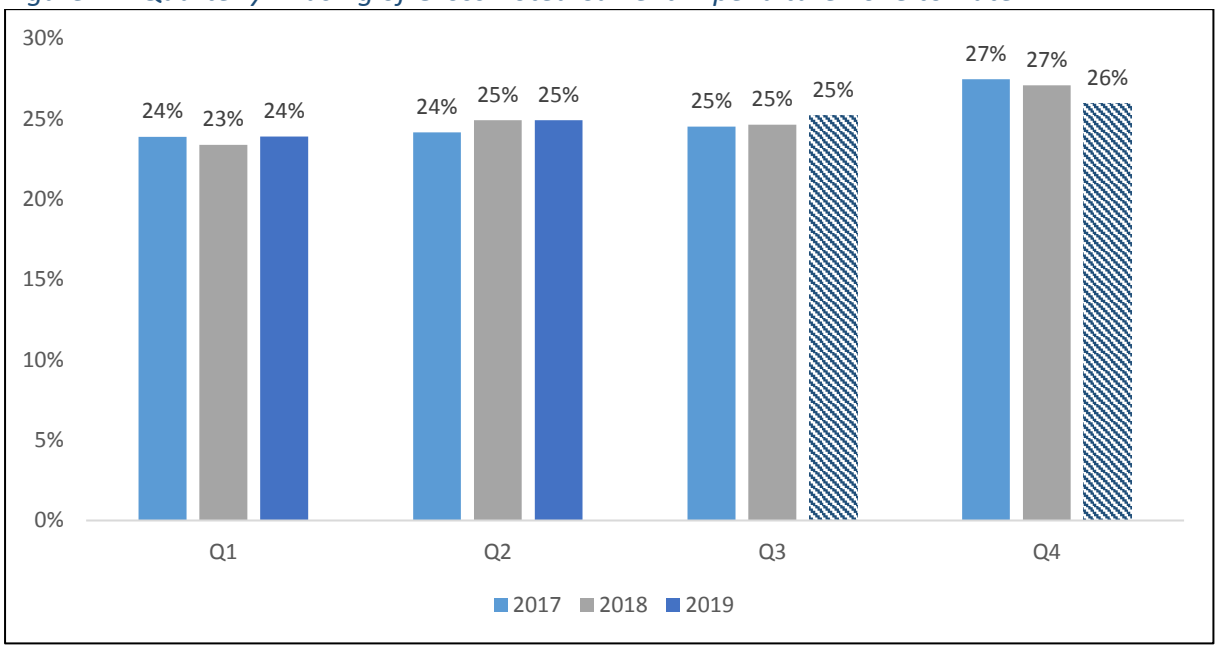
Of the 16 Votes that have capital expenditure allocations, 14 are on or below profile for end-June. Gross capital expenditure on Health of €279 million is €20 million over profile and up €111 million, or 66.3 per cent on the same period in 2018. Gross capital expenditure of €395 million on Education is over profile by €39 million, or 11 per cent, an increase of €73 million, or 22.6 per cent in year-on-year terms.

Gross capital expenditure in the Department of Housing, Planning and Local Government is €45 million below profile, with the year on year position €99 million, or 18.9 per cent, higher than the same period in 2018. This increase can largely be attributed to the slow drawdown of funds last year which has not been repeated in 2019.

Year to Date Current Expenditure

Gross voted current expenditure of €28,938 million for the first half of the year amounts to 48.8 per cent of the overall gross current expenditure allocation of €59,291 million. In 2018, gross current expenditure of €27,551 million represented 48.3 per cent of the outturn for the year of €57,051 million.

Figure 1.2 Quarterly Phasing of Gross Voted Current Expenditure 2018 to Date



Source: End-June 2019 and 2018 Exchequer Returns and 2019 expenditure profiles.

At the mid-point of the year, 14 of the 17 Vote groups are broadly in line or below profile on current expenditure. Gross current expenditure on Health is below profile by €49 million, or 0.6 per cent, at this stage in the year. However, in year-on-year terms, day to day spending on Health is up 6.8 per cent. This is discussed in detail in the section below.

Gross current expenditure on Education and Skills is €19 million, or 0.4 per cent, ahead of profile for end-June. In year-on-year terms, this is an increase of 5.6 per cent, versus a budgeted increase for the year of 3.6 per cent. This relates to an issue with the phasing of the payroll schedule, which is expected to unwind fully in December.

Gross current expenditure on the Justice group is €19 million, or 1.5 per cent, ahead of profile. This is partly driven by an overspend on the Garda Vote, which is over profile by €13.9 million at end-June. This relates primarily to non-pay expenditure pressures. There are also pressures in the area of Asylum Seekers Accommodation in the Justice Vote.

Day-to-day Health Expenditure

A key driver of the year-on-year increase in current expenditure is day to day Health spending. Gross current expenditure of €8.2 billion by Health is €519 million or 6.8 per cent higher than the same period in 2018. This is compared to an additional €902 million or 5.8 per cent budgeted for the full year.

At this juncture, the Department of Health have spent 58 per cent of the additional year-on-year allocation provided this year. This compares favourably to the same point in 2018, where 123 per cent of the additional year-on-year provision for day-to-day expenditure had been accounted for, with a Supplementary Estimate of over €600 million required last year.

In 2017, 49 per cent of the additional year-on-year provision for day-to-day expenditure had been accounted for by the end of June. Despite this, a Supplementary Estimate of over €190 million was required for the year. This demonstrates the tendency for Health spending to be higher in the second half of the year. This trend is particularly evident in Quarter 4 and has been observed in the last two years. In light of this trend, it is concerning that only 2 per cent of the additional €0.9 billion allocated to day to day health expenditure this year has been allocated to the final three months of 2019. Indeed, the Department are only projecting that Quarter 4 expenditure in 2019 will be €18 million higher than same quarter in 2018, an optimistic position given the trend in the year to date.

These points illustrate the challenge and the need for staffing and savings measures to be proactively manged by the Department of Health.

1.2 Overview of 2020 Budgetary Strategy for Expenditure

Looking forward to Budget 2020, the expenditure strategy set out in the SES highlighted the importance of taking an approach that is guided by the apparent economic risks, from both a global and domestic perspective. On the domestic front, significant improvements in key economic indicators suggests that the economy may be on the verge of over-heating. Against this, a disorderly Brexit would have a severe impact on many exporting sectors of the economy.

In light of these risks, a cautious approach to Government expenditure is required next year, with two different budgetary scenarios set out in the SES. The first involves an orderly exit of the UK from the European Union at end-2020 (Scenario A) while the second involves a disorderly exit in the autumn of this year (Scenario B).

Notwithstanding the diverse fiscal risks facing the State, underpinning both scenarios are the key social and economic goals of this Government. The principles underpinning the budgetary strategy as set out in the SES are:

- Increase budgetary surpluses and reduce public debt;
- Deliver steady and sustainable increases in public services;
- Continue to invest in our infrastructure;
- Maintain our focus on the competitiveness of our economy; and
- Sustainably improve living standards.

In the event of an orderly Brexit, the Irish economy is projected to expand by 3.3 per cent next year. Therefore scenario A would essentially entail an economy operating at full capacity, and necessitates a budgetary strategy that does not add to the apparent risks of overheating.

The appropriate budgetary strategy in these circumstances is a headline surplus of 0.4 per cent of GDP for next year. Under this scenario, a budgetary package of €2.8 billion can be accommodated for 2020, of which €1.9 billion has been pre-committed to expenditure increases:

- €0.7 billion increase in capital expenditure;
- €0.3 billion carryover costs associated with measures introduced this year;
- €0.4 billion in public sector pay increases; and
- €0.5 billion for demographic costs.

An expenditure reserve of up to €0.2 billion was proposed in the SES to be established in 2020 to accommodate funding requirements for the NBP and NCH. This would leave €0.7 billion for further allocation as part of the Budget 2020 process. Any unfunded tax or expenditure measures that go beyond this level would necessarily involve even more borrowing and would result in a subsequent reduction in the General Government Balance.

Under the scenario of a disorderly Brexit a different approach will be required given the severe impact on the Irish economy with output and employment adversely affected, especially in the short-term. Come September, if this was the most likely scenario, then the budgetary strategy for 2020 would be anchored upon the baseline budgetary parameters as in the orderly Brexit scenario and then also involve:

- Allowing the automatic stabilisers provide counter-cyclical support; and
- Temporary, targeted funding for the sectors most affected.

In this event, a headline deficit in the region – ½ to –1½ per cent of GDP is projected for next year, depending on the magnitude of the economic shock derived from a disorderly Brexit.

1.3 Pre-Budget Departmental Expenditure Ceilings 2019 to 2021

Amounts included in aggregate Pre-Budget Position

The fiscal projections set out under Scenario A in the SES (which also forms the starting point for Scenario B) show gross voted expenditure growing by an annual average of 3 ½ per cent over the next three years. This allows for growth in gross voted current expenditure of an annual average of 3 ¼ per cent post 2020, while gross voted capital expenditure is expected to grow by an annual average of 7 ½ per cent.

A number of assumptions underpin the Scenario A projections, key among them being an orderly exit from the European Union by the United Kingdom. In terms of expenditure, the main assumptions are:

- Capital expenditure will increase by €0.7 billion in 2020 as set out in the National Development Plan (NDP). In addition, an expenditure reserve of €0.2 billion will be established to meet any costs arising from the NBP and the NCH;
- Additional capital expenditure of €0.2 billion is included in respect of the NBP for 2021 and 2022. The change in capital expenditure amounts relative to the NDP is set out in table 1.1;

Table 1.1: Change in Capital Expenditure 2020 – 2022 (€ bn)

	2020	2021	2022
Allocation as per NDP	**8.1**	**8.7**	**8.9**
Expenditure Reserve	*0.2*	-	-
NBP	-	*0.2*	*0.2*
Gross Voted Capital Ceiling	**8.3**	**8.9**	**9.1**

- current expenditure increases set out in Scenario A of this year's SES are based on an annual average increase of 3 ¼ per cent from 2021 onwards;
- Estimated demographics costs are included in the pre-Budget position, in respect of Health, Social Protection and Education;
- Costs relating to the Public Service Stability Agreement are included for 2020 and 2021;
- The estimated cost of the carryover impact of certain current expenditure measures introduced in Budget 2019 is included for 2020; and
- Taking into account the expenditure reserve of €0.2 billion mentioned above, there is an amount of €0.7 billion remaining to be allocated between current expenditure and tax measures in Budget 2020. The SES sets out €0.3 billion of this for current expenditure, however a decision on the final split will be taken as part of the Estimates 2020 process.

In the event of a disorderly Brexit, the strategy set out in the SES under Scenario B will be put in place. In this case, all of the pre-committed expenditure set out in Scenario A will still be provided for as the starting point for scenario B is the fiscal position as outlined in scenario A. What is clear however, is that as automatic stabilisers take effect, there will be a requirement for additional income supports. This will necessitate increased spending in the area of Social Protection. There will also be a requirement for a number of targeted temporary supports for sectors most affected, particularly in the areas of Agriculture and Enterprise.

The pre-Budget ceilings set out below are based on the assumptions outlined in the 2019 SPU. Table 2.2, in chapter 2 of this Report, sets out the impact on voted Government expenditure based on the assumptions outlined in the 2019 SES.

Current Expenditure

Demographics

Certain expenditure pressures arising from demographics are reflected in the pre-Budget position for Health, Social Protection and Education. The estimates of these demographic costs are, as in previous years, informed by the paper '*Budgetary Impact of Changing Demographics 2017 – 2027*[1]', published by the Irish Government Economic and Evaluation Service in 2016. Work is ongoing in relation to updated assessments of these demographic estimates.

[1] Connors, Duffy and Newman, 2016. https://igees.gov.ie/budgetary-impact-of-changing-demographics-2016-2026/

For 2020, the total figure allocated in the Ministerial Vote Group ceilings for demographics across Health, Social Protection and Education is €451 million.

Carryover

Expenditure Report 2019 set out estimated carryover costs for certain current expenditure measures introduced in Budget 2019. As set out below, these estimated costs amounted to €311 million.

