

Comprehensive Expenditure Report 2012-14

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OIFIG DHÍOLTA FOILSEACHÁN RIALTAIS
TEACH SUN ALLIANCE, SRÁID THEACH LAIGHEAN, BAILE ÁTHA CLIATH 2,
nó tríd an bpost ó
FOILSEACHÁIN RIALTAIS, AN RANNÓG POST-TRÁCHTA,
AONAD 20 PÁIRC MIONDÍOLA COIS LOCHA, CLÁR CHLAINNE MHIRIS,
CONTAE MHUIGH EO,
(Tel; 01 – 6476834/37 nó 1890 213434; Fax; 01– 6476843 nó 094 - 9378964),
nó trí aon díoltóir leabhar.

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**PART I REPORT OF THE 2011 COMPREHENSIVE
REVIEW OF EXPENDITURE**

I.1 Background and Context

The Scale of the Fiscal Challenge

This Report is the last in a series of expenditure-related releases in the context of the budgetary plan for 2012 and later years, and the broader reform agenda. It sets out a programme of current expenditure measures which complement the capital programme published on 10 November 2011, in *Infrastructure and Capital Investment 2012-2016: Medium Term Exchequer Framework*, and it implements various commitments set out in the *Public Service Reform Plan* published on 17 November 2011 by the Minister for Public Expenditure and Reform.

Closing the Government deficit is an economic policy imperative and the Government's *Medium-Term Fiscal Statement* sets out the path of fiscal adjustment over the coming years. Considerable progress has already been made towards stabilising the public finances. This year's General Government deficit is now expected to be 10.1% of GDP. This is below target for the year.

Yet substantial challenges remain for Ireland. Continuing to run large deficits and borrowing to fund them is simply not viable. While revenue raising measures will play an important role, the need to reduce expenditure further is an inescapable reality.

Table I.a below shows the composition of expenditure contribution to medium-term budgetary consolidation.

Table I.a Medium-Term Expenditure Reductions				
<i>Year</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>
	<i>€ billion</i>			
Current expenditure consolidation	1.45	1.7	1.9	1.3
Capital expenditure consolidation	0.75	0.55	0.1	-
Total Expenditure Consolidation	2.2	2.25	2.0	1.3

Source: Medium-Term Fiscal Statement, November 2011, Department of Finance

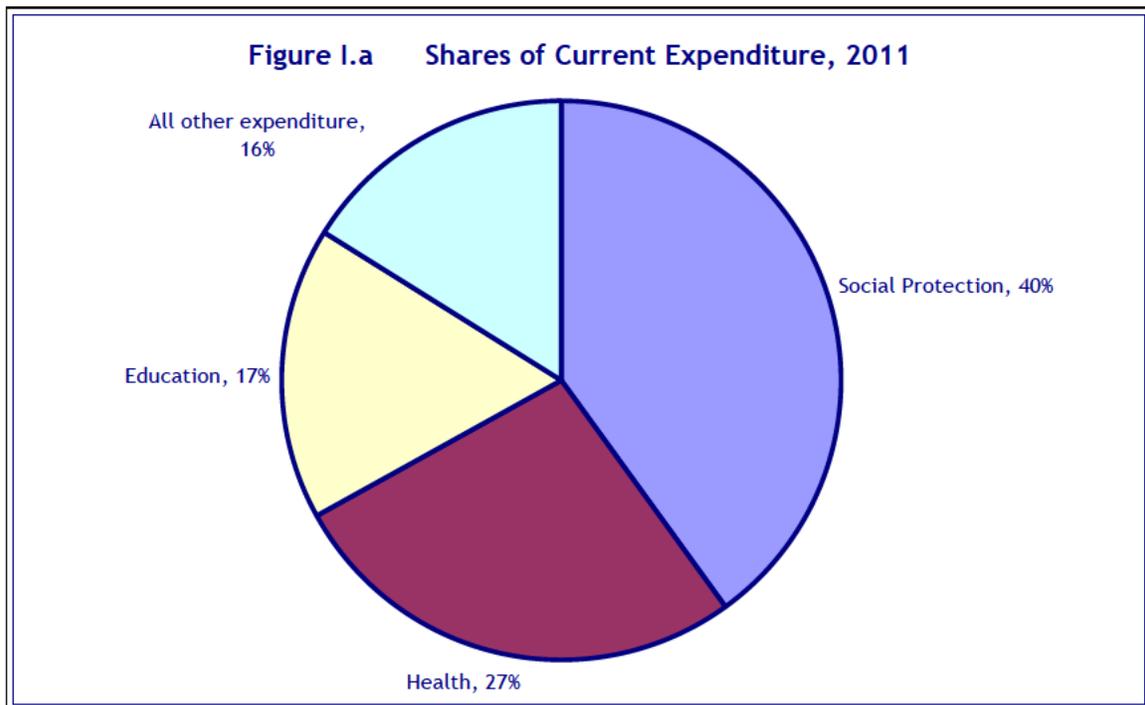
The Government's *Infrastructure and Capital Investment Framework* has set out the details of capital expenditure; this Report outlines the process of prioritisation and consolidation of current expenditure.

