An Roinn Caiteachais
Phoiblí agus Athchóirithe
Department of Public
Expenditure and Reform

Mid-Year Expenditure Report
July 2022

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Foreword

The Government's aim is to deliver sustainable public expenditure. Firstly, this requires ensuring the overall level of spending is affordable in the medium term. Secondly, it means ensuring that spending delivers sustainable improvements in public services and infrastructure.

This year's budget preparations will take place amidst a backdrop of considerable economic and social challenge. While the economic recovery from the pandemic has been rapid, paying particular dividends in the labour market, it has also brought about supply constraints putting upward pressure on prices. Exacerbated by the war in Ukraine, this has placed considerable pressure on households in terms of the cost of living, particularly in relation to energy prices. Another key priority which has emerged over the course of 2022 is the provision of humanitarian support to people fleeing the war in Ukraine.

To ensure the overall level of spending is affordable, the recently published Summer Economic Statement set out the key fiscal and expenditure parameters for Budget 2023. An overall budgetary package of €6.7 billion will be made available including approximately €5.7 billion in additional expenditure. This package will see core expenditure increase by 6 per cent in 2022 and 6.5 per cent in 2023. We are seeking to balance the need to protect the real value of public services without adding further to inflationary pressures. Government cannot absorb the full impact of the current inflationary shock as to do so would risk an inflationary spiral. However, we can and we will take concrete action to support households, protect public services and invest in our critical public infrastructure.

This report details the different ways in which non-core expenditure or temporary expenditure is being utilised to support Departments as they deal with the continued response to the pandemic, implement cost of living measures and provide humanitarian supports to people arriving from Ukraine. This approach has afforded Government the flexibility to respond while also protecting core expenditure on public services and infrastructure investment. This approach will continue in 2023 with Government providing €4.5 billion in non-core expenditure for temporary measures. This expenditure will provide humanitarian supports for refugees arriving from Ukraine and more limited Covid-19 provision in respect of potential continued requirements.

To ensure a focus on sustainable improvements in public services and investment, my Department is committed to building on the budgetary reforms already in place to ensure spending delivers efficiency, effectiveness and value for money. This report considers a number of different ways we can analyse the totality of Government expenditure through different lenses to understand how it is benefitting our citizens. Initiatives such as the Well-being framework will enable us to track our progress over time as we develop a shared understanding of what makes for better lives within communities and society more generally. The publication of Spending Review papers, as part of a whole-of-year budgeting process, supports discussions about how we can best prioritise our resources.

Overall, Government recognises the impact of elevated inflation levels on people and businesses. We have responded by introducing a range of measures, totaling €1.3 billion, over the first half of 2022. We are committed to continuing this response by making a short-term upward adjustment to the parameters for Budget 2023. This will allow flexibility to introduce further measures to mitigate the cost of living while also supporting continued investment in key public services. While the resources that are being made available are significant and will have an impact, prioritisation will be required given the significant level of competing demands on public expenditure. This process is underpinned by the ongoing work to develop our budgetary toolkit and evidence base across the totality of the expenditure ceiling of c. €90 billion for 2023.

Michael McGrath T.D.
Minister for Public Expenditure and Reform

Chapter 1- 2022 Expenditure Developments

1.1 Introduction

Budget 2022 was framed in the context of the continued rollout of the biggest vaccine programme in the history of State, restoring our economy and society, and implementation of a Medium Term Expenditure Strategy to deliver sustainability for the public finances including public expenditure. This was to be complemented by the provision of non-core expenditure to support the continued response to the economic and social consequences of the pandemic.

While the reopening of society has been a success, and economic recovery has been stronger than first expected, with more people now in work than ever before, 2022 has been characterised by a range of new challenging developments for the management of public expenditure. These challenges include (1) Omicron wave of Covid-19 in winter 2021/2022, (2) elevated levels of inflation, particularly energy costs due to supply chain issues and the war in Ukraine and (3) humanitarian response to support Ukrainian people fleeing the war.

The sections below set out details of the expenditure position for the first half of 2022 including the adjustments required to respond to the challenges outlined above.

1.2 Expenditure Position - End June 2022

Budget 2022 set out an expenditure ceiling of €87.6 billion for 2022. This comprised €80.1 billion in core expenditure with €7½ billion in temporary funding to support the Government's response to the challenges posed by Covid-19 and Brexit. The Revised Estimates for Public Services (REV) allocated approximately €83 billion of this total amount with a further €4½ billion unallocated.

At the end of June, gross voted expenditure totaled €38.5 billion. This was close to the amount profiled, with an overall underspend against profile of just €16 million - effectively a 0 per cent variance. However, differences emerge between current and capital expenditure trends. Current expenditure was €568m or 1.6 per cent over profile at end June. This was offset by €584m or 17.7 per cent underspend on capital.

Table 1.1: End June Gross Voted Expenditure – Outturn against Profile
€ Millions and Percentage

MINISTERIAL VOTE GROUP	Profile* €m	Outturn €m	Variance €m	Variance %
AGRICULTURE, FOOD AND THE MARINE	653	664	10	1.6%
Current	511	518	7	1.4%
Capital	142	145	3	2.4%
CHILDREN, EQUALITY, DISABILITY,	1,054	1,117	63	6.0%
Current	1,036	1,107	71	6.9%
Capital	18	10	-8	-46.0%
DEFENCE	508	481	-27	-5.3%
Current	463	445	-18	-4.0%
Capital	44	36	-8	-19.0%
EDUCATION	4,606	4,725	119	2.6%
Current	4,289	4,352	62	1.5%
Capital	316	373	56	17.8%
ENTERPRISE, TRADE AND EMPLOYMENT	321	273	-48	-15.0%
Current	165	163	-2	-1.3%
Capital	156	110	-46	-29.5%
ENVIRONMENT, CLIMATE AND	651	570	-82	-12.5%
Current	73	78	5	6.9%
Capital	579	492	-87	-15.0%
FINANCE	268	251	-17	-6.2%
Current	258	243	-14	-5.6%
Capital	10	8	-2	-22.7%
FOREIGN AFFAIRS	527	521	-7	-1.2%
Current	516	518	2	0.5%
Capital	12	3	-9	-76.6%
FURTHER AND HIGHER EDUCATION,	1,603	1,573	-30	-1.9%
Current	1,443	1,450	7	0.5%
Capital	160	123	-37	-23.2%
HEALTH	10,671	10,894	223	2.1%
Current	10,338	10,622	284	2.7%
Capital	333	273	-61	-18.2%
HOUSING, LOCAL GOVERNMENT AND	1,838	1,651	-187	-10.2%
Current	1,132	1,098	-34	-3.0%
Capital	707	553	-153	-21.7%
JUSTICE	1,547	1,492	-55	-3.5%
Current	1,426	1,404	-22	-1.6%
Capital	121	89	-32	-26.8%
PUBLIC EXPENDITURE AND REFORM	646	661	15	2.4%
Current	587	604	17	3.0%
Capital	59	57	-2	-3.3%
RURAL AND COMMUNITY DEVELOPMENT	157	126	-31	-19.8%
Current	106	97	-9	-8.6%
Capital	51	29	-22	-43.6%
SOCIAL PROTECTION	11,796	12,083	287	2.4%
Current	11,789	12,080	292	2.5%
Capital	*8*	2	*-5*	-67.8%
TAOISEACH'S	152	133	-20	-12.9%
Current	152	133	-20	-12.9%
Capital	-	-	-	-
TOURISM, CULTURE, ARTS, GAELTACHT,	518	471	-47	-9.1%
Current	470	443	-27	-5.8%
Capital	48	28	-20	-41.0%
TRANSPORT	1,017	833	-184	-18.1%
Current	481	448	-33	-6.8%
Capital	536	385	-151	-28.2%
Total Gross Cumulative Voted Spending	**38,533**	**38,517**	**-16**	**0.0%**
Current	**35,234**	**35,802**	**568**	**1.6%**
Capital	**3,300**	**2,715**	**-584**	**-17.7%**

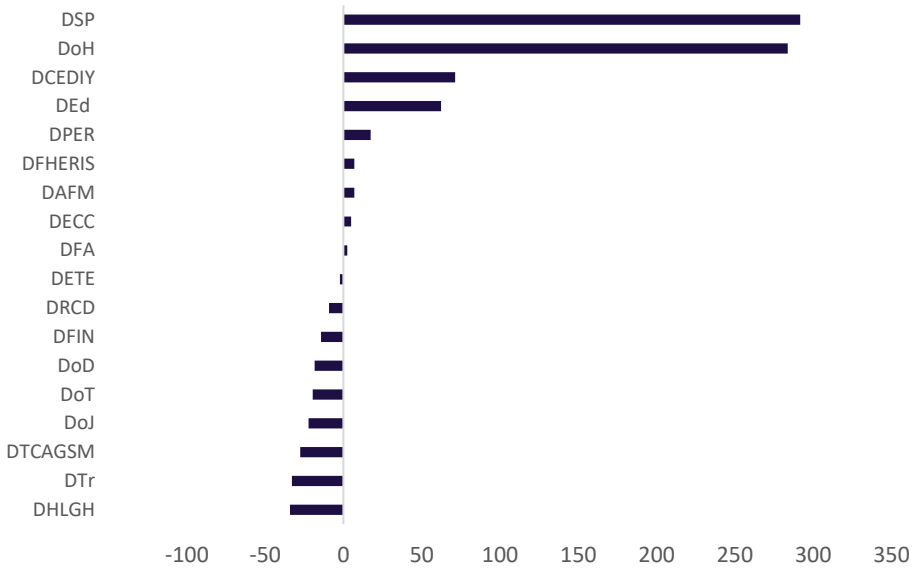
*Source: Department of Public Expenditure and ReformNotes: Rounding effects totals, *Profiles reflect the Revised Estimates 2022.*

In terms of year-on-year performance, overall gross voted expenditure is €1.4 billion or 3.5 per cent lower than the same period in 2021. Once again the pattern differs between current and capital expenditure. Current expenditure is €1,626m or 4.3 per cent below 2021 levels. In contrast capital expenditure is €228m or 9 per cent higher than in 2021.

1.2.1 CURRENT EXPENDITURE

The overspend on profile at end June can be attributed to the response of a number of Departments to the unforeseen challenges. The Departments of Health, Social Protection, Children, Equality, Disability, Integration and Youth, and Education have reported significant overspending (as set out in Figure 1.1). This is due to provision of additional supports to respond to Omicron wave of Covid-19 measures, the implementation of cost of living measures and the provision of humanitarian supports required for arrivals to Ireland from Ukraine.