Table 1.2 Estimated Carryover Costs of Certain Budget 2019 Measures

	Additional Impact in 2020 (€m)
Employment Affairs and Social Protection	135
Education and Skills	26
Justice	50
Health	55
Housing, Planning and Local Government	45
Total	**311**

**Figures subject to rounding*

Gross Current Expenditure Ceilings

Pre-Budget Ministerial Gross Voted Current Expenditure Ceilings for the 2020 to 2022 period, based on the expenditure figures set out in the SPU, are set out in Table 1.3 below. These ceilings are set out on a technical pre-Budget basis incorporating an increase of 2 ½ per cent in 2021 and 2022. (As outlined above the impact on Government expenditure of the revised assumptions in the SES are set out in Table 2.2 in chapter 2 of this Report.) Budgetary decisions for 2020 will be reflected in Ministerial Expenditure Ceilings published on Budget Day in October. While the ceilings for Health, Social Protection and Education include amounts in respect of demographics, the starting current expenditure baseline for all other Departments is the allocation for 2019 set out in the Revised Estimates Volume 2019, published in December and agreed by the Dáil.

For the purposes of this report, the carryover impact of Budget 2019 measures is included as a separate line. These costs will be reassessed during the Estimates process based on the implementation of the measures and any reprioritisation opportunities that may be identified. On that basis, allocations will be made on a Departmental level. The same applies to the amounts in respect of the Public Service Pay Agreement, which is included on an aggregate level. As part of the Estimates 2020 process, specific amounts will be allocated to Departments and will be reflected in the Ministerial Expenditure Ceilings at that time.

Table 1.3 Pre-Budget Ministerial Gross Current Expenditure Ceilings 2020-2022

€ Millions	2020	2021	2022
Agriculture, Food and the Marine Group	1,341	1,341	1,341
Business, Enterprise & Innovation Group	330	330	330
Children and Youth Affairs Group	1,478	1,478	1,478
Communications, Climate Action & Environment Group	392	392	392
Culture, Heritage & the Gaeltacht Group	265	265	265
Defence Group	901	901	901
Education & Skills Group	9,880	9,927	9,974
Employment Affairs & Social Protection Group	20,744	21,004	21,264
Finance Group	481	481	481
Foreign Affairs Group	781	781	781
Health Group	16,502	16,650	16,798
Housing, Planning & Local Government Group	1,919	1,919	1,919
Justice Group	2,574	2,574	2,574
Public Expenditure and Reform Group	1,053	1,053	1,053
Rural & Community Development	153	153	153
Taoiseach's Group	192	192	192
Transport, Tourism & Sport Group	756	756	756
Public Service Stability Agreement (Cumulative)	*390*	*651*	*651*
Carryover of Budget 2019 Measures (Cumulative)	*311*	*311*	*311*
Resources to be Allocated 2020[1]	*300*	*300*	*300*
Resources to be Allocated 2021	-	*724*	*724*
Resources to be Allocated 2022	-	-	*1,100*
Total Gross Current Expenditure	**60,743**	**62,183**	**63,738**

**Figures subject to rounding*

[1] *This figure relates only to current expenditure measures.*

Capital Expenditure

The Government acknowledges the importance of sustainable and targeted improvements in key infrastructural projects in delivering a higher standard of living for the people of Ireland. In recognition of this, the NDP sets out investment of over €116 billion over a ten year period, with funding allocations closely aligned with the ten National Strategic Outcomes set out in the National Planning Framework. Setting out investment over a ten year period allows for longer term planning of infrastructural delivery and provides for a higher level of certainty for those involved. Examining the increases in capital expenditure over the last number of years, it is clear that investment has been targeted at those areas considered essential for delivering on the Government's social and economic goals. As a result of this, there have been significant investments in the areas of Housing, Transport, Education and Health. For 2020, the gross capital expenditure ceiling set out in the NDP is €8.1 billion. Ministerial Gross Capital Expenditure Ceilings are set out in Table 1.4 below.

Table 1.4 Ministerial Gross Capital Expenditure Ceilings 2019-2022

	2020	2021	2022
	€ million	*€ million*	*€ million*
Agriculture, Food and the Marine Group	258	265	275
Business, Enterprise & Innovation Group	630	640	715
Children and Youth Affairs Group	31	32	33
Communications, Climate Action & Environment Group	297	317	400
Culture, Heritage & the Gaeltacht Group	76	80	110
Defence Group	113	120	125
Education & Skills Group	942	1,006	1,100
Employment Affairs & Social Protection Group	15	16	17
Finance Group	22	18	19
Foreign Affairs Group	13	13	14
Health Group	774	780	825
Housing, Planning & Local Government Group	2,205	2,269	2,280
Justice Group	265	208	216
Public Expenditure and Reform Group	214	223	232
Rural & Community Development	150	152	175
Transport, Tourism & Sport Group	2,058	2,526	2,405
Total	**8,063**	**8,665**	**8,941**

**Figures subject to rounding*

Chapter 2 – Medium Term Public Expenditure Strategy

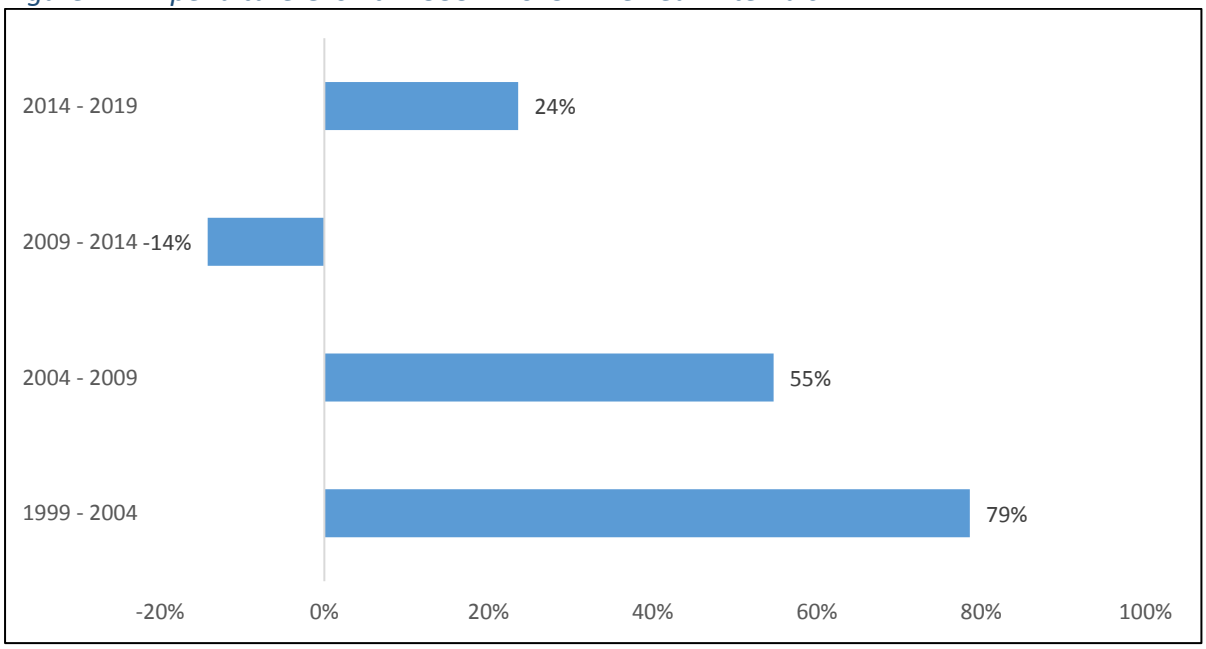
In this chapter the expenditure strategy outlined in the SES is discussed taking into account recent expenditure experiences. In this context, a twenty year view of expenditure trends are considered, with a particular focus on the fiscal strategy adopted since 2017. In addition, expenditure trends in Health, Social Protection and Education, accounting for c. 80 per cent of overall expenditure, are discussed.

2.1 Context for Public Expenditure

Since 1999, total gross voted expenditure has increased from €22.8 billion to €66.6 billion. Gross voted current expenditure has grown from €19.7 billion to €59.3 billion, while gross voted capital expenditure has grown from €3.0 billion to €7.3 billion. Within this is a period of significant growth leading up to the economic crisis, followed by substantial consolidation with a return to cautious growth in recent years. Over the ten year period 1999 to 2008, gross voted expenditure increased by €41.9 billion, with an annual average growth rate of 11.8 per cent. Following a decrease between 2009 and 2014 of approximately €9 billion, it was possible to begin increasing expenditure modestly in 2015. Since then, there has been average annual increases of approximately 4 ½ per cent with total gross voted expenditure growing from 54.1 billion in 2014 to €66.6 billion in 2019.

Figure 2.1 below shows how expenditure has evolved between 1999 and 2019, in five-year intervals. This clearly illustrates that the growth seen in the 2014 to 2019 period has been much more modest and sustainable than the increases that were observed in the lead up to the economic crisis.

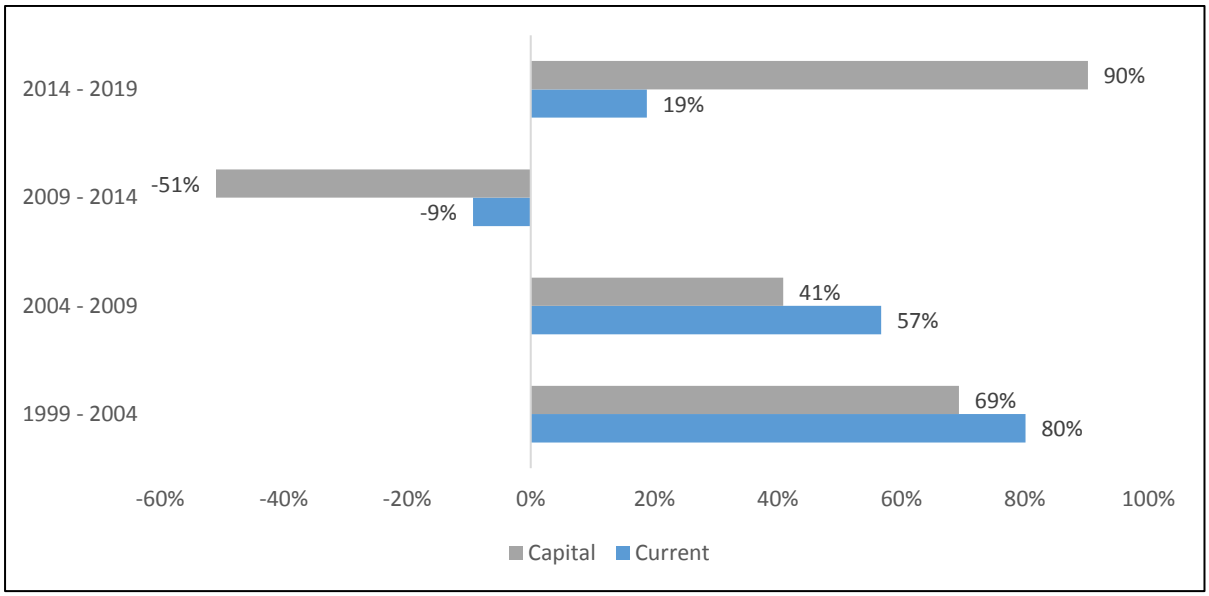
Figure 2.1 Expenditure Growth 1999 – 2019: Five Year Intervals



Source: DPER Statbank; Figures adjusted for Irish Water Act and disestablishment of the HSE vote.

As shown in figure 2.2 below, following the significant growth in the 10 years to 2009, the necessary fiscal consolidation required to exit the Troika programme and return stability to the public finances saw current expenditure reduce by 9½ per cent and capital expenditure reduce by 51 per cent. This involved an overall reduction in expenditure of €9 billion over this period. At the same time there were increased demands on public services in certain sectors with significantly increased numbers of people needing unemployment payments, more medical card holders and additional students in the education sector. To the greatest extent possible Social Protection payments were protected, as during the period of consolidation the State Pension rate was increased in Budget 2009 and subsequently protected from any rate reductions. During the period from 2011 to 2015 all core weekly rates, including jobseekers, disability and state pension, were maintained.

Figure 2.2 Current and Capital Expenditure Growth: Five Year Intervals



Source: DPER Statbank; Figures adjusted for Irish Water Act and disestablishment of the HSE vote.

This context is key to understanding the focus of budgetary policy in the last five years, where more moderate increases in current expenditure, in particular in key sectors including Health, Education, Housing and Children, have been implemented alongside more significant increases in capital investment. This has been targeted so that day to day spending delivers improvements in services and outcomes for citizens in a sustainable manner, while increased capital investment delivers the infrastructure to support the recovery in the economy.