What the Government Does: The Structure of Public Expenditure

The vast bulk of Government current expenditure is accounted for by three core areas of social provision:

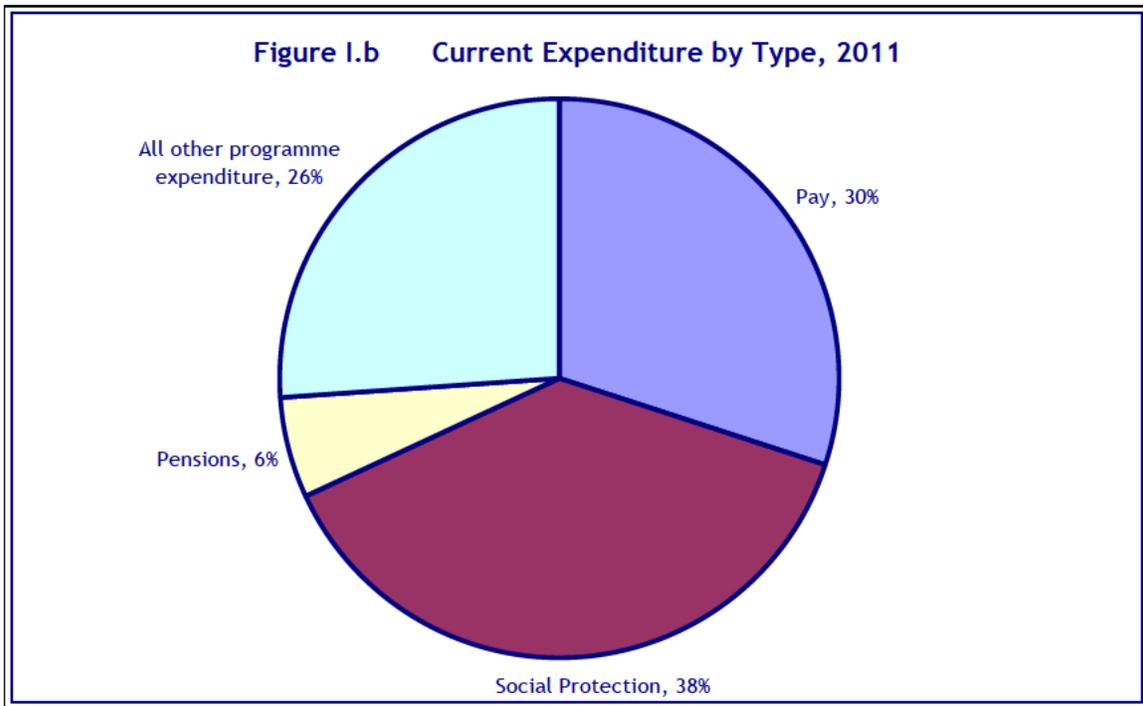
- Healthcare
- Social protection
- Education

Together, these components make up over 80% of total voted current spending. The full breakdown is illustrated below:



This is the reality of the make-up of Government expenditure. As a consequence of this composition, it is inevitable that expenditure consolidation requires some contribution from the health, education and social protection areas. Nonetheless, the Government is determined to protect front-line services in so far as possible.