Figure 1.1: Variance in end-June Current Expenditure against Profile
€ Million



Source: Department of Public Expenditure and Reform

The expenditure performance in 2022 compared to 2021 is driven by two opposing trends. Social Protection expenditure, the largest sector, saw expenditure levels decrease considerably in 2022 due to the reduced requirement for income and employment supports. This was driven by the reduced levels of pandemic related restrictions on economic and social activity. However, the opposite trend is observed for other areas of current expenditure. There are significant year-on-year current spending increases in the Departments of Health (€1.3bn), Education (€0.2bn) and Children (€0.2bn), with larger percentage increases in a number of other Vote Groups.

Table 1.2: Main Current Expenditure Variations from Profile

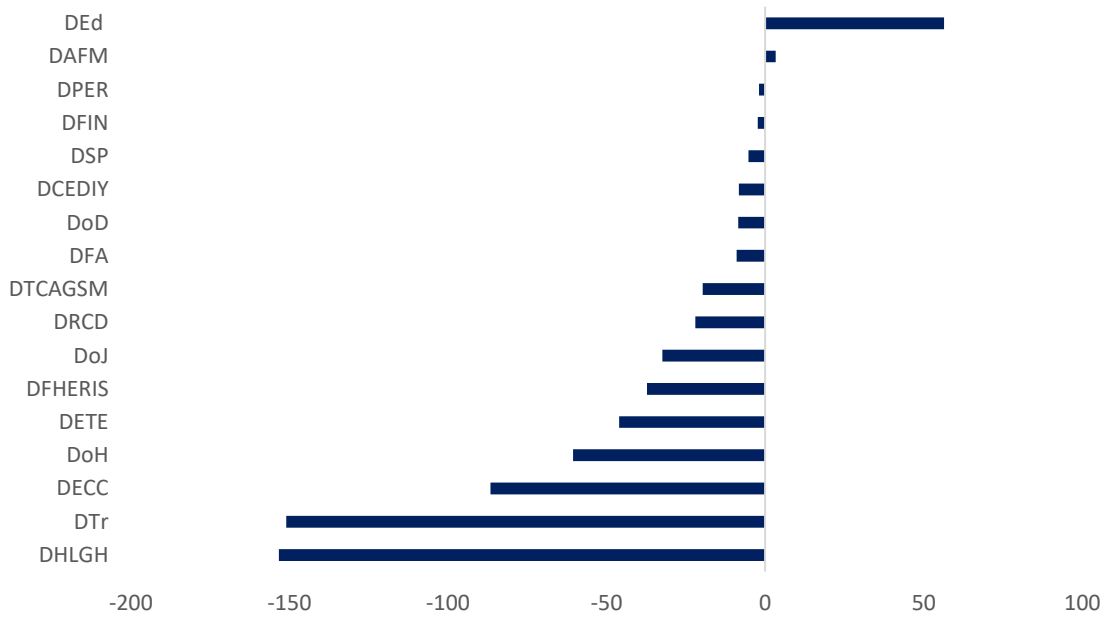
	Performance Against Profile	Year-on-Year Performance
Social Protection	€292 million or 2.5% above profile Driven by extension of pandemic related income and employment supports in first half of year as a response to the Omicron wave of virus.	€4 billion or 25% lower This is a pandemic related effect with very high levels of supports in place in first half of 2021 compared to those required in 2022.
Health	€0.3 billion or 2.7% above profile Largely due to measures implemented as part of the Covid-19 action response due to the Omicron surge in the first quarter of the year.	€1.25 billion or 13.3% higher This mainly reflects higher Covid-19 related expenditure in the initial part of this year compared to 2021, lower cash balances at end 2021 compared to the prior year, and additional core expenditure year to date.
Education	€62 million or 1.5% above profile Mostly due to increased costs of substitutions and Covid-19 support payments to schools	€238 million or 5.8% higher Along with increased spending, the year-on-year position is impacted by school closures due to Covid-19 public health restrictions in early 2021
Children, Equality, Disability, Integration and Youth	€71 million or 6.9% above profile Mostly reflects expenditure associated with humanitarian response for Ukrainian refugees including accommodation.	€230 million or 26.3% higher This is mainly due to increased numbers of refugees from Ukraine and elsewhere compared to 2021, along with increased spend in Tusla and on childcare schemes.

Source: Department of Public Expenditure and Reform

1.2.2 CAPITAL EXPENDITURE

The vast majority of Departments are reporting capital underspends, in particular the two largest capital spending sectors of Housing and Transport accounting for over half of total budget (Figure 1.2). Capital expenditure, by its nature, tends to be lumpy with drawdown of expenditure occurring to a greater extent in the fourth quarter of the year. This is reflected in the capital profiles from Departments, where just under 29 per cent of the allocated capital was profiled to be spent in the first half of the year, while some 48 per cent is profiled to be spent in the final quarter including 25 per cent profiled in December. 2022 has seen a significant level of price inflation to construction materials; supply chain disruption and inflation in the prices of fuel and energy. These pressures have all contributed to delays in the construction of projects.

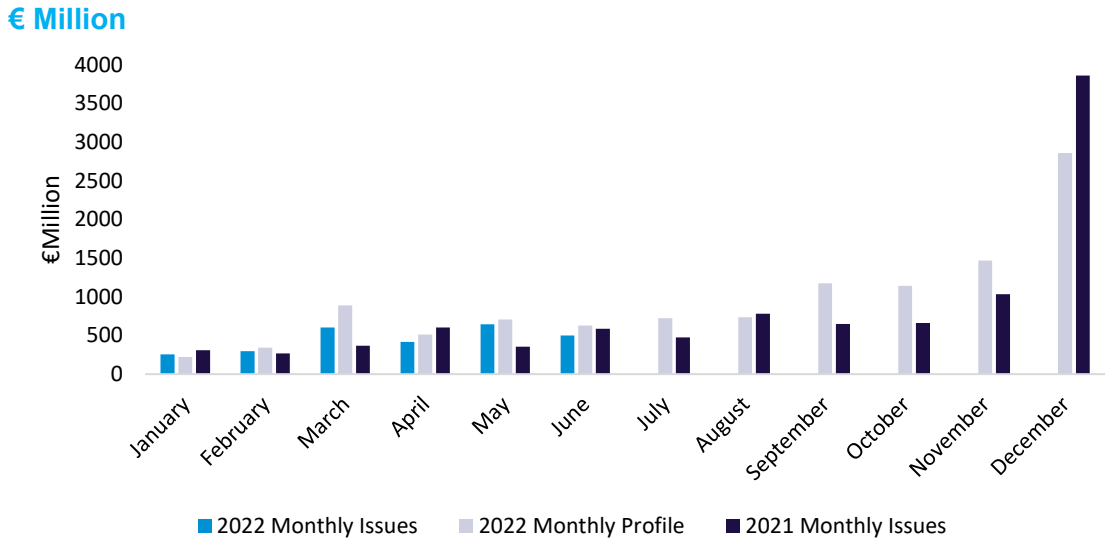
Figure 1.2: Variance in end-June Capital Expenditure against Profile
€ Million



Source: Department of Public Expenditure and Reform

In year-on-year terms expenditure levels to end June, excluding supplementary estimates, are at a similar level to the same period in 2021. Increased expenditure in the second half of the year will see a ramp up in investment in line with the NDP (Figure 1.3).

Figure 1.3: Capital Expenditure Issues 2022, against 2022 Profile and Previous Year



Source: Department of Public Expenditure and Reform
Notes: As this reflects funds issued from the Exchequer, capital carryover of €0.8 billion is included in December 2021 issues.

Table 1.3 outlines the main variances on capital expenditure in the first half of 2022.

In the interest of safeguarding the delivery of the National Development Plan (NDP) and key projects underway, a new Construction Inflation/Supply Chain Delay Co-operation Framework was introduced in May 2022 for those parties engaged under a public works contract. The Framework facilitates the parties to engage with one another on an ex gratia basis for the purpose of addressing the impacts of this most recent onset of exceptional inflation in construction materials and energy, and supply chain disruption. The Framework sets down the approaches and the parameters within which the parties can operate to determine the additional costs attributable to inflation in a manner that is transparent and to share that financial burden proportionately. The use of the Framework is voluntary, but participation by the parties is strongly encouraged. It represents a pragmatic and proportionate response to the current challenges caused by inflation that are not within either party's control.

Table 1.3: Main Capital Expenditure Variations from Profile

	Performance Against Profile	Year-on-Year Performance
Transport	€151 million or 28.2% below profile Predominantly due to underspends in public transport investment and roads programmes as a result of delays and timing of payments in some projects.	€149 million or 27.9% lower The reduced level of expenditure in 2022 compared to 2021 for the year to date is due to a slowdown in the Roads programme. This is largely due to timing issues and the ongoing economic disruption in the construction sector.
Housing	€153 million or 21.7% behind profile Mainly reflects lower than anticipated expenditure on the Capital Advance Leasing Facility subhead with lower number of claims received from Local Authorities than was expected. Expenditure on the Local Authority Housing subhead is also behind profile due to wider challenges in the construction sector including supply chain disruption.	€32 million or 5.4 % lower Mainly reflects lower than anticipated spend on Local Authority Housing due to ongoing economic issues impacting delivery.
Environment, Climate and Communications	€87 million or 15.0% below profile Mainly reflects timing issues including claims from agencies, progression of research programmes and supply chain issues for retrofit programmes	€414 million or 529% higher Mostly reflecting the introduction of the Electricity Credit for domestic account holders, which was credited to accounts earlier this year as part of measures to mitigate cost of living increases.

Source: Department of Public Expenditure and Reform

1.3 Summary

Overall gross voted expenditure of €38.5 billion at end June was largely on profile. As shown in Table 1.1 however, there is a current expenditure overspend and capital expenditure underspend against profile. There are also variations in spending levels between Vote Groups.

Current spending has been impacted by the need to provide additional supports for non-core expenditure areas, as outlined in the next chapter, which have seen demand above that expected when the Revised Estimates were prepared last year. Capital spending is behind profile, however the weighting of planned spending to the end of the year means that it is not yet clear what level of underspend, if any, there might be overall at end 2022.

Year-on-year spending is lower than for the same period of 2021, however this comparison is impacted by the high level of spending on Covid-19 related supports in the early months of last year.

Chapter 2 – Non-Core Expenditure

2.1 Introduction

Non-Core expenditure provides funding outside of the expenditure base to respond to key challenges facing our economy and society. It provides funding for temporary or one-off supports which do not become part of the core expenditure base. This facilitates responsive fiscal policy which can provide supports to key emerging issues such as changes in the Covid-19 virus and related challenges for business, people and our public services, the adverse impacts of the United Kingdom leaving the EU, the exceptional increase in cost of living throughout 2022 and the impact of the war in Ukraine.