Box 1: Last 5 Years - Focus on Improvements in Services, Infrastructure and Public Finances

Following the period of consolidation it has been possible since the end of 2014 to increase expenditure on public services and infrastructure, while at the same time bringing the General Government Balance from a deficit of €7.1 billion in 2014 to a projected surplus of €0.6 billion this year. Over this period 2014 to 2019, Exchequer tax revenue and PRSI receipts to the Social Insurance Fund and the National Training Fund have increased by just over €20 billion, with voted expenditure growing by almost €13 billion.

Table 2.1: Increases/Decreases by Five Year Intervals

Increase/(Decrease)	2004 v 2009	2009 v 2014	2014 v 2019**
	€bn	€bn	€bn
Exchequer Tax Revenue plus PRSI* **	**(0.1)**	**7.1**	**20.3**
Gross Voted Current	20.2	(5.2)	9.5
Gross Voted Capital	2.1	(3.7)	3.2
Gross Voted Expenditure	**22.3**	**(9.0)**	**12.8**
General Government Balance*	**(21.5)**	**12.4**	**7.7**

** 2009 General Government Balance adjusted for banking capital transfers.** Period adjusted for Irish Water Act and disestablishment of the HSE vote. ***Pre 2010 includes Health Contribution.*

Exchequer capital investment, which represented under 7 per cent of total voted expenditure in 2014, accounts for a quarter of the expenditure increase in this period. Total capital investment of €25 billion in this period supports the delivery of economic and social infrastructure and the creation of jobs. This includes investment on:

- Roads including the M17/M18 Gort to Tuam Motorway, M11 Gorey - Enniscorthy and N25 New Ross Bypass.
- Luas Cross City and the Phoenix Park Rail Tunnel.
- 18 Primary Care Centres in 2018 with a further 11 in 2019. A new Emergency Department in University Hospital Limerick.
- IDA investment. 7 per cent employment growth in IDA client companies in 2018. 2018 results show 58 per cent of employment in IDA client companies is now outside of Dublin.
- Sport Ireland National Indoor Arena, with Phase II opened in June.
- Exchequer capital investment in Housing programme up by €1 billion to €1.3 billion.
- TUD Grangegorman. Schools investment with construction activity in 2018 and into 2019 to deliver c. 40,000 additional and replacement school places.

Over the five year period since 2014, there has been significant investment in our public services, particularly in the key frontline areas of Health, Education, Housing and Childcare. For example:

- Gross voted current expenditure on Health, adjusted to reflect disestablishment of HSE vote, has risen by over €4 billion since 2014, an increase of over 30 per cent.
- Education current expenditure has increased by over €1.5 billion, or 18.5 per cent. Leaving Certificate retention rates for all schools are up from 87.7 per cent in 2010 to 91.6 per cent in 2018 with retention rates in DEIS schools up from 73.2 per cent to 85 per cent.
- Housing programme current expenditure of almost €1 billion is up by over 200 per cent.
- Children and Youth Affairs expenditure has increased by €0.5 billion, or 55 per cent. ECCE registrations are up 61 per cent to date in 2018/2019 compared to 2014/2015, with registrations for the Community Childcare Subvention up by 78 per cent.

2.2 Fiscal and Expenditure Strategy 2017 to 2019

The 2016 SES sets out the fiscal strategy for the period to 2021 reflecting the Programme for a Partnership Government. This strategy projected a balanced position for the General Government accounts by 2018. Annual growth in expenditure on the delivery of public services of 2½ per cent was outlined with average growth of 12½ per cent in the capital expenditure over the medium term. A contingency reserve with contributions of €1 billion per annum from 2019 was also included in the 2016 SES. This prudent approach took into consideration the position in relation to General government Debt. This debt, which stood at €47 billion in 2007 was over €200 billion in 2016.

Over the period 2017 to 2019 there have been adjustments to the approach set out in the 2016 SES at Budget time each year. These changes have been targeted at dealing with emerging priorities in relation to public services and public infrastructure to support economic growth and the wellbeing of citizens following the period of expenditure consolidation. Based on the 2016 SES, and taking into account the reassessment of carryover impacts of tax measures outlined in Budget 2017, there was almost €1.5 billion in "fiscal space" available for tax measures. Budgets 2017 – 2019 saw tax reductions of c. €1.3 billion, with €0.2 billion of the "fiscal space" being reallocated to expenditure. In addition, revenue raising measures of €1.7 billion were introduced, with this funding being used to support the delivery of key public services. In aggregate, this saw almost an additional €2 billion allocated to expenditure within the overall fiscal parameters set out in the SES.

Taking into account the significant reductions in capital expenditure, and the need to address infrastructural bottlenecks, the Government decided to further increase capital investment. In aggregate, including the increases following the Mid-Term Review of the Capital Plan and the publication of the NDP, Exchequer capital investment on a like for like basis is €0.9 billion higher in 2019 than the amount originally set out in SES 2016. This increased investment has the objective of enhancing the resilience and growth capacity of the economy, and thereby raising living standards and of generating resources to finance the provision of high-quality public services.

Turning to in-year increases. The 2019 expenditure position reflects additional expenditure of €0.9 billion arising from policy decisions and overspends in 2018 that were built into the starting position for Budget 2019 Given that over €0.6 billion of these in-year increases relate to Health expenditure in 2018, this demonstrates the requirement for effective expenditure management within this sector.

The decision to discontinue with domestic water charges, and to fund all costs in relation to domestic water services from voted expenditure was built into the starting position for Budget 2018, with an impact of €0.1 billion and the REV 2018 with an additional impact of €0.8 billion. This change in funding arrangements had no impact on overall General Government expenditure.

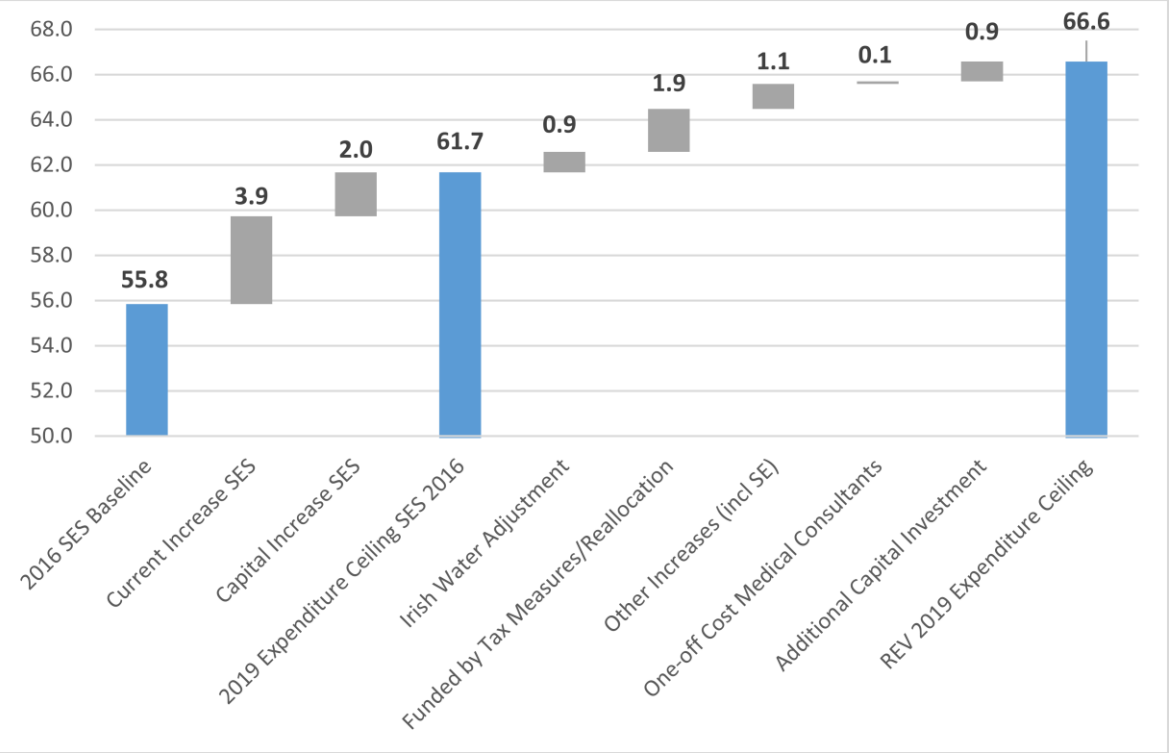
Consequently, while in aggregate gross voted expenditure for 2019 is €4.9 billion higher than the amount projected for 2019 in SES 2016, c €3¾ billion of this amount reflects policy

decisions to reallocate funding from tax measures and introduce revenue raising measures, prioritise capital investment and also includes a significant technical adjustment in relation to Irish Water Funding.

Box 2 – 2019 Expenditure Ceilings: SES 2016 to REV 2019

The 2016 SES outlined annual current spending growth of 2½ per cent and capital growth of 49 per cent out to 2019. Excluding technical adjustments actual growth of over 4½ per cent annual average current and 62 per cent overall capital was observed. Indeed for 2019, the 2016 SES set out an expenditure ceiling of €61.7 billion compared to the Revised Estimates Volume 2019 allocation voted on by the Dáil of €66.6 billion.

Figure 2.3 SES 2016 vs REV 2019



A number of factors, as set out in Figure 2.3 above, drove this increase.

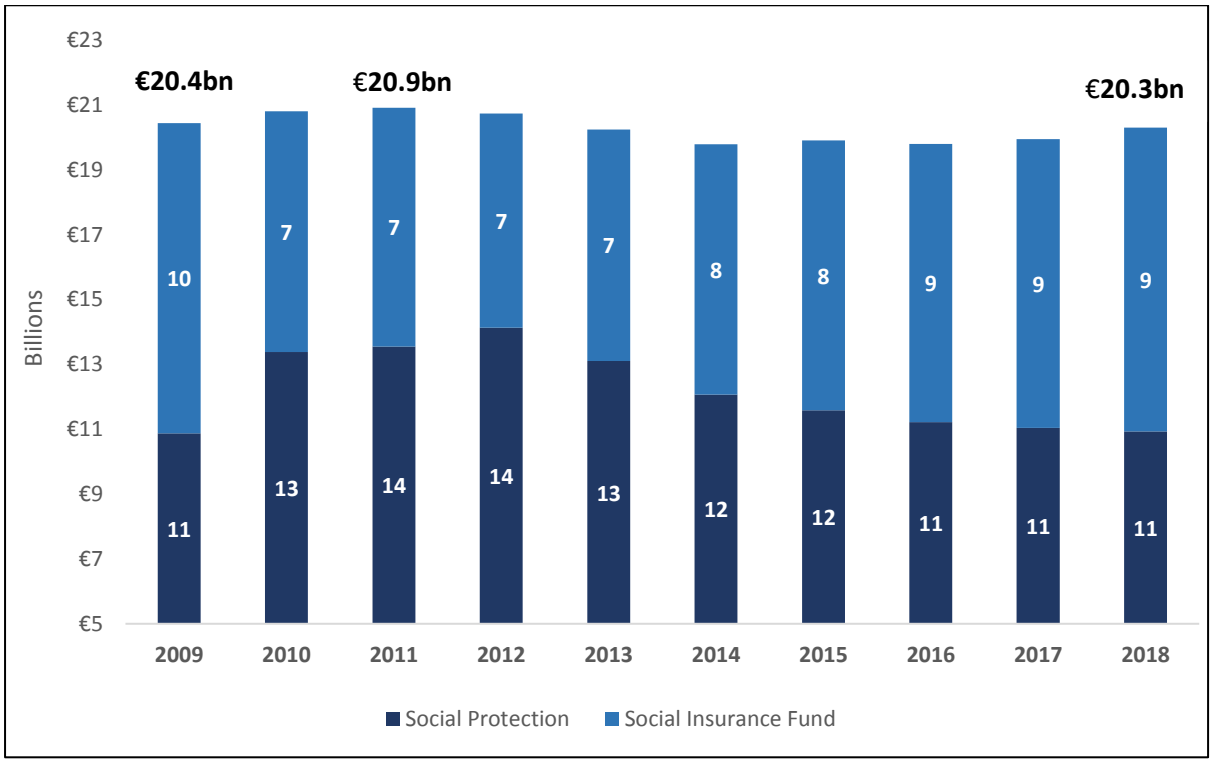
- A significant technical adjustment relating to Irish Water and the collection of Motor Tax resulted in an additional €0.9 billion on the Housing Vote from 2018 onwards.
- Over the period in question, as a result of tax raising measures and the non-utilisation of the full available fiscal space for tax measures an additional €1.9 billion was made available for expenditure increases.
- Other increases include almost €0.9 billion of the Supplementary Estimates for 2018 which carried into the 2019 expenditure position.
- Additional capital expenditure of €0.9 billion including reallocation of €0.5 billion originally planned for the Rainy Day Fund and also reflects the establishment of new NDP funds.