A further distinction can be made between expenditure on social transfers, public service pay and pensions, and other programme expenditure.

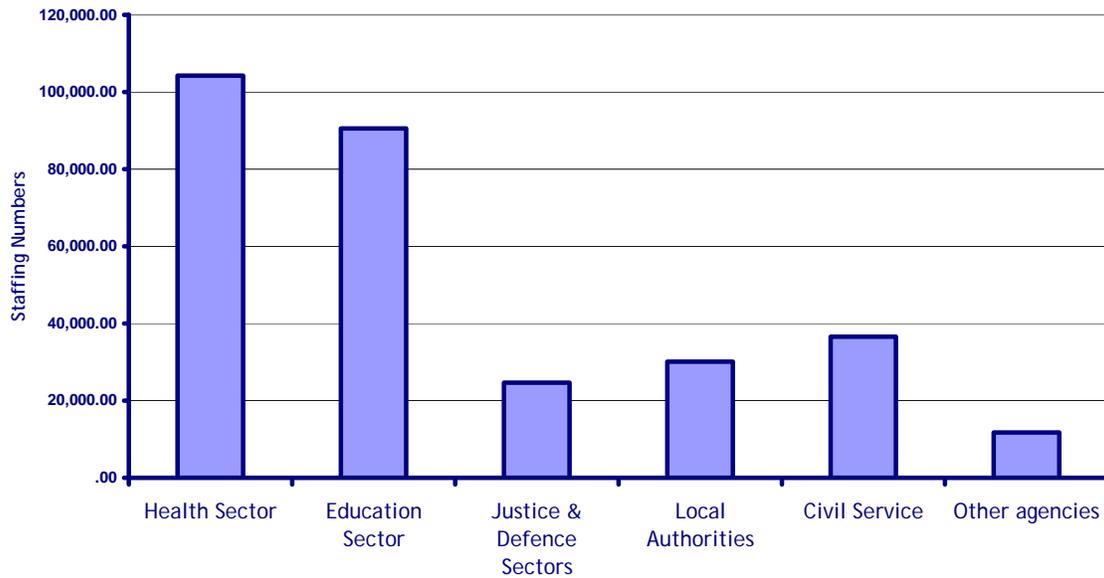


The two core components are social protection expenditure and pay. The majority of public servants are involved in the delivery of core public services. Together, the health, education, justice and defence sectors account for three quarters of the total number of public servants. The remaining quarter comprises the civil service (12%), Local Authorities¹ (10%), and other non-commercial agencies (4%). Between them, public servants deliver a wide range of services including local road maintenance; helping new businesses to get established; running libraries in our communities; payment of social and family supports; driver testing; as well as policy support for the democratic process.

Figure I.c provides further detail.

¹ The Exchequer pay bill figures above do not include pay of Local Authority staff whose pay is not directly Exchequer funded.

Figure I.c Public Service Employment by Area, 2011



These characteristics of the structural composition of Government current spending inform and constrain the range of options available for consolidation.

Progress to Date: Expenditure Reductions Since 2008 / 2009

There have already been substantial reductions in voted current expenditure since the onset of the economic downturn in 2008. A range of consolidation measures have been taken on the current expenditure side, in particular:

- The February 2009 Expenditure Adjustments, setting out savings of €3.1 billion
- April 2009 Budget, setting out expenditure savings of €1.2 billion
- Budget 2010, setting out expenditure savings of €3.1 billion
- Budget 2011, setting out expenditure savings of €2.1 billion

Table I.b provides a breakdown of current spending trends in the largest areas since 2008.