Budget 2022 set out non-core expenditure of €7.5 billion. At the time this related to allocations for Covid supports, a €4 billion contingency for Covid supports and the Brexit Adjustment Reserve. Throughout 2022, due to high vaccine uptake, the majority of supports put in place for Covid have been wound down. This means that the full contingency amount is not expected to be required for Covid supports and has allowed the Government to take a responsive approach to the provision of cost-of-living supports, including the c. €500 million package of support measures put in place in February 2022. The contingency will also be required to provide funding for the provision of humanitarian supports for refugees arriving in Ireland from Ukraine.

Accounting for the supports introduced to date, the expected requirements in terms of Covid and humanitarian supports for Ukrainian refugees in the second half of the year and allocation of funding to the Department of Environment, Climate and Communications through supplementary estimates, it is expected that a significant portion of the contingency is now committed. Allocations from the reserve will be provided at a later date in 2022 when a better picture of expenditure and potential offsetting savings within Departments is known.

2.2 Covid-19 Expenditure in 2022

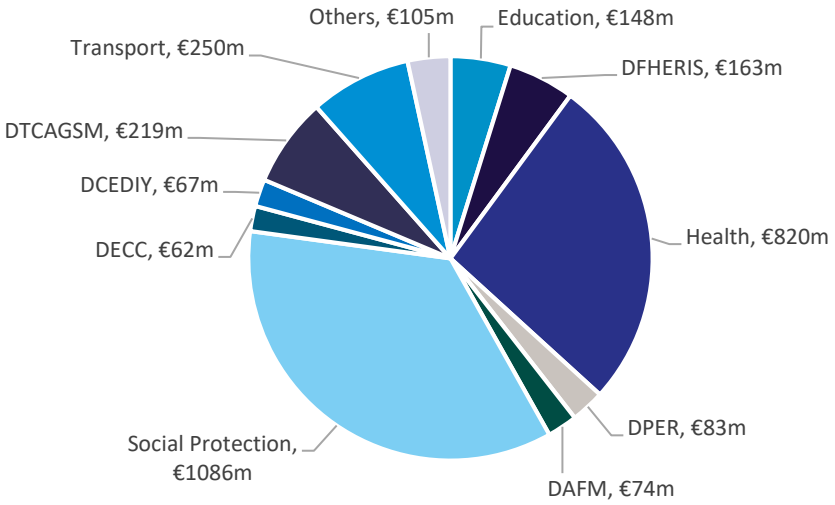
Across the period since the onset of the Covid-19 pandemic, Government has provided significant supports to enable our economy, public services and society to deal with the impacts of Covid-19. Over 2020-2022, up to €37 billion in funding has been made available for direct expenditure measures to support incomes and employment; businesses and communities; and our health and other key public services.

Budget 2022 set out up to €7 billon in available funding to maintain to this support during 2022, inclusive of funding under the National Recovery and Resilience Plan (NRRP). This comprised both allocations to Departments to continue supports for vulnerable sectors and unallocated funding held in reserve, to be assigned during 2022 as required.

Following the REV in December 2022, €3.1 billion of this funding was allocated at Departmental level while €3.9 billion remained held in reserve.

The Omicron wave of the virus resulted in the extension of a number of supports beyond that budgeted for in Estimates 2022 in October 2021. These included higher demand for key social protection schemes, such as the Pandemic Unemployment Payment, Employment Wage Subsidy Scheme and Covid-19 Enhanced Illness Benefit; pressures due to Covid related spending in the Department of Health and the extension of the targeted Commercial Rates Waiver for Q1.

Figure 2.1: Allocations to Departments for Covid-19 Response Measures
€ Millions



Source: Department of Public Expenditure and Reform
Notes: Reflects allocations in Estimates voted on by the Dáil and includes NRRP funding. Additional allocations will be made later in the year where required, including for meeting the costs of the Q1 Commercial Rates Waiver and other measures in Health, Social Protection and Education as a result of the Omicron wave.

2.3 Brexit Adjustment Reserve

Ireland has been allocated over a billion euro in funding under the European Union's Brexit Adjustment Reserve (BAR), intended to counter the unforeseen and adverse consequences of the UK's withdrawal from the EU in the Member States, regions and sectors worst affected. Budget 2022 announced that €0.5 billion of the overall BAR allocation would be made available as a first tranche of funding, with the remainder available in 2023.

Initial funding of €0.1 billion was provided in the REV to a number of Departments to allow initial work to get underway on projects under the BAR. The Department of Public Expenditure & Reform is the Designated Body for the Reserve in Ireland and is considering further proposals for projects to be funded by the BAR that would fall under

the indicative areas which include: enterprise supports; measures to support fisheries and coastal communities; targeted supports for the agri-food sector; reskilling and retraining; and checks and controls at ports and airports. In this regard, work is underway to support the development of additional inspection facilities at Rosslare Europort and the Minister for Agriculture, Food and the Marine is progressing the implementation of a range of schemes to address the financial impacts of Brexit across the agri-food sector. This includes schemes for the fisheries sector involving Brexit Adjustment Reserve support of up to € 143 million. State Aid approval is anticipated for further schemes.

2.4 Cost of Living Measures

Inflation levels have risen considerably in 2022 driven by a significant rise in energy prices and a mismatch between supply and demand in the economy. This dynamic has been further exacerbated by the war in Ukraine. These price increases, particularly in energy costs, has posed a challenge to many households and businesses. Budget 2022 package of €1.7 billion contained a number of measures designed to help with cost of living pressures.

Following further upward pressure on prices, the Government responded with the introduction of a further range of measures. These are detailed in Table 2.1.

Together, these measures provide substantial assistance towards mitigating the impact of rising prices. They have focused on temporary support measures that can provide assistance quickly, to households and sectors that may be struggling, while being mindful of the need to avoid actions that could result in increased inflation. Box 1 provides an initial assessment and illustrative examples of the impact of these measures in providing support to households on a universal and targeted basis. This analysis builds on the distributional analysis undertaken as part of Budget 2022 and will be further considered ahead of Budget 2023.

Table 2.1: Cost of Living Measures Funding 2022

	Category	Scheme	€, Millions
Budget 2022 Measures	Income Supports	Working age payments €5 increase	196
		Pensions increase €5	179
		Living Alone Allowance	36
		Carers Allowance	10
	Family/Child	National Childcare Universal Subsidy	9
		Parent's Benefit	9
		Working Family Payment threshold increase	12
		Back to School Clothing and Footwear Allowance	4
		Youth Travel Card	25
		Qualified Child Increase	39
		Hot School Meals Pilot	3
	Health Costs	Health Affordability Package: • Drug Payment Scheme threshold lowered to €100 • Free GP care for children aged 6 & 7; • Measures to reduce hospital charges for under 18s; • Expanding dental access to medical card patients;	45
		Women's health package	9
		Treatment Benefit	2
		High Tech Drugs	30
	Energy	Fuel Allowance increased by €5	56
		Fuel Allowance other	3
		Retrofit Social Housing	60
		Energy Efficiency Upgrade (at risk of energy poverty)	109
	Housing	HAP	27
		Affordability: direct delivery of over 4,000 affordable homes	174
		Social Housing Current Expenditure Programme (SHCEP)	95
	Further/Higher Education	Student Support Scheme	35
		Abolish Post Leaving Certificate Fee	2
	Taxation	Income Tax Package	520
	Subtotal Budget 2022		***1,689***
Post-Budget Measures	Transport	Haulier Payment - €100 per HGV per week	18
		Public Transport 20% Reduction	54
	Taxation	Excise Duty Reduction	417
		VAT reduction on electricity and gas	46
		Extension of 9% VAT rate for the hospitality sector	250
	Energy	PSO Levy - Cost neutral	-
		€200 Electricity Credit	378
		Fuel Allowance: Lump Sum Payments totalling €225	86
	Health Costs	Further Drugs Payment Scheme Reduction	17
	Income Supports	Working family payment € 10threshold change brought forward	4
	Family/Child	School transport February cap reduction	3
		School Transport Fee Waiver	18
		Hot School Meals Extension	10
		Additional Back to School Clothing and Footwear Allowance	26
	Subtotal Post- Budget Measures		***1,326***
	Total Measures		**3,015**

Source: Department of Public Expenditure and Reform
Notes: Rounding effects totals.

Box 1: The Impact of Cost of Living Measures – Illustrative Case Study Examples of Household Supports

As outlined in table 2.1 some €1.2 billion of expenditure supports, in addition to the €0.5 billion tax package, were introduced as part of Budget 2022, which will have somewhat mitigated the impact of rising prices throughout the year. In addition, over €0.5 billion of expenditure supports have been introduced over the course of 2022.

While Government cannot fully insulate against the impacts of inflation, it has provided concrete measures to provide support to households and individuals. These measures have aimed to provide support:

- Which targets the core driver of price increases, i.e. energy price increases,
- To those on lower incomes who are most vulnerable to price increases, and
- Capable of timely implementation.

The supports have had the dual objectives of being both universal and targeted, providing support to all but prioritising those who needed it most. While some particular individuals/households will have received a considerable level of support (as shown in table 2.2) due to benefiting from a number of state supports others will have benefited less from State supports but may also have gained from wage increases which are not factored into these examples. These illustrative case studies are a complementary type of analysis to the distributional analysis published alongside the Budget.

For illustrative purposes Table 2.2 demonstrates the potential impact of Social Protection Measures introduced as part of Budget 2022 and the 2022 Cost of Living measures for five hypothetical household types. The measures included in the case study include:

- €5 increase to working and pension age rates,
- €3 increase to the Living Alone Allowance,
- €5 increase to the Fuel Allowance,
- Increases for qualified children,
- €10 increase to the Back to School Clothing and Footwear Allowance (BTSCFA),
- €10 increase to the thresholds for Working Family Payment.
- €125 and €100 Fuel Allowance lump sum payments,
- €200 Energy Credit,
- €100 additional payment for the BTSCFA.

The case studies in Table 2.2 also includes the impact of direct tax changes announced as part of Budget 2022 including the €50 increases to tax credits, the €1,500 increase in the standard rate band and the increase in the ceiling of the second Universal Social Charge rate band. They do not include the impact of indirect tax measures (e.g. Excise Duty) or other public service measures (e.g. 20 per cent Public Transport Reduction,

drugs payment scheme measures, school transport) dependent on consumption. These measures would provide additional support, for example a family with more than one child in post primary education would benefit by an additional €650 from the temporary removal of school transport fares. Future analysis will consider the impact of these measures.