2.3 Trends in Social Protection Expenditure Since 2009

The Department of Employment Affairs and Social Protection accounts for the largest share of voted Government expenditure at 32 per cent in 2018. Total Social Protection expenditure is funded through both the Vote and the Social Insurance Fund (SIF)[2].

From 2009 to 2018, Social Protection expenditure decreased by around €100 million from €20.4 billion to €20.3 billion. Expenditure peaked in 2011 at €20.9 billion. Expenditure developments from 2014 to the 2019 Budget show that, while expenditure in this period has increased from €19.9 billion to €20.6 billion, the increase in underlying expenditure (expenditure after adjusting for schemes transferred to other Votes and reductions in Live Register related costs) is €2.1 billion or 12.8 per cent over the period.

Figure 2.4 Social Protection Expenditure 2009-2018



Source: DPER Statbank

Over the ten year period 2009 to 2018 pensions' expenditure has increased by €1.9 billion or 33 per cent. The main driver of this increase is the rising cost of the contributory state pension (SPC). Illness, Disability & Carer (IDC) expenditure increased by €697 million or almost 20 per cent.

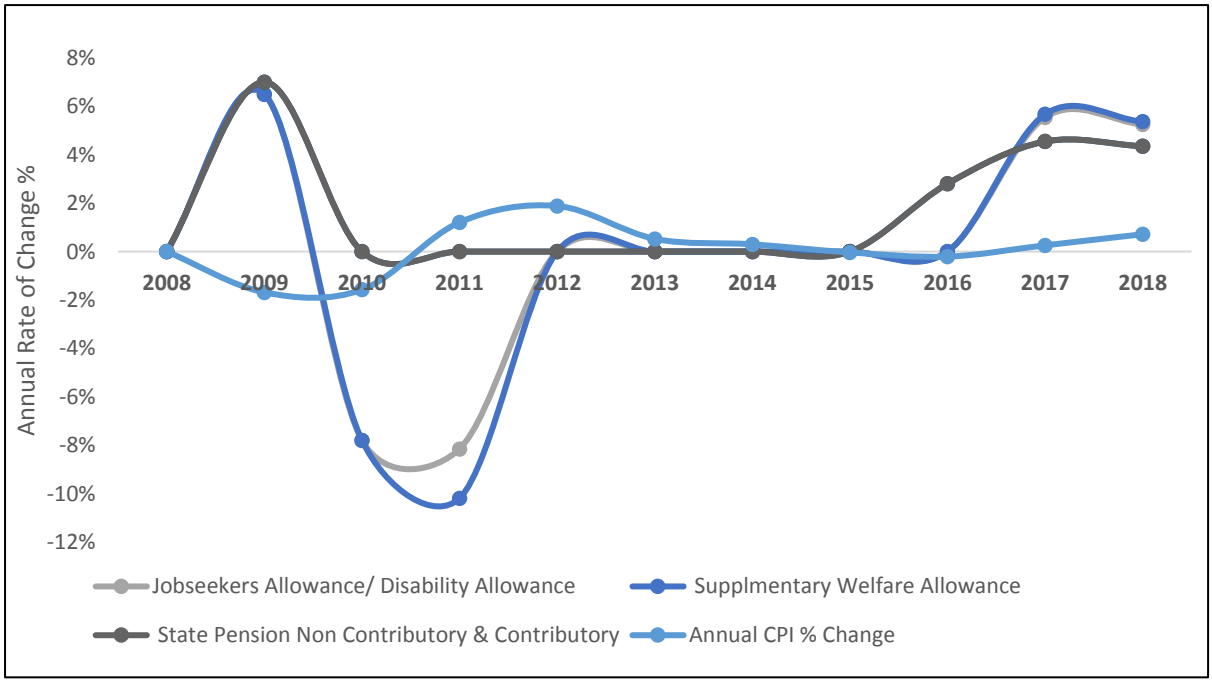
[2] The Social Insurance Fund (SIF) is made up of Pay Related Social Insurance (PRSI) contributions from employers, employees and the self-employed. The SIF provides insurance related payments to people in retirement and to meet certain contingencies, including periods of unemployment, illness and maternity leave.

Expenditure Drivers

A range of factors have played a role in driving changes in the composition of expenditure over the past decade:

- Firstly, demographic pressures have increased the number of pension recipients, by 144,000 (or 30 per cent) over the last 10 years. This is compared to an overall population rise of 324,000 or 7 per cent over the same period. The number of children increased by 145,400 or 12 per cent. Some of costs resulting from demographic pressures have been offset by the significant decreases in working age income supports expenditure as a result of improvements to the labour market.
- Expenditure on jobseekers benefit and assistance and employment supports are driven by cyclical conditions. The number of people on the Live Register rose sharply in 2008 as a result of the economic downturn and peaked at approximately 450,000 in 2011. Since 2012, the numbers on the Live Register have been on a downward trajectory reaching an average of 221,323 at end 2018, with savings in the working age income supports programme of over €3.5 billion between 2009 and 2018.
- Following the reductions in rates implemented during the consolidation period, the state pension rate was increased in Budget 2016, with all primary social welfare payments being increased in Budgets 2017-2019 well above changes in the inflation rate measures by Consumer Price Index (CPI).

Figure 2.5 - Rate of changes to Weekly Social Welfare payments year on year Vs Annual CPI rate 2009– 2018, Base =2008)



Source: DPER Statbank

Outcomes

Ireland's welfare system is performing well in terms of redistributing income and reducing inequalities.

GINI Coefficient: The Gini coefficient measures the degree of equality with 0 representing perfect equality and 100 representing total inequality. In 2017, Ireland's Gini coefficient stood at 30.6, slightly better than the EU average of 30.7.

At-risk of Poverty Rate: Social Transfers are effective at reducing the 'at risk of poverty rate'. This impact has diminished in recent years primarily due to the considerable employment growth Ireland has experienced, resulting in a reduction in the poverty rate before social transfers. In 2009, Ireland's social transfers system reduced the "at risk of poverty rate" from 46.2% to 14.1%, a 32 percentage point difference. In 2017 Ireland's social transfers system helped the "at risk of poverty rate" to go from 43.8 per cent to 15.7 per cent, a decrease of 28 percentage points.

Future Issues

Demographic pressures will continue to drive up recipient numbers and costs, particularly in relation to pensions. Previous analysis[3] estimated the average short-term annual cost of demographic change on the Social Protection budget at €253 million. Demographics will also contribute to upward pressures on disability and carer related supports. Other structural issues will also pose a challenge into the future. Disability income support expenditure has increased significantly over the past 20 years but this growth escalated over the period since 2012 with annual growth of 6 per cent in the number of recipients.

Challenges remain in relation to the level of participation in a constantly evolving labour market. Whilst participation levels have been improving in recent years, they remain below the EU 28 average. Activation is a key policy tool to boost labour force participation and further progress is required in implementing the actions from Pathways to Work, Future Jobs and the Comprehensive Employment Strategy for People with Disabilities.

2.4 Trends in Health Expenditure Since 2009

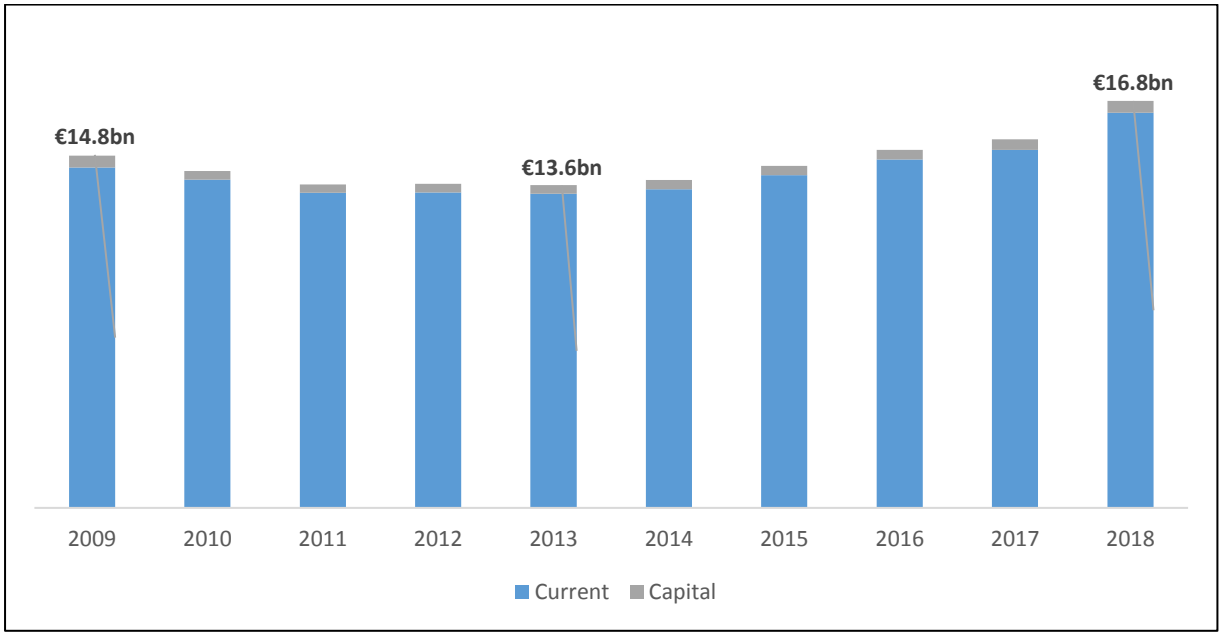
Spending contracted during the recession years – largely the result of central pay agreements and the recruitment moratorium. Once off-Vote HSE income is taken into consideration the 2019 gross voted allocation of €17.1 billion represents an increase of over €4 billion relative to 2014.

It is difficult to compare health expenditure across this period on a like-for-like basis due to a number of significant changes that have taken place. These include the transfer of the Domiciliary Care Allowance to the Social Protection Vote in 2010, the transfer of Children and Families expenditure to the Children and Youth Affairs Vote in 2014 and the disestablishment of the HSE Vote in 2015. Figure 2.6 attempts to control for these changes as far as possible, and it is clear that the amount Government spend on health has increased substantially since

[3] Connors, Duffy and Newman; Budgetary Impact of Changing Demographics 2017 – 2027; IGEES, 2016

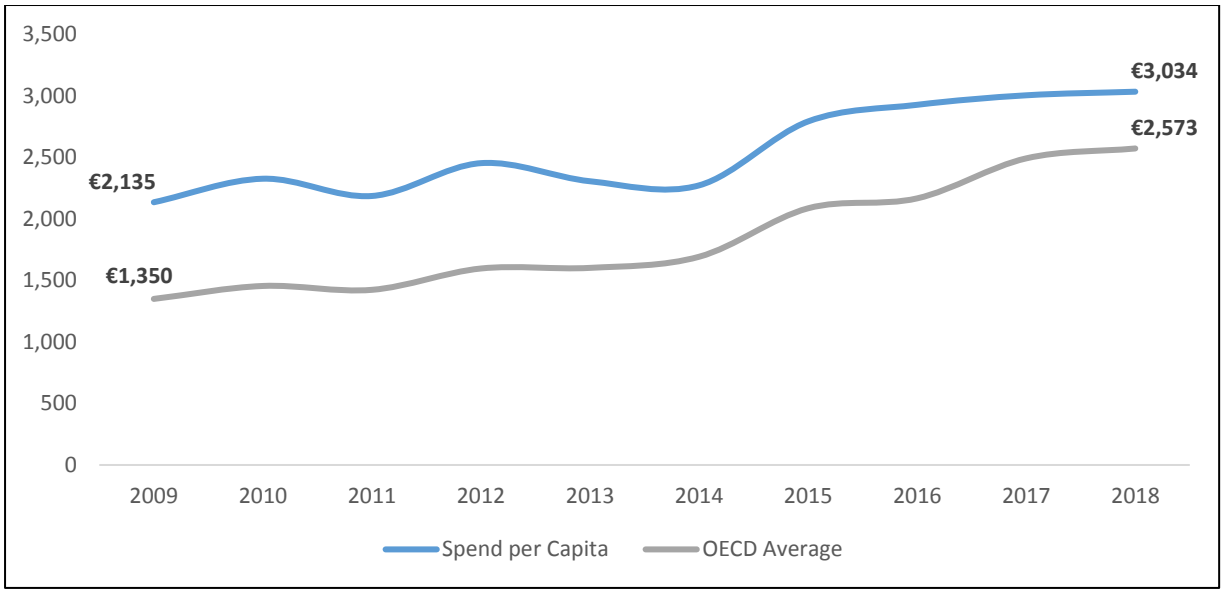
2009. That year, the Government spent just over €14.8 billion on health. By 2018 this figure on a like for like basis had risen to €16.8 billion. There is a further increase of c. €1 billion in the Voted health allocation in 2019.