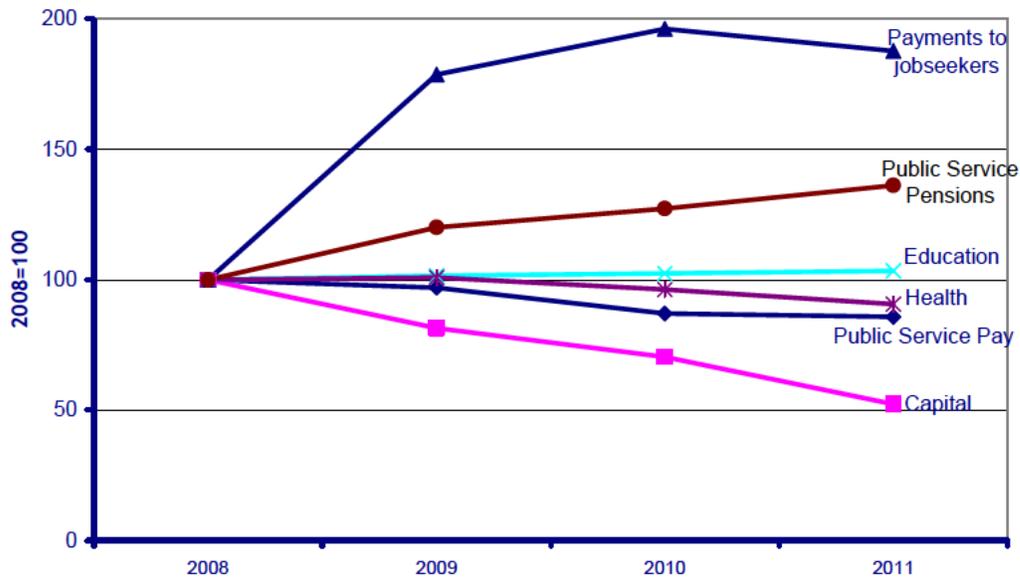
Table I.b Details of Government Current Expenditure, 2008-11				
	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>€ million</i>			
Social Protection	17,741	20,435	21,343	20,947
<i>(of which) payments to jobseekers</i>	<i>2,088</i>	<i>3,730</i>	<i>4,094</i>	<i>3,918</i>
Other expenditure	35,642	35,284	32,922	32,124
<i>(of which)</i>				
<i>Health</i>	<i>15,356</i>	<i>15,470</i>	<i>14,777</i>	<i>13,901</i>
<i>Education</i>	<i>8,465</i>	<i>8,589</i>	<i>8,667</i>	<i>8,678</i>
<i>Justice</i>	<i>2,565</i>	<i>2,514</i>	<i>2,364</i>	<i>2,400</i>
<i>Other</i>	<i>9,256</i>	<i>8,711</i>	<i>7,114</i>	<i>7,145</i>
Gross Current Expenditure	53,383	55,719	54,265	53,071

In 2011, total voted current expenditure was lower by almost 5% compared to 2009. In 2012 it will be almost 7% lower than its peak. This gross trend masks the fact that much deeper reductions were necessary in order to counter a number of very significant increases in certain areas.

- The rise of unemployment has exerted heavy pressure on the Social Protection budget. In terms of direct payments, spending on payments to Jobseekers in 2011 was over three times the 2006 level.
- This has knock-on effects in terms of health expenditure as entitlements to medical cards and other benefits have increased as a direct result.
- A necessary corollary to the reductions in public service staffing numbers has been some measure of increase in public service pension expenditure.
- Demographic pressures are manifest in a number of areas. Growth in birth rates has implications for education programme expenditure in particular.

Reductions have had to be made elsewhere to counteract these effects. Figure I.d below illustrates the trends in proportionate terms in a number of component blocks of expenditure.