Table 2.2: Illustrative Examples of the Potential Impact on Social Protection Beneficiaries of Budget 2022 Measures and the 2022 Cost of Living Measures

	Single Pensioner Household[2]	Dual Pensioner Household[2]	Lone Parent (non-working) Household[3]	Lone parent (working) household [4]	Dual Parent (non-working) Household[5]
Key Benefitting Measures	-State Pension Increase -Living Alone Allowance Increase -Fuel Allowance rate increase -Fuel Allowance lump sums -Energy Credit	-State Pension Increase -Fuel Allowance rate increase -Fuel Allowance lump sums -Energy Credit	-One Parent Family Payment Rate Increase -BTSCFA rate increase -BTSCFA rate bonus -Fuel Allowance rate increase -Fuel Allowance lump sums -Energy Credit	-One Parent Family Payment Rate Increase -Working Family Payment Threshold Increase -BTSCFA rate increase -BTSCFA rate bonus -Fuel Allowance rate increase -Fuel Allowance lump sums -Energy Credit -Tax Credit increase.	-Jobseeker Benefit Rate Increase -BTSCFA rate increase -BTSCFA rate bonus -Energy Credit
Annual Income(pre-Budget 2022)	€15,100	€27,030	€19,440	€34,960	€25,660
Annual Income (2022)[1]	€16,080	€28,110	€20,750	€36,270	€26,770
Change (€)	+€980	+€1,080	+€1,310	+€1,310	+€1,110
Change (%)	c. 6.5%	c. 4%	c. 6.7%	c. 3.7%	c. 4.3%

Notes: 1. Annual Income 2022 reflects Budget 2022 Social Protection and Tax measures and 2022 Cost of Living Supports, Incomes are post tax, PRSI and USC. Incomes are rounded to the nearest €10. 2. Pensioners on top rate of State Pension Contributory with no other income sources. 3. Lone parent household with two children, one over 12 and one under 12. 4. Lone parents from working households are assumed to be earning the national minimum wage working 25 hours a week, and supporting two children. 5. Assumes one adult on Jobseeker benefit, the other a qualified adult with 2 children in the household.

The case studies in Table 2.2 illustrates the targeted nature of supports towards those who are most vulnerable to price increases while also providing wider supports. The lone parent non-working household (+6.7 per cent) and single pensioner (+6.5 per cent) examples indicate the largest increases in income. Other supports introduced to target those who are subject to specific price pressures may also be received by vulnerable households. For example, a lone or dual parent family may also benefit from the removal of school transport fees for the 2022/23 school year.

2.5 Ukraine Humanitarian Expenditure

Following Russia's invasion of Ukraine in February of this year, welcoming and providing humanitarian supports to people fleeing the conflict and seeking refuge in Ireland has been a key focus of Government. A range of humanitarian supports have been put in place for those arriving in Ireland.

In response to this situation, work has been ongoing across Government Departments and Agencies, both to support the significant operational challenges associated with coordinating a major humanitarian response, and to assess and manage the cost impact of arrangements and solutions being put in place. With regard to cost projections, while high-level estimates are being developed to inform Government budgeting, considerable uncertainty remains a factor, particularly in relation to a number of key variables outlined in Box 2, below.

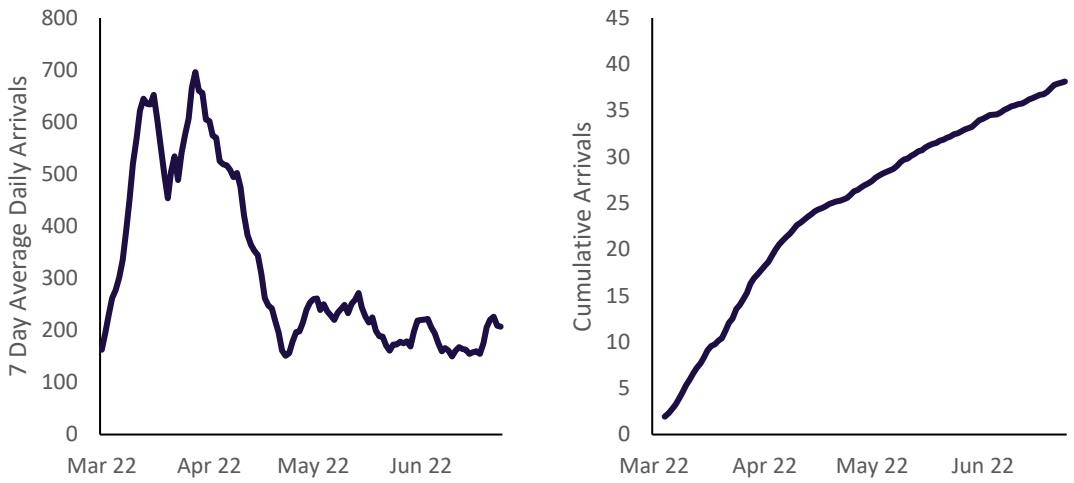
Box 2: Factors Contributing to Humanitarian Cost Projections Uncertainty

- Uncertainty relating to the number and timing of arrivals to Ireland;
- The portion and timing of arrivals returning to Ukraine or moving to other jurisdictions;
- The changing population age, gender and family composition of arrivals;
- The degree of labour-force participation among working-age arrivals;
- The types and costs of accommodation solutions which can be provided or supported by the State;
- The healthcare needs of arrivals (also correlated with age distribution);
- The degree of enrolment in primary, secondary, third-level, English language and other State supported education (including English language courses);
- The childcare support needs of arrivals.

2.5.1 ARRIVALS

The primary variable of significace, from both a cost and planning perspective, is the number and timing of arrivals in Ireland from Ukraine. To date a large majority of those who have fled Ukraine remain in bordering countries; the European Commission has thus far not proposed a Council decision, and the solidarity mechanism under the Temporary Protection Directive, which would require equal responsibility sharing for asylum seekers across member states under Article 78(3) of the Treaty on the Functioning of the European Union (TFEU) EU Member States, has not been triggered. As of mid-early July, over forty thousand people have entered Ireland from Ukraine since the onset of the war. It is not possible at this point to know with certainty the ultimate number of arrivals.

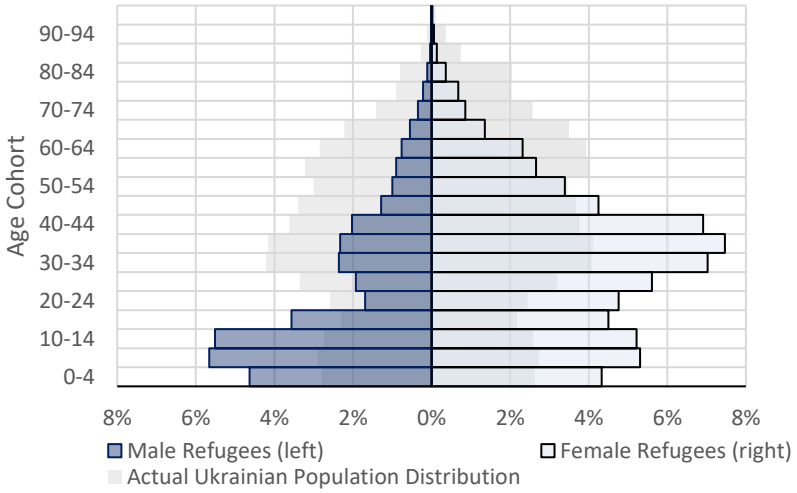
Figure 2.2: Arrivals from Ukraine, 25/02/22 to 26/06/22
7 Day Average numbers (LHS), Cumulative arrivals, thousands (RHS)



Source: DSP PPSN Registration Data

Given the varying needs of different demographic groups, the demographic profile of arrivals is also an important factor affecting State provision of services. The population distribution of arrivals is skewed heavily towards women and children; people over fifty-four are underrepresented relative to Ukraine's actual population distribution (Figure 2.3).

Figure 2.3: Arrivals vs Actual Ukraine Population Distribution (2020)
Per cent



Source: DSP PPSN Registration Data & Eurostat Population

2.5.2 ACCOMMODATION

Housing is a key concern in terms of humanitarian service delivery. To date a number of accommodation types are being provided, such as serviced accommodation

(hotels/B&Bs), private accommodation pledged by the general public (both shared and independent) and arenas such as Millstreet. Additionally, longer-term solutions are under development.

Catering for housing needs poses a number of policy challenges, including the requirement to balance short-term and longer-term solutions in a cost-effective manner, and managing interaction between different Government policies. In addition, a number of unaccompanied minors have arrived in Ireland with Tusla co-coordinating service provision in terms of accommodation and other wrap around supports necessary for these minors.

The cost implications of accommodation delivery are the largest single cost area associated with facilitating arrivals, and is expected to cost several hundred million euro in 2022. Effective management of this expenditure will be impacted by the modes of accommodation available and deliverable.

2.5.3 OTHER SERVICES PROVIDED TO-DATE

In addition to accommodation, humanitarian service delivery extends to other key areas including arrival reception, education, healthcare, childcare and social protection. Given the vulnerable economic position of most arrivals, Social Protection payments are central to providing an economic safety net until such time that they may be in a position to enter the labour market. Payments are provided under the standard schemes, such as child benefit, job seeker's payments and the state pension. The ability of arrivals to join the labour market and the demographic composition in terms of age and household size will directly impact social protection costs associated with the humanitarian service delivery.

The level of childcare support required will also be impacted by the demographic profile of future arrivals and their labour force participation. Access to education at all levels is available to arrivals. Currently, children make up circa 30 per cent of arrivals, many of which are in the process of enrolment in schools at primary and post-primary level across the country. A high level of uncertainty remains around the up-take of education at third level which could lead to potentially significant Exchequer costs. To facilitate the integration of arrivals in to the Irish education system, English language support services are being made available across all stages of education. This is a significant driver of costs in this area at primary and post-primary levels.

In relation to healthcare, arrivals are provided with Medical Cards under the GMS scheme, and can thus freely access all healthcare services supported by the State i.e. GPs, community care and hospital or emergency care, services for children's health, wider mental health and disability related services and maternity care. While the age demographic of arrivals is relatively young, a characteristic associated with lower health service demands and therefore costs, uncertainty remains around the health needs of arrivals, which may have significant cost implications going forward. Given uncertainly around the total numbers of arrivals, there is also risk in relation to the capacity challenges that currently exist in the healthcare sector.

2.5.4 COSTING PROVISION

Costing the impact of the humanitarian response to Russia's invasion of Ukraine remains challenging given the significant degree of uncertainty, as outlined above. Expenditure associated with humanitarian service provision to end-June was almost €0.2 billion, with half of this spend relating to accommodation, another third relating to Social Protection, and the remaining amount distributed over service provision in other areas such as education, arrival reception, childcare and health. As there is generally expected to be a timing issue with regard to receipt and payments of invoices against when expenditure is incurred, it is anticipated that further information on payments made in relation to Ukraine will be available as the year progresses. Estimates indicate that costs for the Exchequer of humanitarian service delivery will be significant. Longer-term cost implications of humanitarian service delivery in these areas will be ultimately be impacted by duration of stay and the labour market activation of the arrivals.