Figure 2.6 - Total Expenditure on Health, 2009 to 2018



Sources: Department of Health; Department of Public Expenditure and Reform; Adjusted for HSE 'own Income' expenditure

Figure 2.7 - Expenditure on health per capita, 2009 to 2018



Source: OECD Health Expenditure and Finance Data and Central Bank of Ireland Exchange Rates 2009 - 2018

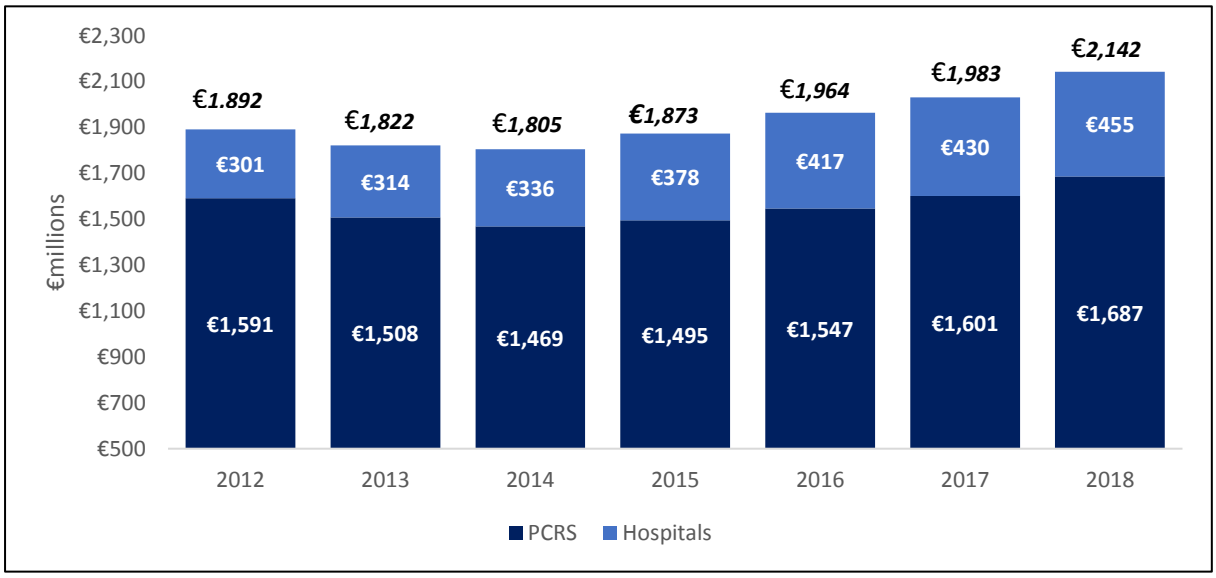
The per capita Government spend on healthcare decreased in the period 2009-2013. As with total expenditure, per capita spend declined for a period after 2009 has been growing again since 2013. In 2009, Government spending on health was €2,135 per capita. By 2018 this had risen to €3,034.

Expenditure Drivers

A range of factors have played a role in driving change in the scale of Health expenditure over the past 10 years. The main factors are set out in this section.

- Firstly, **demographic change** led to an expansion in number of citizens supported by the health sector. The overall population expanded by 0.323 million or 7 per cent in the period 2009 to 2018.
- **Staffing numbers** have been another key expenditure driver. The reductions in health expenditure from 2009-2013 was primarily delivered through changes in pay policy, these included reductions in numbers and the use of Financial Emergency Measures in the Public Interest (FEMPI). These measures resulted in the HSE pay bill falling by an estimated €763 million or 11 per cent over the period 2009-2013. Since 2014 there has been a significant increase in recruitment levels with HSE staff numbers increasing by over 20,000 FTEs or 20 per cent.
- The largest element of growth in total non-pay related health expenditure is **pharmaceuticals**. Pharmaceutical expenditure has fluctuated over the period 2012 to 2018. Spend on some community schemes[4] decreased from 2012 to 2014 as a consequence of the introduction of a number of measures tightening eligibility and reducing supplier fees (FEMPI). However from 2014 to 2018 pharmaceutical expenditure was on an upward trajectory, this is similar to the trend in overall health expenditure as significant growth occurred from 2014 onwards.

*Figure 2.8 - Pharmaceutical Spend Across Hospitals and Community Schemes 2012 – 2018**



Source: PCRS Administrative Data, HSE Acute Hospital Dugs Cost Estimate, 2018

Outcomes

The increased investment in Health over the past decades has been associated with improving health outcomes in the population. In general the vast majority of people in Ireland report their health status as either Very Good or Good (82 per cent), with a further 15 per cent rating

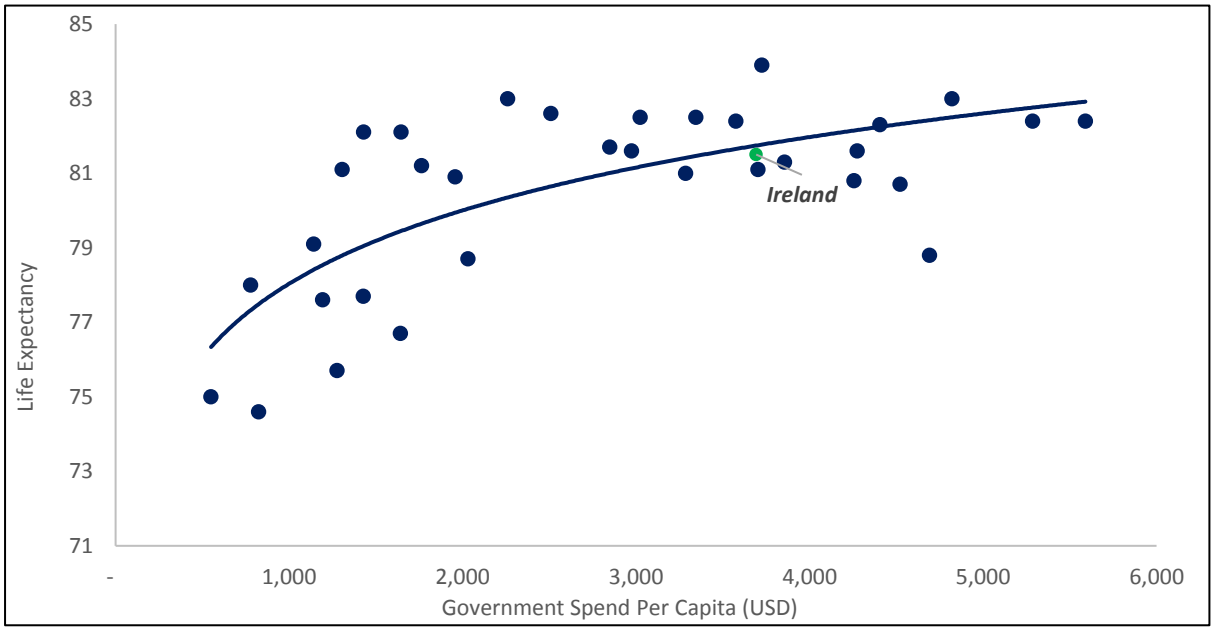
[4] General Medical Services (GMS), Drug Payment Schemes (DPS), Long Term Illness (LTI)

their health as Fair. Only 3 per cent of people report their health as Bad, with less than 1 per cent responding Very Bad[5].

Between 1999 and 2010, Irish life expectancy at birth had grown by over four and a half years to 80.8, and this was virtually the same as the EU15 average of 80.85. During the economic downturn there was some divergence. In 2016 Ireland's life expectancy at birth converged to the EU15 average, at 81.8 years.

While increased spending appears to have brought about improvements to population health in the past twenty years, Ireland may now be at a point where increasing expenditure alone is unlikely to be a reliable means to further improve population health. Figure 2.8 below illustrates this point; Ireland now finds itself at the centre of a large group of countries that achieve roughly the same outcomes in terms of population life expectancy but on a per capita basis spend a wide range on healthcare. That said, given the relative youthfulness of the Irish population and our poor standing in most international quality of care comparisons, there is likely to be considerable scope to improve population health further within existing resources.

Figure 2.9 - Life expectancy and health spending per capita for OECD countries - 2015



Source: OECD

Future Issues

Demographics: The demographic impact of population aging is expected to have a significant impact on health expenditure in the years ahead. Analysis indicates that dealing with demographic pressures will cost €130 million annually from 2017 to 2020[6].

Pharmaceuticals: The impact of new and more advanced treatment options in the form of high-tech drugs is both significant in enhancing the wellbeing of individuals with specific and

[5] Healthy Ireland Survey - Wave 2 (Both)

[6] Connors, Duffy and Newman; Budgetary Impact of Changing Demographics 2017 – 2027; IGEES, 2016

uncommon illnesses, and a significant challenge in terms of their overall budget impact, due to their high costs.

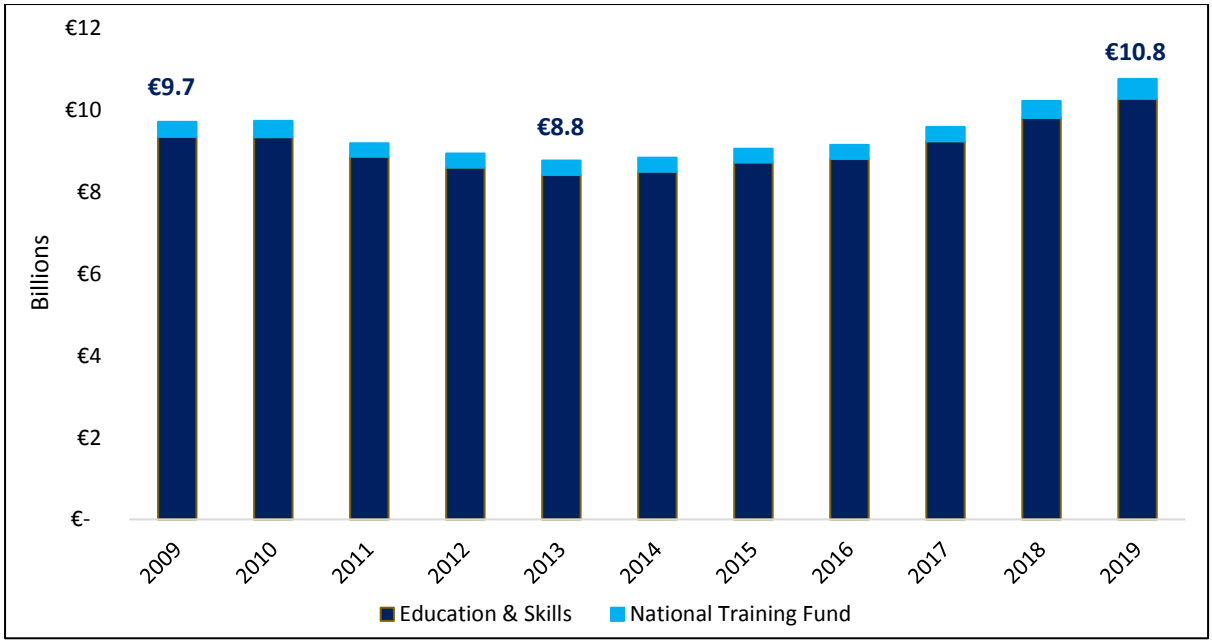
Economic Conditions: As economic growth continues there is likely to be upward pressure on certain costs. On the other hand, there are also downward expenditure pressures such as declining medical card coverage as the labour market improves and pharmaceutical savings arising from the 2016 agreement with IPHA.