Figure I.d Index of Public Expenditure Components 2008-2011

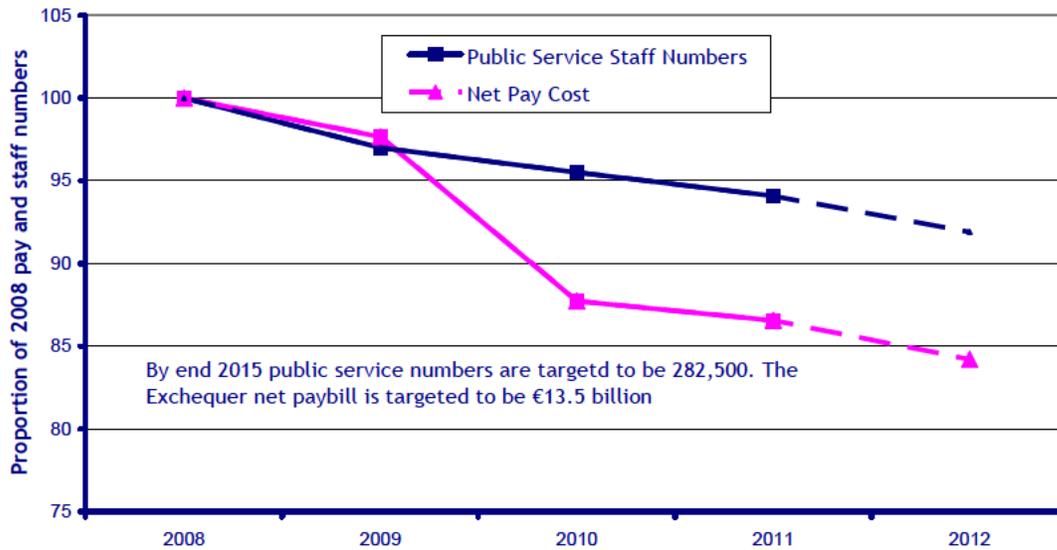


Source: Department of Public Expenditure and Reform

Taking account of the significant investment made to close our infrastructure gap, the decline in the size of the economy and the fall in tender prices, major reductions in capital expenditure have also been achieved. From a peak of over €9 billion in 2008, capital investment was €4.5 billion in 2011. In its *Infrastructure and Capital Investment Framework*, the Government has set out plans for further reductions while protecting investment in healthcare, schools and job-creating investment.

To date, reductions in staffing numbers and pay have had a vital role in consolidation. While both have fallen, the net public service pay cost has been more markedly reduced than overall staffing levels. This reflects reductions in staffing numbers and pay rates as well as the introduction of the pension-related levy on public servants. While public service staffing levels have been reduced by 6%, the net paybill has been reduced by 14%. The implementation of the provisions of the *Public Service Reform* programme will see a reduction in the net paybill of over 20% on 2008 levels.

Figure I.e Relative Changes in Public Service Pay Cost and Staffing Numbers



Source: Department of Public Expenditure and Reform

Reductions in the public service paybill and staffing numbers will continue to play a part in expenditure consolidation. Implementation of the *Public Service Reform* programme will deliver a slimmer and more cost-effective public service and allow us to ensure that front-line services are protected as far as possible.

As we move further along the path of expenditure consolidation, choices become still more difficult and trade-offs more pronounced. This demands a more sophisticated and systematic approach: short term and *ad hoc* approaches of the past will not suffice. The Government, therefore, has undertaken a *Comprehensive Review of Expenditure* (CRE) and put in train a range of other expenditure reforms.

Expenditure and Reform

The CRE process is marked out from previous spending plans and budgetary allocations in that it is not simply about cuts and numbers. While it is an unavoidable fact that public expenditure will be lower in the coming years, achieving spending reductions is not the sole focus of this Report. Afforded equal importance is the need to get priorities right, and crucially, embed expenditure policy within the reform agenda.

The Government's commitment to this last point is firm, and is most clearly evidenced by the establishment of a new Government Department to combine the 'expenditure' and 'reform' agendas together and on an equal footing.

The interaction of public expenditure and the reform agenda is essentially two-fold, relating to:

- The need to reform how we deliver essential public services to reduce unit costs
- The need for structural budgetary reforms of how we manage the economy, allocate scarce resources and evaluate performance.

These elements are discussed further below.