2.6 Non-Core Expenditure Summary

There has been a number of ongoing and emerging challenges this year resulting in pressures on public expenditure. Given the extension of Covid-19 related support measures as a result of the Omicron wave of the pandemic, other Covid-19 spending pressures and measures introduced to assist households and businesses with increased costs of living, a significant portion of the remaining contingency will be required later in 2022. It is also intended that the cost of providing supports to Ukrainian arrivals to Ireland, where they cannot be accommodated within existing Departmental allocations, will be met from the reserve. The costs of responding to these developments will continue to be assessed and funding allocations to Departments are expected to be made through Supplementary Estimates later in the year.

Chapter 3: Medium Term Expenditure Framework

3.1 Introduction

As set out in the *Summer Economic Statement* the Medium Term Expenditure Framework seeks to deliver sustainable expenditure over the medium-term through:

- Setting the core expenditure growth rate at sustainable levels: and
- Providing ongoing improvements in public services.

The Framework must therefore be responsive to the economic and fiscal context. This year has seen developments which have altered the economic landscape significantly, including higher inflation and borrowing costs. In order to protect the real value of public services, a short-term adjustment to the Framework is required.

The following sections set out the details of this adjustment and the revised medium term expenditure strategy.

3.2 Framework Adjustment

3.2.1 CASE FOR ADJUSTMENT

The 2021 Summer Economic Statement and Mid-Year Expenditure Report set out the Medium Term Expenditure Strategy for the period to 2025. In determining the appropriate growth rate, the strategy considered growth in key macroeconomic variables over the 20 year period prior to the onset of the pandemic from 1999-2019, including GDP, GNI*, Government Revenues and Expenditure. These metrics showed broadly similar compound annual growth rates at around 5 per cent.

The Stability Programme Update forecast inflation at a rate of 6.2 per cent for 2022. This is a significant deviation from the assumed average of 2 per cent. This forecast was based on the Department of Finance's central scenario at the time, however recognising the uncertainties in relation to the global economy they also identified risks to this forecasts, including higher energy prices lasting longer than anticipated. It is clear now that these risks have materialised.

Inflation can be measured as headline or core, while headline inflation reflects all prices, core inflation excludes energy and unprocessed food goods. Energy prices are currently driving a difference between headline and core inflation. These rates are expected to converge into the medium term, as energy prices, which are historically volatile, are expected to moderate.

The Summer Economic Statement highlighted a challenging environment and outlook in relation to prices in the short term. This elevated inflation level has significant implications for the fiscal and expenditure strategy - making it difficult to protect and deliver incremental improvements in public services.

Inflationary pressures are generally dealt with as part of the normal budgetary process. This places the onus on Departments to manage expenditure, achieve efficiency dividends and value for money on a year by year basis. However, there is a limit to this approach. The escalation in inflationary pressures in 2022 poses a risk to the real value of public services, therefore, necessitating an adjustment to the medium term expenditure framework.

Certain inflationary pressures, most notably energy price increases, are expected to be transitory. Supply and demand impacts are expected to moderate considerably over the medium term. However, the impact of pass-through and core inflationary pressures are leading to more lasting impacts on our public services and citizens, in particular those on lower incomes. In line with the medium term expenditure strategy this requires an adjustment to the core expenditure growth rate which will support permanent changes to the supports and services funded by public expenditure through the budgetary process.

3.2.2 PROTECTING PUBLIC SERVICES

In designing the public expenditure response to inflation, a two-pronged approach is considered appropriate. Firstly, recognising the core inflationary environment, the core expenditure growth rate will increase to 6 per cent and 6.5 per cent in 2022 and 2023 respectively. Secondly, non-core expenditure will be utilised to provide temporary and targeted measures to mitigate the more transitory elements of inflation.

This two pronged approach seeks to balance the challenge of protecting public services and the most vulnerable from price pressures, while maintaining fiscal sustainability in the longer term by:

- limiting the adjustment to core public expenditure by less than inflation to ensure public policy does not lead to second round effects, and
- ensuring a targeted and temporary approach to transitory price pressures.

3.2.3 REVISED EXPENDITURE CEILINGS

The 2022 Summer Economic Statement set out an adjusted approach to the medium term expenditure framework. This will see core expenditure increase by 6 per cent in 2022 and 6.5 per cent in 2023. Over the medium-term, inflation is forecast to revert to around 2 per cent in 2024 and 2025. This will facilitate the 5 per cent level of core expenditure growth being restored. The resulting expenditure ceilings are set out below.

Table 3.1: Medium Term Expenditure Strategy
€ Billions

	2022	2023	2024	2025
Total Expenditure Ceiling	**88.0**	**90.3**	**90.8**	**95.0**
Core Spending	**80.5**	**85.8**	**90.1**	**94.6**
% Change	*6.0%*	*6.5%*	*5.0%*	*5.0%*
€bn change	*4.6*	*5.3*	*4.3*	*4.5*
Core Capital Spending	**10.9**	**11.7**	**12.7**	**13.4**
% Change	*11.5%*	*7.0%*	*8.4%*	*6.2%*
€bn change	*1.1*	*0.8*	*1.0*	*0.8*
Core Current Spending	**69.6***	**74.1**	**77.4**	**81.2**
% Change	*5.2%*	*6.5%*	*4.5%*	*4.8%*
€bn change	*3.5*	*4.5*	*3.3*	*3.7*
Temporary Measures	**7.5**	**4.5**	**0.7**	**0.4**
Covid Spending	7.0	1.0	0.7	0.4
Including NRRP	*0.2*	*0.2*	*0.2*	*0.2*
Brexit Adjustment Reserve (BAR)	0.5	0.6		
Ukraine		3.0		

Source: Department of Public Expenditure and Reform
*Notes: Rounding effects figures. *This includes the unallocated €0.4 billion of the Budget 2023 expenditure package which is phased into 2022.*

3.4 Expenditure Strategy 2023

As set out in the Summer Economic Statement, there will be a total budget package of €6.7 billion. This includes €5.65 billion for expenditure developments and €1.05 billion for a taxation package. Of this €5.65 billion, €0.4 billion will be available in 2022 for the early implementation of new measures. This reflects the scale of the inflationary challenge in 2022 and will result in overall core expenditure growth of 6 per cent.

Table 3.2 below sets out the different components of the 2023 budgetary package. The core expenditure increase will include approx. 3 per cent of the core current base or €2.2 billion for existing level of service (ELS) pressures. The NDP sets out an increase of €0.8 billion or 7 per cent in core capital expenditure, therefore core current expenditure will increase by €4.5 billion or 6.5 per cent. This leaves some €2.3 billion for any new measures introduced for 2023.

Table 3.2: Budget 2023 Expenditure Package
€ Billions

	Budget 2023
Core Current Expenditure Increase	**4.9**
of which:	
Existing Level of Service	*2.2*
New measures (2022 early implementation)	*0.4*
New measures (2023)	*2.3*
Core Capital Expenditure	**0.8**
Total Core Expenditure Increase	**5.7**

Source: Department of Public Expenditure and Reform
Notes: Rounding effects totals.

3.4.1 CORE CURRENT EXPENDITURE

The core current expenditure increase of €4.9 billion over 2022/2023 proposed for Budget 2023 will provide for ELS costs and allow for the implementation of new policy measures to enhance public services and social supports.

A key element of the Budget process is agreement in relation to the costs of providing existing services supported by the core current expenditure base of almost €70 billion. These ELS costs arise from the impact of the existing Building Momentum pay agreements, demographic-related increases in key sectors, the carryover costs of prior year budgetary measures, and other pressures on programme expenditure. Taking into account budgetary settlements in recent years and an assessment of the position in advance of Budget 2023, a provision of 3 per cent (approximately €2.2 billion) of the core current expenditure base is being made for ELS costs.

In advance of Budget 2023, further detailed work will be undertaken by the Department of Public Expenditure and Reform, in consultation with relevant Departments, regarding the exact level of these ELS costs. Some examples of this work include:

- In Health, there is a need to meet costs associated with demographics, pay deal and public service pension costs and the carryover of 2022 recruitment;
- In Social Protection, there are demographic costs relating to the State Pension and upward pressures on disability expenditure;
- In Education, and Further and Higher Education, there are costs relating to demographics, pay deal, public service pensions, and the carryover cost of 2022 recruitment;

- In Children, Equality, Disability, Integration and Youth, there are carryover costs in relation to the childcare package, and;
- Other areas with ELS pressures include Housing in relation to the carryover cost of Housing Assistance Payment (HAP) and leased units and Justice in relation to 2022 recruitment.

This highlights that the 3 per cent ELS provision does not apply across the board. Certain sectors are more exposed to increases in ELS costs and consequently, the amounts provided by Department in the Estimates will be based on detailed analysis of all the relevant cost drivers.

3.4.2 PAY AGREEMENTS

The current public service agreement, Building Momentum, is a two year Agreement and runs to the end of 2022. Building Momentum contains a strong commitment to reform - this is all about improving the delivery of services to the public. The commitment to public service reform has and will always be a key feature of public service agreements.

The Agreement provides for the following pay adjustments:

- A general round increase in annualised basic salary for all public servants of 1 per cent or €500, whichever is greater, on 1 October 2021.
- The equivalent of a 1 per cent increase in annualised basic salaries to be used as a Sectoral Bargaining Fund, in accordance with Chapter 2 of the Agreement, on 1 February 2022.
- A general round increase in annualised basic salaries for all public servants of 1 per cent or €500, whichever is greater on, 1 October 2022.

Building Momentum was estimated to cost €0.9 billion spread over three calendar years - 2021, 2022, and 2023. This is the equivalent of approximately 4 per cent of the estimated 2021 public service pay bill, in respect of over 365,000 public service staff. This figure included an amount of €150 million to allow for the commencement of the recommendations of the Independent Hours Body during 2022. Ultimately, the Body's recommendation, which was accepted by Government earlier this year, had an associated full year cost of €358 million. This brings the total cost of the existing Building Momentum Agreement to €1.1 billion. Approximately €0.4 billion of this cost of Building Momentum is to fall in 2023 with these costs to be met from within the Budget 2023 ELS provision.

In March, the Irish Congress of Trade Unions (ICTU) advised the Minister for Public Expenditure and Reform of their intention to seek a review of Building Momentum in accordance with Section 5.7 of the Agreement which states:

> "*The parties affirm that public service pay and pensions and any related issues shall not be revisited over the lifetime of this Agreement, save where the assumptions underlying this Agreement need to be revisited. In such circumstances, the parties commit to prior engagement."*

Following exploratory discussions formal talks between the parties began on Monday 13th June, facilitated by the Workplace Relations Commission. The Government's aim is to reach a mutually acceptable outcome for both parties – one that strikes the right balance between providing for both continued investment in our public services and an approach to public service pay that is both fair and affordable. Costs for any new public sector pay deal agreed will need to be met from within the new measures provision in Budget 2023.