In order to continue to improve population health outcomes and grow health expenditure in a sustainable manner consistent with prudent fiscal policy, it is important that existing resources are deployed as efficiently and effectively as possible.

2.5 Trends in Education Expenditure Since 2009

Expenditure levels in the Education and Skills sector, inclusive of the National Training Fund (NTF), followed the same pattern of overall expenditure. Levels fell by an average of 2 per cent per annum from 2009 to 2013, with an average annual growth of 3.5 per cent from 2014 to 2019. Expenditure for the sector as a whole (Exchequer and NTF) will be at its highest level to date in 2019 at €10.8 billion, after reaching €10 billion for the first time in 2018, some 11 per cent higher than the peak in 2010.

Figure 2.10 DES Expenditure 2009-2019



Source: DPER, 2019 'Trends in Public Expenditure'

As with other labour intensive frontline public services, pay is the single largest element of expenditure in the education sector. The education pay bill in 2008 stood at €5.7 billion, reducing to €5.1 billion in 2014, before reaching just over €6.1 billion in 2018. Between 2014 and 2018 current education expenditure increased by €1,193 million, 89 per cent (€1,056 million) of which was in the first, second level and early years' area. €506 million, or 48 per

cent of this expenditure, was special education expenditure. Special Education is now 19 per cent of total education expenditure at €1.9 billion, 88 per cent of which is pay related.

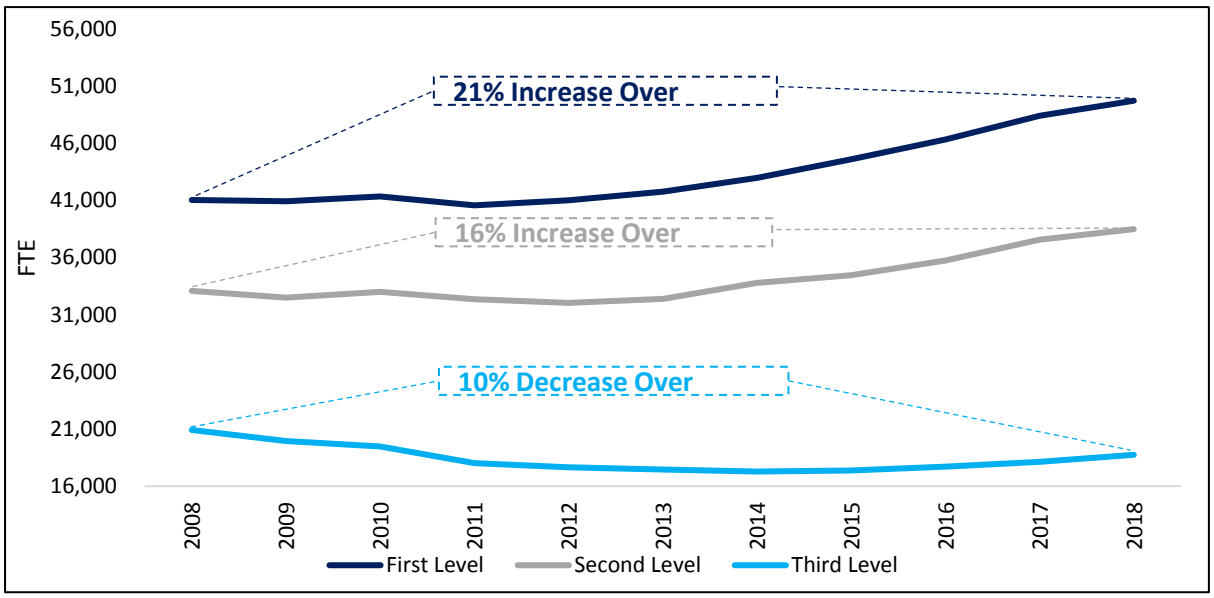
Expenditure Drivers

Broadly speaking, a range of factors have played a role in driving change in the scale of education expenditure across primary, secondary and tertiary sectors over the past 10 years.

Staffing and Enrolment Pressures: Both the primary and post primary sectors saw considerable increases in student numbers with an increase of nearly 77,000, or 16 per cent, in the primary sector from 2008 to 2018 and an increase of over 53,000, or 16 per cent, in the post-primary sector for the same period. In percentage terms, the third level sector saw the largest percentage increase of 30 per cent in student numbers, or 54,300 students.

Staffing in the primary education sector has been on an upward trend from 2008 to 2018, growing by 21 per cent over the period. Similarly, second level increased by 16 per cent over the period. Exchequer funded third level staffing decreased by 10 per cent from 2008 to 2018.

Figure 2.11 Staffing trend for 1st, 2nd and 3rd Level, 2008 - 2018



Source: DPER, 2019 'Trends in Public Expenditure'

Increased Expenditure on Special Education: Special education needs expenditure represents nearly 20 per cent of the Department of Education and Skills gross current allocation in 2019, costing €1.87 billion. Expenditure in this area increased by 49 per cent from 2011 to 2018. An estimated 90 per cent, or €1.68 billion of total expenditure in this area is allocated to pay. There have been various drivers of the increase in expenditure on special education including, the underlying change in the school age population, the increasing proportion of children who are qualifying for SNA and special educational needs supports, and in particular, the increasing number of pupils presenting with an autism diagnosis.

Outcomes

Investment in education over the past decade has played a pivotal role in improving outcomes and attainment. Since 2010 the percentage of pupils completing post-primary education has increased from 87.7 per cent to 91.6 per cent in 2018. This rise is even more pronounced in DEIS (Delivering Equality of Opportunity in Schools) schools, where rates have risen from 73.2 per cent in 2010 to 85 per cent in 2018. Also in post-primary the percentage of pupils taking higher-level mathematics has increased from 45 per cent to 56.7 per cent for the Junior Certificate, from 2010 to 2019. The percentage of higher-level mathematics pupils for Leaving Certificate has risen from 16 per cent to 30.9 per cent over the same period.

The numbers of those in the labour force with a third level qualification in the State increased from 39 per cent in 2010 to 44 per cent in 2018. In higher education, the percentage of those who have completed a third level education has steadily risen over the period 2009-2017 with the rate of 25 to 64 years olds rising from 36 per cent to 46 per cent and the rate for 25 to 34 year olds rising from 48 per cent to 53 per cent.

Future Issues

While demographic pressures at primary school level are expected to have peaked in 2018, as these students work their way through the education system this will shift the pressure to the post-primary sector where enrolments are expected to peak in 2024.

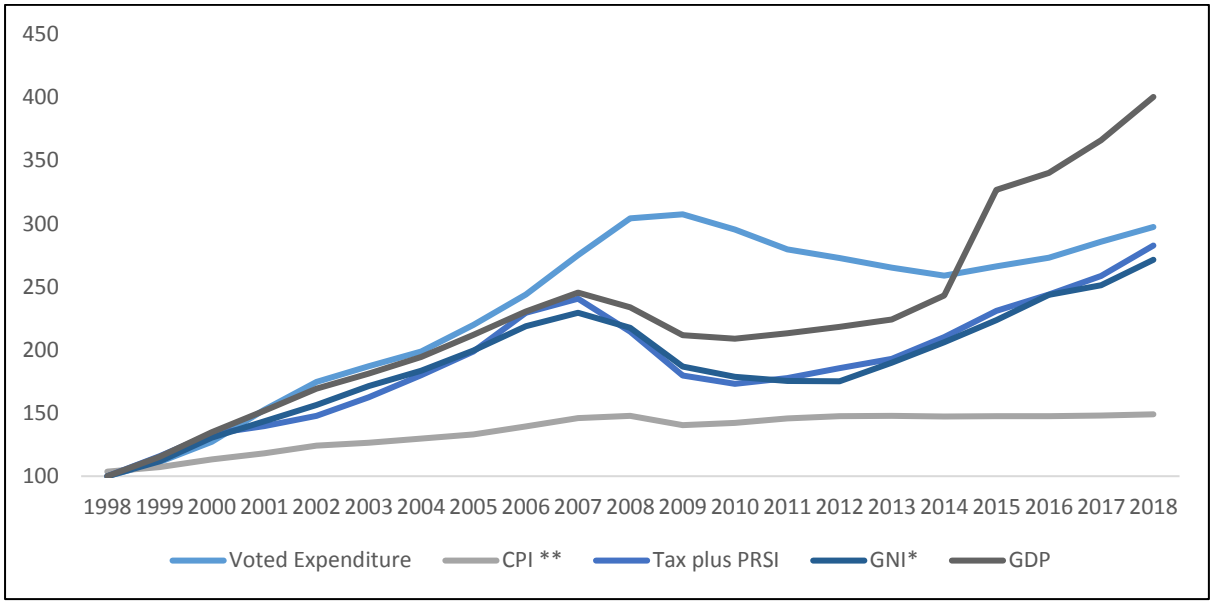
In the medium term, this pressure will shift to the third level sector. This represents a significant challenge on the horizon as the expected increase in student demand over the coming years from demographic pressures will be coupled with higher participation rates. To address these challenges, beginning in 2018 Government incrementally increased the NTF rate by 0.1 per cent to 0.8 per cent in 2018, with a further 0.1 per cent annual increase in 2019 and 2020, bringing the cumulative NTF levy to 1.0 per cent. These measures increased the yield by an additional c. €48 million in 2018, an additional €69 million in 2019 and an estimated additional €74 million in 2020. In addition, the Exchequer provided an additional allocation of c. €140 million in 2019 to address current and capital pressures in the Higher Education Sector.

2.6 Medium-Term Expenditure Policy

Recent expenditure policy has been guided by the requirements of Preventive Arm of the SGP including the Expenditure Benchmark. However, while the Expenditure Benchmark is designed to ensure that spending growth is limited to the potential growth rate of the economy, the evidence is that it can produce pro-cyclical outcomes. Given the likely current cyclical position of the Irish economy against the backdrop of sustained high growth and with the labour market at full employment, overheating risks could be exacerbated if expenditure growth was allowed to continue to grow in line with the Expenditure Benchmark rule. In light of this, it may be prudent to adopt a more neutral medium term expenditure stance to offer an appropriate buffer against the risk of pro-cyclicality. This approach is consistent with the ongoing work being conducted in the Department of Finance on fiscal vulnerabilities in Ireland and would help to mitigate against the risks inherent from a narrow and literal interpretation of the European fiscal rules.

In light of this, with a view to removing the effects of recent cyclical growth from the calculation, a better anchor to expenditure growth could be to link it to the long term growth rate of the economy in terms of GNI*. This position is demonstrated in Figure 2.12 below which takes a twenty year view of expenditure, revenue, and economic growth. Looking at the growth in revenues and expenditure compared to growth in the economy, GNI* tracks revenue growth better than GDP. Indeed, the compound average annual growth in overall voted expenditure over the last twenty years was 5.6 per cent. This is only marginally higher than the annual compound average growth in the size of the economy of 5.1 per cent, as measured by GNI*.

Figure 2.12 Expenditure v Revenue and Economic Growth 1998-2018



Source: DPER Statbank, CSO

The expenditure position set out in '*Scenario A*' of the SES reflects a 3 ¼ per cent annual increase in current expenditure post 2020, with the capital expenditure amounts updated to reflect the Government's commitment to the NBP. Based on economic growth projections included in the SPU, this would see an annual increase in expenditure in the region of 3½ per cent out to 2024, below the projected annual growth rate of the economy of c. 4 per cent as represented by GNI*. At this juncture, this represents a sensible approach given the uncertainties arising in the external environment and the current position of the State in the economic cycle and offers a sustainable medium-term pathway for expenditure growth.

The adoption of this approach would ensure that the Government achieves the stated fiscal aim of increasing budgetary surpluses and reduce public debt. As set out in the SES, this strategy will help to deliver an improving headline surplus of 0.2 per cent per annum.

Ministerial Expenditure Ceilings

As set out in the recently published SES, the current practice which is retained in the Departmental current expenditure ceilings is that the Health, Social Protection and Education ceilings reflect changes driven by demographic factors only, with all other Departmental ceilings essentially remaining flat. All other costs, inclusive of provisions for Pay Agreements, are not assigned at Departmental level with decisions on the allocation of the resources being made as part of the Estimates process.

The rationale for this approach is clear, where the non-application of price increases (de-indexation) can be used as a mechanism to generate efficiency dividends and promote productivity where State bodies are effectively challenged to maintain the existing level of service with less resources. Adopting this approach addresses the risk that expenditure ceilings become floors for budgetary discussions and create increased expectations in relation to available expenditure increases, particularly so in an environment where in-year expenditure increases are provided.