Public Service Reform

This Report is one of a series of budget-related policy documents published by the Government and should also be viewed in the context of the Government's *Public Service Reform Plan*. The Plan sets out a means of delivering a modern, flexible and innovative public service. The key commitments of the Plan are as follows:

- Placing customer services at the heart of everything we do;
- Maximising new and innovative service delivery channels;
- Radically reducing our costs to drive better value for money;
- Leading, organising in new ways; and
- Focusing on implementation and delivery.

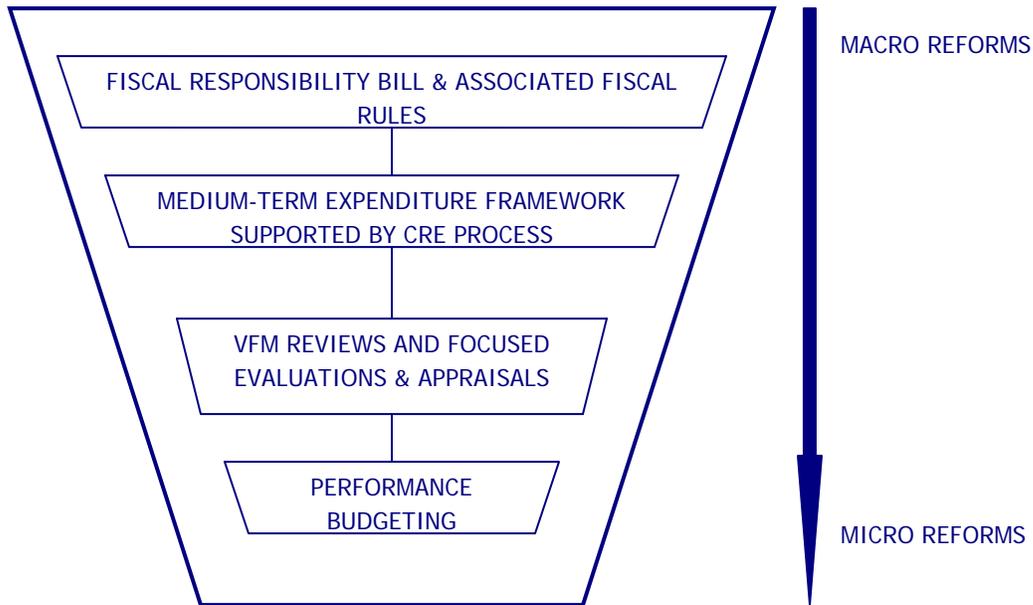
The principles that underpin the CRE complement these elements and arise from the same set of values.

Structural Budgetary Reform

The Government is in the process of implementing a wide-ranging reform of the State's budgetary architecture. These important changes will operate within a new legal context and be underpinned by new administrative arrangements. The key elements of the new architecture will be provided for in law by means of a *Fiscal Responsibility Bill* in 2012. Refocused administrative arrangements can give effect to other components such as aspects of the Medium-Term Expenditure Framework, strengthened value-for-money arrangements and the advancement of performance budgeting across the Government system.

The proposed approach is all-encompassing and will drive major changes at each step in the budgetary continuum, from the most general to the most particular decision levels as illustrated by Figure I.f.

Figure I.f Schema of Key Budgetary Reform Measures



Together, these reforms can help guard against imprudent management of scarce public finances. Further details on the Medium-Term Expenditure Framework, updated and refocused value-for-money (VFM) arrangements and the move to performance budgeting are set out in Part III of this Report.

The CRE is by no means a once-off exercise. Rather, it will become the keystone of public financial management. As set out in Part III, the Government has decided that next CRE will be undertaken from autumn 2013 to spring 2014 to inform the next phase of fiscal planning. The new budgetary architecture, with the focus upon ongoing evaluation, performance and VFM, will be key inputs to this process. Section 1.2 describes the objectives and scope of CRE 2011 and reports on its broad outcomes.