3.4.3 CAPITAL

The NDP published in October 2021 sets out a positive vision for Ireland over the next 10 years, with total public investment of €165 billion over the period 2021-2030. Core capital expenditure ceilings were set out at sectoral level for the period out to 2025 to allow Departments to plan on a multi-annual basis (see table 3.3).

The NDP will support economic, social, environmental and cultural development across all parts of the country under Project Ireland 2040, in parallel with the National Planning Framework (NPF) which sets the overarching spatial strategy for the next twenty years.

The alignment of the NDP and NPF under Project Ireland 2040 creates a unified and coherent plan for the country by ensuring our investment strategy supports spatial planning behind a shared set of strategic objectives for rural, regional and urban development, and will strengthen the link with the new Climate Action Plan and other sectoral policies. The renewed NDP has a particular focus on the all-of-Government priorities of housing and climate action ambition.

The NDP is the largest in the history of the State with Ireland's annual capital investment budget now among the largest across EU countries. This year, in 2022, some €12 billion in core capital is available to spend on vital infrastructure in areas such as housing, transport, education, enterprise, sport and climate action.[1] It will be a pivotal year in consolidating the progress already made, and, most importantly, delivering the infrastructure to support our future climate, social and economic requirements.

[1] Includes capital carryover of almost €820 million from 2021 into 2022.

Table 3.3: Ministerial Vote Group Allocations as per NDP 2021-2025
€ Millions

Ministerial Vote Groups	2021 Capital	2022 Capital	2023 Capital	2024 Capital	2025 Capital
Agriculture, Food and the Marine	271	281	284	287	290
Children, Equality, Disability, Integration and Youth	32	33	40	50	100
Defence	131	141	141	142	142
Education	740	792	860	940	1,040
Enterprise, Trade and Employment	432	523	558	584	611
Environment, Climate and Communications	579	700	850	950	1,100
Finance	18	22	22	22	23
Foreign Affairs	13	25	25	25	25
Further and Higher Education, Research, Innovation and Science	500	538	579	620	652
Health	905	1,010	1,127	1,255	1,360
Housing, Local Government and Heritage	2,766	3,400	3,516	3,866	4,016
Justice	258	270	272	274	278
Public Expenditure and Reform	221	303	300	308	330
Rural & Community Development	169	192	196	200	205
Social Protection	16	16	16	16	17
Tourism, Culture, Arts, Gaeltacht, Sport and Media	172	202	206	210	214
Transport	2,511	2,547	2,614	2,664	2,665
Annual Priority Reserve	0	0	51	148	267
ERDF	0	70	100	115	115
Shared Island Fund	50	50	100	150	150
Government Expenditure Ceiling	**9,784**	**11,115**	**11,857**	**12,826**	**13,600**

Source: Department of Public Expenditure and Reform
Note: NDP ceilings include funding under the NRRP, other non-core funding elements are not include where allocated in 2021 and 2022. 2021 and 2022 figures do not include capital carryover.

Reforms are ongoing in governance and broader capability to help ensure successful delivery. The NDP sets out the range of actions that are being taken to strengthen delivery, maximise value for money and ensure to the extent possible that projects are delivered on time, on budget and with the benefits targeted at the outset.

The Public Spending Code sets the value for money requirements and guidance for evaluating, planning and managing capital projects. The Project Ireland 2040 Delivery Board which oversees the delivery of the NDP has recently been expanded to include five external members bringing additional expert knowledge, independent and regional perspectives, and an enhanced challenge function to the deliberations of the Board. Two elements have been introduced in late-2021 to strengthen the assurance process for major public investment projects to provide more structured scrutiny:

I. The introduction of an independent external review of projects over €100 million at two major decision gates in the project lifecycle and

II. A Major Projects Advisory Group- as a prerequisite to seeking Government approval for projects at the relevant decision gates, project proposals and external reviews are now scrutinised by the Advisory Group in advance of the decision to proceed.

3.5 Pre-Budget Position

Table 3.4 sets out the opening position for Budget 2023 from a current expenditure perspective, splitting expenditure allocated to date in Departmental estimates between Core and Non-Core. This updates the core and non-core allocations set out in the Expenditure Report 2022 for any changes in the Revised Estimates and in agreed Supplementary Estimates. This provides a clear baseline position in advance of Budget 2023.

As examined in Section 2.5 the costs of the provision of humanitarian supports for refugees is still subject to significant uncertainty. Therefore, provision will be kept in a contingency fund. This position will be assessed as part of the Budgetary process based on the latest available information.

Table 3.4: Current Expenditure Allocations by Vote Group 2022
€ Millions

	Core	Non-Core	Total
Allocated:			
Agriculture, Food and the Marine	1,504	71	1,575
Children, Equality, Disability, Integration and Youth	2,015	67	2,082
Defence	966		966
Education	8,345	145	8,490
Enterprise, Trade and Employment	359		359
Environment, Climate and Communications	169		169
Finance	538		538
Foreign Affairs	886	10	896
Further and Higher Education, Research, Innovation and Science	3,052	174	3,226
Health	20,383	750	21,133
Housing, Local Government and Heritage	2,559	20	2,578
Justice	2,863	20	2,883
Public Expenditure and Reform	1,228	2	1,230
Rural and Community Development	187		187
Social Protection	22,250	1,085	23,335
Taoiseach	277	6	283
Tourism, Culture, Arts, Gaeltacht, Sport and Media	801	219	1,020
Transport	644	241	885
Yet to be allocated:			
Unallocated Current (Pay Hours)	150		150
Covid Contingency		3,666	3,666
Total	**69,175**	**6,475**	**75,650**

Source: Department of Public Expenditure and Reform
Notes: Table includes funding as allocated in Supplementary Estimates to end-June. Additional allocations to meet the cost of Covid-19, Cost of Living and other measures agreed by Government will be made later in the year where required. Core spending amounts include certain temporary measures. Rounding may affect totals.

Table 3.5 sets out the total capital allocation in the original REV and Supplementary Estimates split between Core, Covid and Brexit and Cost of Living. The capital allocations for 2023 have been set out in the NDP.

Table 3.5: Capital Expenditure Allocations by Vote Group 2022
€ Millions

	Core	Non Core	Total
Allocated:			
Agriculture, Food and the Marine	281	36	317
Children, Equality, Disability, Integration and Youth	33		33
Defence	141		141
Education	790	2	792
Enterprise, Trade and Employment	494	52	545
Environment, Climate and Communications	639	333	971
Finance	22		22
Foreign Affairs	25		25
Further and Higher Education, Research, Innovation and Science	548	4	552
Health	990	70	1,060
Housing, Local Government and Heritage	3,408	2	3,410
Justice	270		270
Public Expenditure and Reform	224	83	307
Rural and Community Development	192		192
Social Protection	16		16
Taoiseachs	0		0
Tourism, Culture, Arts, Gaeltacht, Sport and Media	202		202
Transport	2,536	11	2,547
Yet to be allocated:			
Shared Island + ERDF	95		95
Brexit Adjustment Reserve Unallocated		446	446
Total	**10,904**	**1,039**	**11,943**

Source: Department of Public Expenditure and Reform
Notes: Table includes funding as allocated in Supplementary Estimates to end-June. Additional allocations to meet the cost of Covid-19, Cost of Living and other measures agreed by Government will be made later in the year where required. Rounding effects totals.

3.6 Conclusion

The key to a sustainable medium term expenditure strategy is the ability to respond appropriately to significant changes in the economic context. While expenditure

sustainability requires the growth rate of spending is affordable in the long term, sustainability also requires that this investment in expenditure protects and delivers improvements in public services. In the current exceptional inflationary environment this requires an adjustment in the medium term expenditure strategy.

Exceptional pressures on public expenditure and the cost of living have arisen due to external and global drivers on prices. While Government cannot control these drivers or fully absorb the impact of inflation it can provide targeted assistance, appropriately aimed at both the source of price pressures and those most vulnerable. In order to address this dual targeting a two pronged approach is undertaken which will see energy price pressures (where significant volatility is a feature) addressed through temporary non-core expenditure while core inflation pressures, the impact on public services and supports will be addressed through a temporary increase in the core expenditure growth rate in 2022 and 2023. While protecting public services and supports it is vital that public policy does not add to inflationary pressure. This requires both a limited adjustment in the core expenditure growth rate, the use of temporary supports through non-core expenditure where appropriate, and the appropriate design of public policy supports to ensure a targeted impact. Chapters 4 and 5 outline recent expenditure reforms which seek to examine and improve policy design.

Chapter 4: Spending Review 2022

4.1 Introduction

The Spending Review is a key process focused on improving expenditure allocation across the public sector. It also supports the Civil Service-wide agenda of evidence-informed policy making through facilitating analysis that focuses on programme rationale, efficiency and effectiveness, policy impact and sustainability.

4.2 Purpose and Objectives of the Spending Review

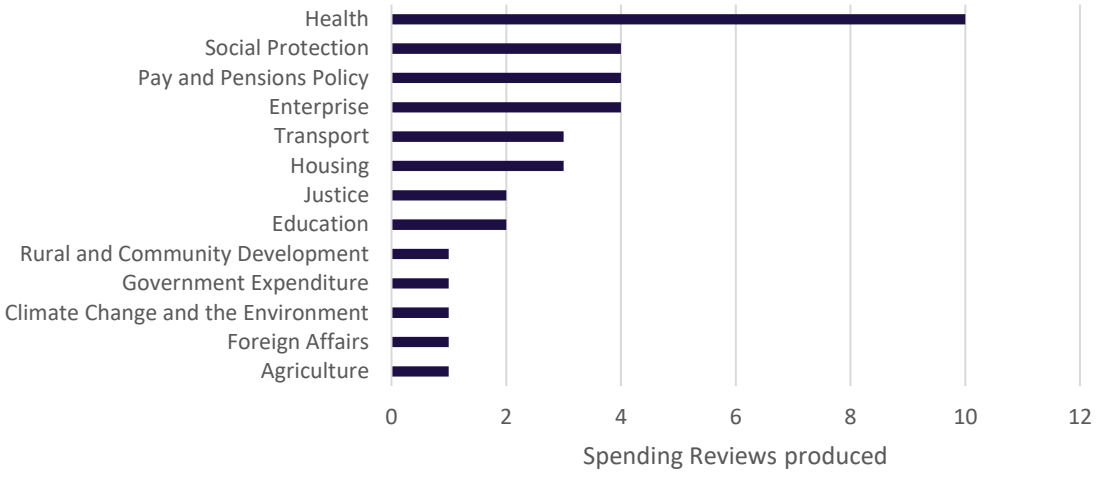
Spending Review 2020-2022 builds on the momentum developed through the previous cycle, placing a particular emphasis on shifting budgetary debate away from year-on-year incremental increases in public expenditure, through the examination of the totality of expenditure. In leveraging the Spending Review as a platform for advancing evidence-informed policy making across the Civil Service, the objectives of the 2020-2022 round are to:

- increase the use of a wide range of data sources upon which policy analysis can be conducted;
- foster engagement, learning and deliberation between Departments in relation to the formulation and implementation of public policy based on policy insights;
- Assess the effectiveness of public expenditure in meeting policy objectives;
- Effectively feed policy insights based on data into all stages of the policy process, including at Budget time; and
- Use evidence and insights to inform programmes of reform and initiate reform where appropriate.