As set out in the SES, the annual growth in the current expenditure is projected to be 3 ¼ per cent from 2021 onwards. This compares to the annual growth of 2½ per cent in the medium-term current expenditure ceilings included in the SPU. In relation to medium-term capital expenditure ceilings, the overall allocations provided in the NDP are to be adjusted for the provision of an expenditure reserve in 2020 and additional capital in respect of the NBP from 2021 onwards, as discussed in chapter 1. The impact of these alterations to the expenditure projections compared to the position outlined in the SPU are set out in the table below.

Table 2.2: Impact on Expenditure of Changes in Approach

	2020	2021	2022	2023	2024
	€ billion	*€ billion*	*€ billion*	*€ billion*	*€ billion*
SPU 2019					
Gross Voted Current Expenditure	60.7	62.2	63.7	65.3	67.0
Gross Voted Capital Expenditure	8.1	8.7	8.9	9.4	10.0
Total Gross Voted Expenditure	**68.8**	**70.8**	**72.7**	**74.7**	**77.0**
SES 2019					
Gross Voted Current Expenditure	60.7	62.7	64.8	66.9	69.0
Gross Voted Capital Expenditure	8.3	8.9	9.1	9.7	10.3
Total Gross Voted Expenditure	**69.0**	**71.6**	**73.9**	**76.6**	**79.3**
Difference					
Gross Voted Current Expenditure	0.0	0.5	1.0	1.5	2.1
Gross Voted Capital Expenditure	0.2	0.2	0.2	0.3	0.3
Total Gross Voted Expenditure	**0.2**	**0.7**	**1.2**	**1.8**	**2.4**

**The SPU contained projections out to 2023, for comparison purposes the table above extends the projections to 2024 using the same assumptions as the period from 2020 to 2023*

Underpinning these expenditure projections is the need to align the Governments' fiscal and social goals. In this regard a degree of flexibility is required and alterations to the expenditure amounts can be sustained within the medium-term fiscal parameters outlined in the SES. For example, at Budget time each year Government can decide to allocate additional resources for spending increases by either introducing revenue raising measures and/or redistributing resources allocated for taxation measures. Indeed, the full available fiscal space for tax measures has not been utilised in the last two years and a number of revenue raising measures were introduced. This has provided cumulative funding of almost €2 billion for spending increases.

Budget Transparency and Expenditure Management

As set out in the SES, the implementation of a managed multiannual expenditure pathway will require effective expenditure management. To support this process, enhanced reporting requirements will be implemented in areas where there is a persistent risk of expenditure overruns. Further to this enhanced fiscal transparency and greater public participation in budgetary decisions shall be promoted. Indeed, as discussed in the SES, it is proposed to further enhance the accessibility and availability of budget information tailored towards the general public. This would include a dedicated citizen's guide to the budget to explain the key decisions in clear non-technical language. The guide will be an objective, self-contained document that focuses on the objectives and content of the budget presented in a concise and accessible format. It is intended to foster greater understanding of public finances and policy choices and ensure that people are better equipped to assess the impact of budgetary decisions on their lives.

2.7 Expenditure Summary

Taking into account the current position of the Irish economy, the expenditure strategy discussed in this Chapter, promoting the adoption of an annual growth in expenditure below the projected growth rate in the economy measured as measured by GNI*, is appropriate. This approach allows for increased investment in public infrastructure as outlined in Project Ireland 2040 and continued investment in public services. The focus of current expenditure will be to continue to ensure that demographic pressures in the key areas of Health, Social Protection and Health are met, with targeted measures to enhance the delivery of public services supported.

Table 2.3 Expenditure 2019 - 2024

	2019	2020	2021	2022	2023	2024
	€bn	*€bn*	*€bn*	*€bn*	*€bn*	*€bn*
Gross Voted Current Expenditure	59.3	60.7	62.7	64.8	66.9	69.0
Year-on-year change (%)		*2.4%*	*3.2%*	*3.3%*	*3.3%*	*3.3%*
Gross Voted Capital Expenditure	7.3	8.3	8.9	9.1	9.7	10.3
Year-on-year change (%)		*12.6%*	*7.2%*	*3.1%*	*6.2%*	*6.2%*
Total Gross Voted Expenditure	**66.6**	**69.0**	**71.6**	**73.9**	**76.6**	**79.3**
Year-on-year change (%)		*3.6%*	*3.7%*	*3.2%*	*3.6%*	*3.6%*

**Figures subject to rounding*

This strategy is supported by the continued close monitoring and reporting of Department spending with a requirement that Departments manage effectively within the expenditure allocations agreed by Government and voted by Dáil Éireann. Furthermore, the introduction of the spending review process has promoted effective budgetary management through the evaluation of existing expenditure commitments. This process is designed to help Departments to recognise areas of existing expenditure that could be spent more efficiently and provide improved outcomes for citizens.

Chapter 3 – Spending Review 2019

3.1 Introduction

The State has an important role in developing policies and strategies that promote better outcomes for citizens. This continues to be a key consideration for Government. This is particularly key in relation to how funding is allocated to ensure that public expenditure is delivering on its objectives and ensuring the best possible outcomes for the resources allocated by Government each year.

The Spending Review 2017 – 2019 is another key process designed to improve how expenditure is allocated. It builds on significant expenditure reforms in recent years including the establishment of the IGEES and reform of the Public Spending Code (PSC). These processes all seek to embed a culture of evaluation within the Public Service, with the goal of facilitating sustainable expenditure over time.

The specific purpose of spending review, within the wider reforms, is to shift the emphasis away from year-on-year incremental increases in spending, through the examination of baseline Government expenditure. In doing so, spending review creates a clear link between programme evaluations carried out across the public sector and the budgetary process.

Finally, spending review contributes towards and utilises the current public service reform programme, *Our Public Service 2020*[7]. Across the three pillars of the reform plan, namely 'delivering for our public'; 'innovating for our future'; and 'developing our people and organisations', the current spending review process addresses the key themes of efficiency and effectiveness, data, collaboration, evidence & evaluation, workforce planning and culture & values.

3.2 Objectives of the Spending Review

The 2017 SES outlined the approach to be taken in carrying out the Spending Review 2017-2019 – to undertake a review of spending to shift the emphasis away from the incremental nature of the annual Estimates process. This review has differed from the 'comprehensive' reviews of expenditures carried out in 2009 and from 2012 to 2014, with the introduction of a 'rolling' system of selective reviews.

Another distinguishing feature has been the economic context. In recent years, Ireland's strong economic performance has been reflected in robust revenue growth. On the back of this, expectations for increases in public spending have grown and budgetary discussions have tended to focus on the additionality of funds available for future years. However, it is reasonable to expect that some element of strong revenue growth reflects a cyclical upswing in economic activity, while only a portion reflects underlying structural growth. For this reason, the key public expenditure goal over the medium-term is to budget for sustainable expenditure growth that can be retained throughout the economic cycle. The purpose of the

[7] Available at: https://ops2020.gov.ie/resources/Our-Public-Service-2020-WEB.pdf

Spending Review is to ensure that expenditure decisions, to meet Government objectives, also include consideration of existing spending programmes. This will provide Ministers with the scope to deliver new and improved services not exclusively through new resources allocated in the Estimates process but also through the reprioritisation of existing funding.

The reprioritisation of expenditure should be informed by evidence, which takes into account evaluations of the efficiency and effectiveness of outcomes delivered across existing programmes. One of the key objectives for this review is to embed this ongoing evaluation culture across the Public Service. The rolling three-year nature of the current spending review has allowed for a building-up of expertise and awareness of the process and for analysts to revisit key topics where ongoing issues exist or where a deeper level of analysis may be warranted. This can be seen in spending review papers across sectors such as agriculture, housing, education, healthcare and also in areas such as staffing, workforce planning, pay and pensions.

For the Spending Review 2019, the level of coverage of expenditure has not been specified. Departments have been asked to consider areas of strategic importance where there is likely scope for sustainability, efficiency and effectiveness improvements and to be aware of reform objectives as detailed in *Our Public Service 2020* and the *Civil Service Renewal Plan*. The intention was that certain topics could be revisited in the 2019, enabling authors to build a more comprehensive evidence base across a number of policy areas.

Lessons from the first two years of the process led to an adjustment of the objectives for Spending Review 2019. Initially, the process was focussed on:

(i) creating a larger stock of relevant analysis and evaluation across all Departments and Offices;
(ii) identifying areas of existing expenditure that require ongoing analysis where concerns are apparent; and
(iii) ensuring that this analysis is firmly embedded within Estimates process.

However, two additional objectives were identified, namely:

(iv) providing the evidence base for reform efforts across Departments and the wider public service; and
(v) spotlighting areas of innovation and good practice, both in programme design and delivery, that will be of wider interest and applicability.

These two objectives support the key goals of *Our Public Service 2020*.

3.3 Conduct of the Spending Review

The spending review is a key step in the budgetary cycle, it assists in preparations for Budget 2020 by providing analyses of existing expenditure programmes. However, by continuing to

expand the evidence base, the process also enables longer-term improvements in how policy is developed and how expenditure is allocated.

The process operates within the wider budgetary architecture, a framework designed to promote responsible and sustainable expenditure growth, aligned to the economy's underlying revenue-generating capacity and designed to mitigate against sharp reductions in spending in the event of an economic downturn.

The Spending Review 2019 is the third and final round in the current series. This year, the process commenced earlier than in previous years, with officials from the Department of Public Expenditure and Reform engaging with line departments at the end of 2018 in relation to briefing on the conduct of the process for 2019 and to support more engagement on the selection of topics. This was done to allow for a more focussed and detailed examination of specific schemes and programmes over a reasonably compact timeframe.

As detailed in the Mid-Year Expenditure Report in 2018, there was an intention 'to build on the initial progress made last year over the remaining year of this review cycle to widen the involvement of Departments and other public service bodies and offices'.[8]Departments and agencies have worked closely with DPER officials to deliver rigorous, evidence informed analysis. Publishing this will inform public discussion, strengthen accountability and assist policymakers in delivering the best possible value from programmes of expenditure.

DPER seeks to continually improve the spending review process, and this year some changes were made with a view to maximising the opportunities for other Departments, agencies and offices to participate in the process.

Governance: Oversight of the Spending Review 2019 was provided by a high-level steering group consisting senior officials from the DPER and, in a change from the last two years, two additional representatives from line Departments. Given the year on year increase in the level of spending review analysis being conducted in line Departments, it was important to reflect this in the governance structures.

Timing: In order to foster more engagement with line Departments, the Spending Review 2019 was commenced earlier than in previous years. Beginning the process of engagement at an earlier point, in December 2018, was designed to facilitate line Departments to consider the spending review in their business planning for 2019 which was seen as important in order to provide more scope for line Departments to lead on the delivery of spending review papers.

Collaboration: This initial engagement was followed up by a number of briefing sessions for finance and IGEES units across Departments. These sessions were designed to promote increased collaboration between DPER and line Departments. They were provided at an early point in January 2019 and facilitated engagement around the key objectives and the choice of topics for Spending Review 2019. This approach has been important in increasing the number of papers produced either directly by line Departments or jointly with DPER.

[8] Available at: https://www.per.gov.ie/wp-content/uploads/Mid-Year-Expenditure-Report.pdf

The nature of engagement between DPER and spending Departments has been reformed as part of the current spending review process. In seeking to embed an evaluation culture and an evidenced informed approach to policy development, the spending review process has targeted a greater level of involvement by spending Departments. In the papers due to be published, there are a significant number of high quality analyses authored by officials in spending Departments which investigate the efficiency and effectiveness of existing programmes. In addition, this year has also seen papers co-authored or co-steered between officials in spending Departments and corresponding officials in DPER. This represents a shift in the engagement between Departments and it is hoped that this will lead to clearer and more aligned engagement during the budgetary process.

Evaluating the Process: The lessons from the research conducted as part of the 2017 and 2018 Spending Reviews have contributed to the conduct of the Spending Review 2019. However, as the final year of the process comes to a conclusion, it is important to undertake a more holistic review in order to gauge success against the initial objectives and in a broader sense against good practice in spending reviews generally. As such, an independent external review of the process is underway and will be published alongside the Budget in October. This review, more detail on which is provided below, will inform the future direction of spending reviews in Ireland.