I.2 Focusing on Priorities - Objectives, Approach and Outcomes of the CRE

Overview: the Goal of the CRE Process

Meeting the pressing targets required to restore the sustainability of the public finances will require difficult choices and prioritisation across all areas. The process of reducing the total *level* of spending must be complemented with a more nuanced approach to focus on attaining the right *balance* of expenditure. Put simply, we must ensure that we spend the lower resources available in the best possible way. That is the overriding function of this Comprehensive Review of Expenditure.

At a more detailed level, the CRE process is designed to provide the Government with a complete set of decision options which can:

- Re-align spending with the priorities set out in the Government Programme;
- Meet the overall fiscal consolidation objectives, both in terms of total expenditure and staffing numbers reduction targets; and
- Explore new and innovative ways of delivering Government policy in a reformed public service.

This Section sets out some further detail on the methodology and broad outcomes of the CRE process.

Analytical Approach to the CRE

The foundation of the CRE is a move away from traditional Estimates processes of the past towards a more rigorous approach to budgetary allocations, informed by Government priorities and responsive to economic and societal demands. The primary input to the process was the compilation of an Expenditure Report by each Government Department.

The Expenditure Reports represent a line-by-line examination of the spectrum of public services designed to refocus delivery and achieve better value for money. In common with the suite of budgetary reforms detailed in Part III of this report, emphasis is on service delivery and final impacts, as opposed to simple financial inputs. Government Departments were provided with a standard method for assessing spending areas, using three Value for Money 'Tests'. The box below provides further detail.

Conducting the CRE: Value for Money 'Tests' and Other Criteria

A standard approach was developed as an aid to prioritisation. This involved assessing each programme against three VfM Tests in order to ensure maximum impact of spending:

- *VfM Test 1 Rationale, Objectives, Relevance*
What are the objectives of the programme? Is there a valid rationale for undertaking the programme? Is the policy consistent with the Government Programme?
- *VfM Test 2 Effectiveness*
Is the programme achieving its objectives?
- *VfM Test 3 Efficiency*
Is the maximum being delivered with the resources invested? How can greater efficiency be achieved in the context of a lower level of expenditure?

Within this framework, Government Departments also considered specific issues which could realise savings and maximise impact. These included rationalisation of grant and subsidy schemes; simplification of systems; rationalisation, merger or abolition of agencies; potential for shared services or external service delivery; and more widespread use of eGovernment.

While the Departmental Expenditure Reports are the primary component of the CRE process, it was also necessary to complement these inputs with other analytical work. Increasingly, important areas of Government activity span the remit of more than one Department of State. This is true of both specific policy areas and in relation to the delivery of critical public services. To take account of this reality, the CRE process also built on a small number of important 'thematic evaluations' on the following topics:

- Labour Market Activation and Training
- Social Housing Supports
- Publicly Funded Local Transport Schemes
- Rationalising Multiple Sources of Funding to the Not-for-Profit Sector
- Enterprise Supports
- 'Legacy' Expenditure Programmes and Proposed Policy Reforms.

In planning and implementing the CRE process, regard was had to international practice in this area. Consistent with the Government Programme, the CRE was specifically informed by the Canadian model of expenditure review and built on this approach with a number of additional features. The box below offers some further details on international approaches to expenditure review.

Conducting the CRE: International experience

Comprehensive spending reviews are an increasingly common tool of budgetary management worldwide. In the planning and development of the CRE process, insight was gained from a number of international perspectives including the Netherlands, the UK and Canada.

During the 1990s, the Canadian Government faced a large budget deficit. The 'Programme Review' process was put in place to help address this. At its core, the process sought to evaluate the relative importance of Government programmes, rather than pursue across-the-board cuts. The assessments were based around whether a programme continued to serve a public interest; whether there was a need for government intervention in the sector; how programme efficiency could be improved; and whether the resulting package of programmes was affordable. The results of the exercise were clear: there was a substantial reorientation of programme expenditure, and over a 6 year period, public service numbers were reduced by 19%.

The CRE took this type of approach as a starting point and added further policy approaches aimed at generating policy choices to inform Government thinking.