4.3 Outcomes from Spending Review 2021

Spending review 2021 was the second year in the current cycle of reviews. There were 37 papers published as part of the 2021 review with 62 papers published as part of the cycle to date. Papers were developed covering a wide range of themes (Figure 4.1); with a significant number of papers being either collaboratively produced or produced by line departments (Figure 4.2)

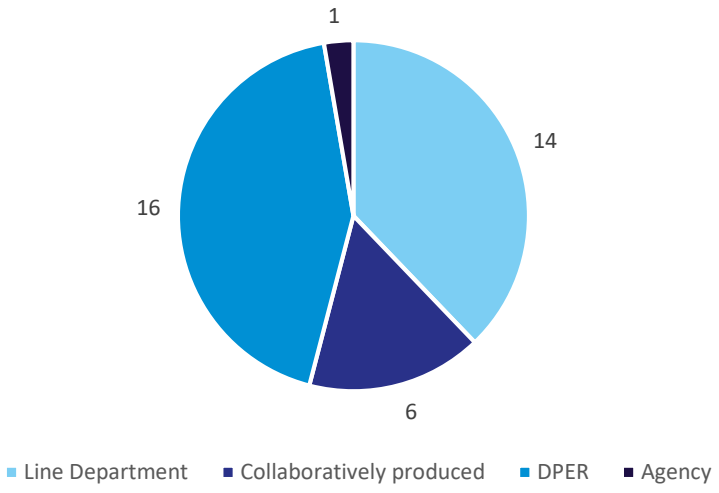
Figure 4.1: Spending Review 2021, Output by Theme



Source: Department of Public Expenditure and Reform

As observed in previous years, the spending review continues to facilitate analysis across a diverse range of policy areas with papers published across 11 departments and agencies in 2021.

Figure 4.2: Spending Review 2021, Output by Author



Source: Department of Public Expenditure and Reform

4.3.1 HEALTH

Health-related topics accounted for approximately 27 per cent of papers. Within this, a key area of work in 2021 was the development of a suite of papers focusing on healthcare capital investment in Ireland. This work, which is feeding into the development of a strategic investment framework for health, included the following papers:

- An analysis of historical capital investment in healthcare, which provided an overview of and context for, public healthcare capital investment trends in Ireland;
- A paper on strategic considerations for future capital investment in healthcare which utilised national and international capital investment literature to support the development of criteria to inform prioritisation for capital projects under a strategic investment framework for health; and
- Utilising reference class forecasting, a third paper in this series assessed uncertainty and risk in respect of future capital investment in healthcare.

A range of additional health papers were also produced covering a range of topics, including the States pharmaceutical procurement and dispensing arrangements, general practice expenditure and the national drugs strategy.

4.3.2 ENTERPRISE

Another key theme in 2021 was enterprise; with four papers published in this area. This included a thematic analysis of the Department of Enterprise, Trade and Employment's capital expenditure over the 2006 to 2020 period. A second paper looking at a Framework for Evaluation of State- Supported Loan Schemes provides a common framework for the evaluation of the State-supported loan schemes available to firms and currently operating in Ireland. Another paper sets out a descriptive analysis on the distribution of enterprise supports across enterprise agencies; with a fourth paper focusing on the impact of Covid-19 on state supported lending.

4.3.3 SOCIAL PROTECTION

The assessment of social protection expenditure was also a key theme in 2021, with four papers published. A social impact assessment sets out the main results of the 2019 Survey on Income and Living Conditions relating to current living standards in Ireland. This paper provides an analysis of key income, poverty and social exclusion indicators and trends to explore how they have changed with the economic cycle. Another paper focuses on the lifecycle of disability and special education expenditure supports providing an overview of expenditure and the type of supports available. A further paper looks at trends and interactions within the Pandemic Unemployment Payment (PUP) and the Employment Wage Subsidy Scheme (EWSS); presenting insights on the evolution of expenditure, recipient trends, the interactions between these two schemes, and issues for further consideration. Finally, a Cost-Benefit Analysis of the three components of the Public Service Identity management framework was produced.

4.3.4 PAY AND PENSIONS POLICY

A final theme of Spending Review 2021 was pay and pensions policy; with four papers produced on topics in this area. One paper looks at the lifetime cost of new entrants to the Civil Service in the context of projected retirements over the next 10 years. A second paper focuses on the evaluation of industrial relations expertise in the Civil Service; assessing whether there is a deficit of Industrial Relations expertise amongst staff working in the Human Resources Units in Civil Service Departments. Considering the increasing incidence of international pension reforms, another review summarises challenges and strategies for reforming publicly funded pensions systems. Finally, a Review of Civil and Public Service Professional Added Years Schemes was completed.

4.3.5 ADDITIONAL OUTPUT

A number of additional areas were assessed as part of Spending Review 2021, including papers covering rural and community development, justice, foreign affairs, education, housing, agriculture and transport. These papers can be accessed on the spending review website.

4.4 Emerging themes of the Spending Review 2022

Spending Review 2022 sees the emergence of a number of themes which are outlined in greater detail below. Additional detail on key Spending Review themes will be included as part of the Expenditure Report at Budget time.

4.4.1 SECTORAL ANALYSIS

This year's Spending Review continues to see the development of output across a wide range of sectors. Most notable in respect of volume of output for 2022 are the areas of health and social protection – with a significant number of papers in development focusing on the assessment of expenditure across these areas. Under the theme of health, papers are being progressed on topics such as workforce supply, healthcare capacity and infrastructure, waiting lists, trends in staffing and pay expenditure, hospital performance and methods for evaluating acute hospital costs and acute hospital expenditure and activity in Ireland.

In the area of social protection, topics being covered include an assessment of the disability allowance scheme, a cost benefit analysis of digital services in the Department of Social Protection, and labour market transitions to work and welfare post Pandemic Unemployment Payment. Complementing the above is a range of analysis in areas such as climate, agriculture, enterprise, education, children, transport and sport.

4.4.2 THE SPENDING REVIEW AS AN EMBEDDED PROCESS

The Spending Review continues to act as a key platform for the development of evaluation output and the promotion of evidence-informed policymaking. In considering the output under development for this year and the 2020-2022 cycle more generally, it is evident that the Spending Review has become more embedded, with 13 departments involved in producing over 40 papers. Furthermore, there was strong engagement with the 2022 Spending Review conference, which saw 16 papers under development presented to an audience of approximately 125 attendees from across the Civil Service. In addition to this, 26 officials across 9 departments are involved in reviewing output as part of technical review groups and officials from 11 public service organisations, including 3 external academic representatives, continue to provide oversight of the process. The broad representation is in contrast to the early period of the 2017-2019 cycle and underlines the role of the spending review in driving evaluative output across the Civil Service.

4.4.3 BROADENING THE EVIDENCE BASE AND BUILDING ON PREVIOUS ANALYSIS

Aligned to the above theme, Spending Review 2022 is facilitating the development of analysis in policy areas that have not been the subject of spending reviews previously. For example, and importantly, the Department of Environment, Climate and Communications is undertaking its first spending review papers, one of which will be a joint paper with DPER.

In addition, a number of papers currently in development build on previous spending review analysis. This is a positive feature of the process as it facilitates a build-up of evidence over time across policy areas. Generating evidence in this way can support / feed into the development of sectoral policies in important ways. Examples include the Department of Health developing analyses in the context of the development of a strategic investment framework. Furthermore, the Department of Agriculture Food and the Marine are updating their 2019 publication on the Beef Data Genomics Programme, which is an important input to the reformed Common Agricultural Policy (CAP).

4.4.4 REVIEW OF SPENDING REVIEW 2020-2022

With the final year of the current cycle of spending reviews now well progressed, and with a view to supporting ongoing reform, the Spending Review Secretariat have been undertaking a review of the process. This has encompassed a case study exercise and a number of focus groups in order to gain a deeper understanding of how the process is operating across Departments. Valuable stakeholder feedback has been provided across a number of important areas including governance arrangements, stakeholder engagement, topic selection, impact, communications and the nature of spending reviews and the process and where it fits within the broader evaluation landscape. It is hope to publish the review in the coming months in advance of next year’s Spending Review.

Chapter 5: Measuring Progress

As set out in Chapter 3, the achievement of sustainable public expenditure requires the ongoing investment to protect and deliver improvements in public services. A key step in delivering these improvements requires effective measurement of the outcomes achieved. This chapter considers two different areas: well-being and green budgeting.

5.1 Well-being

5.1.1 BACKGROUND AND PROGRESS TO DATE

In the *Programme for Government – Our Shared Future*, the Government set out a commitment to developing a set of well-being indices to create a well-round, holistic view of how Irish society is faring. Furthermore, the Government also committed to ensuring that the *Well-being Framework* would be utilised in a systematic way across government policy-making in evaluating programmes, reporting progress and setting budgetary priorities (as an important complement to existing economic measurement tools).

In June 2022, the Government published its second related report, *Understanding Life in Ireland: The Well-being Framework*. The multi-dimensional *Well-being Framework for Ireland* sets out an overarching vision of "enabling all our people to live fulfilled lives now and into the future" and, in particular:

- Enable people to have purposeful lives that support good physical and mental health, enabling development of skills across the life cycle and providing a good standard of living;
- Ensure a sustainable sense of place, including through an appropriate and safe place to live and protection of Ireland's environment, climate and biodiversity;
- Preserve balance, inclusivity and equality of opportunities across society with open and effective government, empowering families, friends and communities to grow, connect and meaningfully engage.

Since autumn 2021, the CSO has hosted an interactive dashboard that flows from the conceptual framework and uses a cohesive set of indicators to measure life and progress in Ireland.

5.2.2 EMBEDDING THE WELL-BEING FRAMEWORK

While the development of a *Well-being Framework for Ireland* and dashboard are important building blocks in terms of developing a holistic view of how Irish society is faring, ensuring that a well-being perspective is embedded within the policy making process will require time and further consideration of the relationship between well-being and public policy.