Objectives and design of policy papers

To ensure a consistency of approach across the individual papers, each paper is expected to address elements of the key evaluation criteria which have informed Value for Money Reviews (VFMRs). However, spending review papers differ from VFMRs in that the goal is to specifically identify how funds could be reprioritised into more impactful areas.

It is important to acknowledge the number of different spending programmes reviewed, the complexity of the public policy objectives to which these spending programmes relate and the changes in the broader environment which impact on delivery. For this reason, the analytical approach taken in the papers is not applied on a 'one-size-fits-all' basis. Spending Review 2019 papers cover a broader spectrum of methodologies, some of which, while not fitting neatly into the VFMR framework, add significant value in other areas, including, for example, implementation of recommendations from previous reports and identifying issues of data availability from the perspective of future proofing evaluation.

Having said that, many of the papers do conform to what one might expect of a 'traditional' spending review paper. The depth and detail of the analyses carried out can be very much dependent on the stock of existing analysis carried out on the area, the data availability of programmes and availability of staff resources. A key resource in overcoming challenges of reviewing programmes, and in insuring a high-quality standard of output, was the continued role of IGEES in this year's review, and the importance of IGEES staff across all Departments should not be underestimated in this regard.

3.4 Outcomes of the Spending Review 2018

Spending Review 2018 culminated in the publication of 30 analytical papers, most alongside the Mid-Year Expenditure Report in July, the remainder published with the Budget in October. These papers provide an evidence base to inform the Estimates process and to identify future areas that require ongoing analysis. A summary of key selected outcomes from the Spending Review 2018 is provided below. More detail on this can be found in the Expenditure Report 2019.

Education and Skills: Spending review analysis, supported by the independent review of the NTF and the corresponding Department of Education and Skills (DES) National Training Fund Review Implementation Plan, will ensure that investment in the third level sector supports a co-ordinated Higher Education (HE) and Further Education and Training (FET) response in meeting the skill and education needs of the economy.

Justice and Equality: As part of the Spending Review 2018, DPER published two papers on policing. These related to the *Efficiency and Control of Overtime Expenditure in An Garda Síochána* and *Policing Civilianisation in Ireland* focusing on lessons from international practice. These papers have directly informed both the budgetary process for 2019 as well as the medium term policing reform agenda.

Employment Affairs and Social Protection: A number of papers have been published in the area of Employment Affairs and Social Protection in the Spending Reviews of 2017 and 2018. There have been significant outcomes in improving service provision and enhancing the knowledge base in the areas of employment supports, disability, work incentives and staffing.

Efficiency of Public Expenditure: Spending Review 2018 papers addressed issues related to the overall level of resources allocated across key sectoral areas with papers produced both on a cross-sectoral basis and sectoral basis. These included the paper on *Comparative Levels and Efficiency of Irish Public Spending* and health sector efficiency research focusing on *Hospital Inputs and Outputs: 2014 to 2017*.

Staffing and Workforce Planning: Staffing and workforce planning emerged as a key theme of Spending Review 2018. This was influenced by the interplay between strong economic growth and increases in the demand for public services. This in turn has placed increased pressure on Departments to take stock of their staffing and pay bill trends to guide future workforce projections and planning. In addition to a scene setting paper which assessed key issues for the management of the Exchequer pay bill, a number of sectoral papers were also published.

3.5 Emerging Themes of the Spending Review 2019

In 2019, a number of key themes are emerging from the spending review process. These are evident across the range of papers that will be published in the coming weeks. What is notable is the degree to which these themes have emerged from the development of the spending

review process over the three years. Also worth noting is the cross sectoral nature of these themes, which include:

1. Development of Multi-Year Sectoral Expenditure Analysis;
2. Importance of Data Availability and Systems;
3. Increase in External or Jointly Produced Analysis; and
4. Alignment of the Spending Review and the Public Spending Code.

Each of these themes is outlined in further detail below.

Development of Multi-Year Sectoral Expenditure Analysis

Two key objectives of the spending review process have been to create a larger stock of relevant analysis and evaluation across all Departments and Offices and to provide the evidence base for reform efforts across Departments and the wider public service.

While it is clear that the process has delivered a larger stock of analysis given the volume of output that has been produced, it could be argued that the degree to which the process has provided the evidence base for reform is perhaps less clear, or at least topic or sector specific. However, one of the ways we can potentially judge the achievement of this objective is to look at how sectoral analysis have developed over the three years of the spending review.

This is potentially useful because the multi-annual nature of the spending review process has provided analysts with the scope to implement an incremental approach to analysis of complex policy areas. There is evidence of this across areas such as education, health, housing, enterprise supports and agriculture where work in year one and year two has provided the basis for further work in subsequent years.

Importance of Data Availability and Data Systems

A common theme throughout the first two years of the current spending review process has been data gaps and shortfalls in data quality. This is not unexpected and is a consistent constraint faced by countries who undertake spending reviews. This year there are examples where an improvement in data availability is evident and where the relationship between DPER and line Departments has facilitated increased engagement on the data and information sharing. In these instances, the availability of data and the willingness of the line Departments to engage helps to provide further insights on expenditure in important policy areas. This shows the value of quality data and data systems but also of collaboration between DPER and line Departments.

Having said that, it must also be acknowledged that in many areas, further improvements in data availability remains a work in progress. The focussed nature of the spending review papers means that data gaps are often identified. While this is a challenge for departments, agencies and other public bodies who are the subject of spending reviews, such findings can also be seen as an opportunity to address specific data requirements directly. These types of findings are particularly relevant in the context of public service reforms related to ICT.

Increase in External or Jointly Produced Analysis

One of the key aims of the spending review over the last three years has been to increase the level of analysis that is being produced by line Departments and jointly between line Departments and DPER. Good progress has been made in achieving this important objective and it is expected that Spending Review 2019 will see more external or jointly produced papers than in 2017 or 2018.

Alignment of the Spending Review and the Public Spending Code

One of the features that has continued from 2018 has been the use of the spending review process as a vehicle for promoting compliance with other elements of the Public Spending Code. While this type of analysis, which includes follow up analysis on implementation from previous reviews, may not fit neatly into what could be considered a 'traditional' spending review paper, it does speak to a key element of policy formulation, particularly in relation to implementation.

Finally, in relation to the Public Spending Code more generally, as part of the ongoing review of the Code, revised technical parameters, including the shadow price of carbon, are being published, and the review of the capital appraisal elements is at an advanced stage.

3.6 Emerging Outcomes from Spending Review 2017-2019

As the Spending Review 2017 – 2019 draws to a close, it is beneficial to take stock of the outcomes and the level and breadth of public expenditure that has been assessed over a three year period. An external and internal evaluation of the three year period has been conducted in order to evaluate the outcomes from Spending Review 2017 – 2019. The external review will assess whether the spending review process has achieved its objectives and where appropriate it will provide recommendations and actions on how the process can be improved in future. The internal review conducted by DPER will identify and take stock of the level and breadth of public expenditure that has been assessed over a three year period. The ex-post evaluations of the Spending Review 2017-2019 is one of the first of its kind. It is intended that the outcomes of the internal and external evaluations will support the future direction of spending reviews in Ireland.

External Review of the Spending Review 2017-2019

As the spending review enters its final year, Professor John O' Hagan of Trinity College Dublin (TCD) has commenced an independent review the process. This review will assess whether the spending review has achieved its key objectives, and whether communication with the relevant key stakeholders have been effective. The review will also assess if the process is producing output of a sufficient quality and if spending review papers have been effectively integrated into the budgetary process and policy deliberations. Where appropriate the review will provide recommendations and actions on how the process can be improved going ahead. To date, Professor O'Hagan has attended a number of Spending Review Steering Group meetings and has consulted with internal and external stakeholders. It is intended to publish the findings of the review alongside Budget 2020.

Internal Review of the Spending Review 2017 – 2019

An internal review of the process is being carried out to take stock of the level and breadth of public expenditure that has been assessed over a three year period. The analysis will assist in assessing elements of the spending review's objectives, including whether the process has created a larger stock of relevant analysis and evaluation across all Departments.

It is estimated that programmes that account for over €40 billion of Government expenditure will have been analysed over the period 2017 to 2019. In addition, spending in this and other areas have been reviewed through other forms of analysis including Value for Money Reviews (VFMRs) and Focussed Policy Assessments (FPAs).

This internal review, alongside the external review, will inform future developments in the spending review process.

3.7 Performance Budgeting

Spending reviews are one important pillar of evidence-based approaches to policy development. One additional pillar is the routine use of performance information alongside financial details as part of the budget process – so-called performance budgeting. It is important that reform developments in these areas proceed in a synchronised manner.

Performance reporting was introduced in Ireland across all areas of public expenditure in 2011, as part of a suite of reforms to the public expenditure framework. During 2016, a detailed analysis of the type and quality of performance information provided was carried out by DPER. This process led to a significant improvement in the quality of performance information provided for REV 2017. The Public Service Performance Report (PSPR) was first published in 2017. This annual publication presents performance indicators for each Vote Group for the previous calendar year. The PSPR complements other evaluative tools such as spending review and Social Impact Assessments (SIAs).

3.8 Next Steps in Developing Performance Budgeting

Following the publication in May 2019 of the PSPR, DPER signalled an intention to take stock of how effectively the Performance Budgeting programme is working, and to consider future directions for ongoing reform. In light of the limited scope for additional budgetary allocations, and in the current context of preparing for fiscal risk, an effective performance budgeting framework offers the possibility to focus upon the value and the impacts of the totality of existing public expenditure. Accordingly, in reviewing the current performance budgeting framework, DPER will take account of international experiences as embodied in the OECD Good Practices for Performance Budgeting[9] and also look at specific learnings from peer countries. The review will involve consultation with stakeholders both within and outside of government, and will take into account the recommendations made by the Parliamentary Budget Office (PBO) following the publication of PSPR 2018.

[9] OECD (2019), *OECD Good Practices for Performance Budgeting*, Available at: https://doi.org/10.1787/c90b0305-en

3.9 Equality Budgeting

A related issue concerns the role of Equality Budgeting as part of the future performance budgeting framework. Following the rollout of a pilot programme in 2017, an Equality Budgeting Initiative has been developed alongside performance budgeting. This approach considers the budget as a process that embodies long-standing societal choices about how resources are used, rather than simply a neutral process of resource allocation. In practice, this means that equality budgeting attempts to provide greater information on how proposed or ongoing budgetary decisions will impact on particular groups in society, thereby integrating equality concerns into the budgetary process.

Dedicated equality indicators are included in the REV, and the 2017 and 2018 Public Service Performance Reports included an Equality Budgeting Update. While the initial focus of equality budgeting has been on gender, the initiative is being incrementally extended to other equality dimensions. This process has been guided by the Equality Budgeting Expert Advisory Group, which first met in September 2018. Moreover, the OECD is currently conducting a Policy Scan of Ireland's approach to Equality Budgeting and Mainstreaming; it is expected that this report will be delivered in September of this year.

The report from the OECD Policy Scan will also be of relevance to the ongoing review of performance budgeting.

3.10 Conclusion

The baseline fiscal strategy outlined in the Summer Economic Statement is focussed on delivering sustainable improvements in public services and infrastructure while improving the General Government Balance and working to reduce our debt. In order to deliver this strategy, there is a requirement that there is ongoing evaluation of the efficiency and effectiveness of existing levels of spending. This will provide the scope to deliver new and improved services not exclusively through new resources allocated in the Estimates process but also through the reprioritisation of existing funding.

Such an approach requires that expenditure policy continues to be supported by ongoing reforms that enhance decision making and transparency in the budgetary process. Much progress has been made in this area in recent years including with the Performance and Equality Budgeting Initiative and spending review. These reforms are a key tool in helping to ensure that Government programmes are delivering on their objectives, achieving the best possible outcomes for the money spent and embedding a culture of evaluation across the Public Service.

As we are now in year 3 of the current three year spending review process, it is timely to take stock of progress and work to ensure the ongoing relevance of the process. To this end, the external review of the process, to be published alongside the Budget in October, will inform future developments in this area.

Rialtas na hÉireann
Government of Ireland

Tithe an Rialtais, Sráid Mhuirfean Uacht,
Baile Átha Cliath 2, D02 R583, Éire
Government Buildings, Upper Merrion Street,
Dublin 2, D02 R583, Ireland

T: +353 1 676 7571
@IRLDeptPER
www.gov.ie/per