In more recent years, Canada has moved on from Program Review to 'Strategic Reviews', which involve an ongoing process of re-evaluation and re-prioritisation of spending programmes. The parallels of this development for the Irish expenditure reform agenda are apparent from Part III of this *Comprehensive Expenditure Report*, which sets out proposals for building upon the experience of the 2011 CRE and maintaining the momentum for programme evaluation and review.

The Government was committed to carrying out the CRE process in an open and transparent manner. Background material including Departmental Expenditure Reports and Thematic Evaluations, is being made available on the website of the Department of Public Expenditure and Reform. As part of the process, the Government also sought proposals from the general public for attainment of further savings, reforms and efficiencies in public expenditure and in the design of delivery of public services. This took the form of a public consultation and was a further useful input to the process.

Oversight and Deliberation

Under the CRE process, Ministers and their Departments had primary responsibility for evaluating every budgetary programme for which they are responsible, including programmes delivered by Government Agencies. Each Department put in place its own internal administrative arrangements to ensure delivery of its detailed report within a challenging timeframe.

Expenditure Reports were considered in the first instance by a high-level Steering Group, chaired by the Secretary General of the Department of Public Expenditure and Reform. Following feedback from the Steering Committee, reports were finalised.

Taken together, the Departmental Expenditure Reports, Thematic Evaluations and other important proposals on public service reform represented a comprehensive set of options for consolidation and reform available to the Government. Following careful deliberation, the Government arrived at the decisions outlined in this Report. While none of the choices are easy ones, the Government considers that the set of priorities outlined in this Report are the right ones under the circumstances.

Broad Outcomes: Fairness, Growth and Reform

This Report is the last in a series of expenditure-related releases in the context of Budget 2012 and the broader reform agenda. Together, these policy statements reflect a core set of principles inherent in policy design. The key themes that underpin this package and medium-term expenditure policy are:

Protecting the Vulnerable

Protecting society's most vulnerable is a central commitment. The 2012 expenditure package maintains core social welfare payment rates including Jobseeker's Benefit and Jobseeker's Allowance and makes no changes to carer's entitlements or disability allowances. There are no changes to State pension rates, ensuring that the elderly are shielded from reductions. There are no reductions to the allocation for Special Needs Assistants and so the comprehensive programme currently in place can be maintained.

Fostering Growth and Employment

There will be unprecedented investment through the Department of Jobs, Enterprise and Innovation to drive the growth and jobs agenda. A range of structural reforms underway are bolstering Ireland's competitiveness. Budget 2012 makes further inroads to dismantling barriers to employment and this important reform agenda will be completed over the medium-term, complementing progress on re-orienting labour market activation and training policy. Government support for microfinance and credit guarantee will help promote small business development and in January 2012 the Government will publish its first annual Action Plan for Jobs, which will contain a series of measures from across all areas of Government.

Reforming our Public Services

The Government Programme sets out an ambitious agenda for reform of service delivery and for targeting resources on priority areas. The measures announced today maintain this focus. In the health sector for example, despite the very demanding savings targets, additional funding is being made available for important reforms to develop community mental health teams and services and to provide free access to primary care under the Long Term Illness Scheme. This agenda will be progressed over the medium-term. The establishment of the Department of

Children and Youth Affairs is another important step in health service reform which underscores the Government's commitment to give a new and stronger focus to child and family welfare.

More generally, the entire system of budgeting is now being reformed to allow for medium-term planning and prioritisation and to engage the Oireachtas more fully in the resource allocation process. Across all areas of the public service there will be an enhanced focus on efficiency and delivery. Part III of this Report details the critical reforms necessary to deliver on this agenda.

Building for the Future

The Government is determined to safeguard children from the brunt of the adjustment. The standard rate of child benefit has been maintained in the 2012 package. As previously signalled, investment in schools is a key priority and ongoing education funding will cater for the very significant increase in pupil numbers over the medium-term. The Government will also press ahead with the new National Children's Hospital and additional funding is also being made available to ensure that the free pre-school year in early childhood care and education can be expanded to cater for demographic pressures.

PART II of this Report sets out how these principles have informed the detailed expenditure allocations at aggregate and Departmental level.