At this year's *National Economic Dialogue*, well-being was included as a theme for discussion. In addition, from this year, an analysis of the Well-being Dashboard will feature annually in the *Summer Economic Statement* and Budget Day documentation. Furthermore, the NESC Secretariat has published a report that draws on the experiences of New Zealand, Scotland and Wales and this will support the next phase of work.

The Department of Public Expenditure & Reform is developing approaches that are intended to support embedding a well-being perspective into the policy-making process. In addition to considering the experience in other countries, this work is being informed by:

- Ensuring that the well-being initiative is located within an Irish context and that what is proposed is relevant and workable - The *Expenditure Report 2022* described how the well-being initiative is located within the Irish performance framework.

- Piloting the framework in order to understand its application in an Irish public policy context - The Well-being Public Policy Unit (WPPU) in the Department of Public Expenditure & Reform has undertaken pilot work that has focused on using the *Well-being Framework* to:

    - Describe the lives of a cohort within the Irish population (i.e., older people in the context of the broad policy challenge of ageing); and

    - Examine the relationship between well-being and public policy by focusing on policies and programmes that are concerned with particular policy challenges (i.e., early learning and childcare, child and family welfare and protection).

As an initial step to drawing out the key lessons of this phase of piloting the *Well-being Framework* in a public policy context, the WPPU has considered three questions intended to support the efforts of others in applying this approach.

1. How can existing policy be linked to the Well-being Framework?

Policy goals and objectives set out in key strategic policy documents are central to establishing a link between public policy and the *Well-being Framework*. Policy goals and objectives are explicit statements of the intended results of policies and programmes. They provide an opportunity to state the benefits of a policy or programme for the individual who accesses the service and/or society more generally. The stated "benefits" identify the well-being dimension(s) that should be associated with the policy or programme. Furthermore, as the intention is to provide an empirical description of the relationship between well-being and public policy, selected indicators should be relevant to both the well-being dimension and the public policy under consideration.

2. How does the quality of the evidence inform an understanding of the relationship between well-being and public policy?

The available evidence differs in terms of quality, that is, how strong the relationship is between the policy intervention and the policy outcome. The highest quality of evidence are *results* from rigorously conducted evaluations such as Randomised Controlled Trials (RCT) or Quasi-experiments. When indicators of this quality are used, it is possible to state that the policy or programme *has* (or *has not*) *enhanced* a particular dimension of well-being. However, such rigorously conducted evaluations are expensive, are relatively uncommon in an Irish context and some policy areas do not lend themselves to this type of evaluation.

The work undertaken by the WPPU has mainly relied on impact indicators and context indicators. *Impact indicators* are indicators that are relevant measures of the intended well-being outcome (as set out in a Programme Logic Model). The focus of the analysis is on the overall trend or direction of travel, that is, is the indicator describing progress toward an intended goal. With an *impact indicator*, the policy or programme might be described as being *associated with the increase* (or *decrease*) in a particular dimension of well-being.

Context indicators are relevant measures of the intended well-being outcome (i.e., encompassed in the stated policy goal) but there is an indirect link between the policy outcome and the public service; outcomes are dependent on exogenous factors. With a *context indicator*, the policy or programme might be described as being *implemented in the context of improvement* (or *deterioration*) on a particular dimension of well-being.

3. How does the approach to examining data inform an understanding of the relationship between well-being and public policy?

To date, the work of the WPPU has tended to consider three basic questions:

- How has well-being changed over a period of time?
- How does the well-being of a particular group of people compare to that of people in general?
- How does well-being differ between sub-groups of the group that is the primary focus of a public policy?

These questions are important because they shape the perspective from which the relationship between well-being and policy is examined, and a given perspective can shape conclusions about that relationship. For instance, what might be seen as an improvement in the well-being of a particular group of people may be tempered by the realisation that their well-being is less than that of people in general, or that the well-being of some within the group is better than others.

In addition to looking at existing policies and programmes, it is anticipated that a well-being perspective could make an important contribution to efforts to design and implement new policies and programmes. To this end, it is intended to develop a piece of work that will examine how such a perspective can inform the various stages of the policy cycle.

Finally, it is anticipated that over time the well-being initiative could be developed in a way that informs resource allocation decisions. For instance, a well-being perspective could be used to examine existing public policies within the context of the Spending Review Process, or, in time, it could inform the consideration of new policy proposals. More immediately, the Department of Public Expenditure & Reform is developing an approach that seeks to:

- Provide a cross-governmental description of budgetary expenditure decisions in terms of well-being dimensions; complementing the existing Vote Group approach to presenting such decisions; and
- Locate this information in the context of how well-being in Ireland has progressed over the course of the last decade or so.

For 2022, this will be developed as a pilot project in order to inform subsequent considerations about how best to embed a well-being perspective into the expenditure side of the budgetary process. Based on the experience of the 2022 pilot, it is intended that this approach could be developed in a way that describes expenditure allocations in terms of well-being dimensions.

The cumulative benefit of developing a *Well-being Framework for Ireland* and its integration into the policy process is that it will enhance public policy in Ireland by:

- Providing an overarching structure to public policy that can contribute to the development of a shared understanding within policy communities and society more generally of what makes for better lives;
- Focusing attention on differences in people's experiences and policy outcomes, on long-term impacts of policy and the implications for sustainable well-being (economic, social and environmental), and providing an opportunity to examine and reflect on the progress of Irish society as well as identifying key challenges and trade-offs to better inform decision making;
- Being used in tandem with other Government initiatives to focus attention on how limited public resources can be used efficiently to deliver effective public services, identify effective policy actions and enhance strategic alignment across departments promoting effective coordination and cooperation between departments and agencies in implementing policy; and
- Providing a foundation structure for the development of more bespoke sectoral specific well-being sub-frameworks (e.g., children and young people, older people, people in employment, new communities in Ireland).

In summary, these initiatives represent an important body of work that is intended to broaden the budgetary perspective and ensure more holistic design, implementation and evaluation of public policy.

5.2 Green Budgeting – Progress to Date

5.2.1 CLIMATE AND ENVIRONMENTAL REVIEW OF THE NDP

In 2021, Green Budgeting reforms In Ireland focused on the integration of climate and environmental assessment criteria in the review of the National Development Plan.

The plan aims to promote economic recovery and provide for the infrastructure needs of a growing population. The total public investment outlined in the plan is €165bn. This will bring capital investment in the economy to 5 per cent of GNI*, significantly above the EU average of 3 per cent.

The NDP is also intended to move the economy onto a more environmentally sustainable path, one that is compatible with the Irish Government's domestic climate commitments and the Paris Agreement. In that regard, extensive efforts were made to ensure that the NDP was the greenest ever and supports Ireland's climate ambitions.

For the first time in Ireland, a thorough climate and environmental assessment of every measure considered for inclusion in the plan was undertaken. The plan as a whole was assessed for alignment against the principles of a green recovery plan and specific commitments were made on the hypothecation of carbon tax receipts and further climate and environmental reforms to investment appraisal.

5.2.2 DETAILS OF THE CLIMATE & ENVIRONMENTAL ASSESSMENT OF NDP MEASURES

As part of the Climate and Environmental assessment, seven relevant climate and environmental outcomes were selected. Departments were required to perform a high level, qualitative self-assessment to determine the potential impact every spending proposal they put forward may have on each one of these outcomes:

- Climate Mitigation – the likely impact of the measure on greenhouse gas emissions
- Climate Adaptation – the contribution the measure will make to Ireland's climate resilience
- Water Quality – any difference the measure may make to pollution levels in waterways
- Air Quality – any difference the measure may make to air pollution levels;

- Waste & Circular Economy – what change in waste levels might be expected of the measure
- Nature & Biodiversity – what impact the measure may have on biological diversity
- Just Transition – will the measure contribute to employment that is compatible with Ireland's long term climate and environmental objectives.

Each measure was assigned a score against each of the climate and environmental outcomes (with the exception of Just Transition), using the following methodology:

Score	Definition
+3	The measure is focused on, or will contribute in a very tangible and specific way, to an improvement in this outcome.
+1	Although not a specific targeted outcome or the direct focus of the expenditure, the implementation of this measure is likely to contribute to an overall improvement in this outcome
0	The expenditure is likely to have no readily discernible impact on the outcome in question.
-1	Any positive intended impacts the measure may have may be at risk of being offset by negative impacts or potential rebound effects, which may contribute to a worsening of performance against this outcome.
-3	The measure is likely to lead to an increase in activity or encourage behaviours that would be unfavorable to this outcome.

Just Transition was scored using a binary ranking given that it is at an early stage in Ireland and many of the sectors and areas that may be at risk of adverse outcomes have not yet been identified. A measure was considered to contribute positively towards the achievement of a Just Transition if it had an overall positive score and was likely to result in additional employment. If not, it was considered to be neutral.

Departments were asked to consider the direct and indirect impacts of the measure in question, including the potential risk of rebound effects. Departments were asked also to consider the impacts by reference to the counterfactual scenario, i.e. the situation that would occur if the measure were not implemented.

The resulting self-assessment by each Department was then reviewed for consistency by a Steering Group. The group was comprised of senior officials from the Department of Public Expenditure & Reform, the Department of Environment, Climate and Communications & the Department of Housing, Local Government & Heritage.

5.2.3 SUMMARY OF RESULTS

A measure's cumulative score, across all outcomes, was then used to assign each measure a category. Category A indicates that measure in question is likely to have, on balance, a favourable impact on climate and environmental outcomes. Category B

indicates that the measure will likely have no significant impact on climate and environmental outcomes or that any favourable impacts may be offset or balanced by some unfavourable impacts. Finally, Category C indicates that the measure may have a net unfavourable impact on climate and environmental outcomes.

In total, 128 measures were assessed. 67 per cent of these measures are deemed, on balance, as being in Category A. 17 per cent fell into Category B, while 16 per cent of measures were tagged as Category C.

Building on the progress in capital expenditure, the next phase of reform will focus on broadening the coverage of Green Budgeting to all areas of public spending.

Appendix 1: Abbreviations Used

BAR	BREXIT ADJUSTMENT RESERVE
ELS	EXISTING LEVELS OF SERVICE
DAFM	DEPARTMENT OF AGRICULTURE, FOOD AND THE MARINE
DCEDIY	DEPARTMENT OF CHILDREN, EQUALITY, DISABILITY…
DECC	DEPARTMENT OF ENVIRONMENT, CLIMATE AND COMMUNICATIONS
DEd	DEPARTMENT OF EDUCATION
DETE	DEPARTMENT OF ENTERPRISE, TRADE AND EMPLOYMENT
DFA	DEPARTMENT OF FOREIGN AFFAIRS
DFHERIS	DEPARTMENT OF FURTHER AND HIGHER EDUCATION, RESEARCH, INNOVATION AND SCIENCE
DFIN	DEPARTMENT OF FINANCE
DHLGH	DEPARTMENT OF HOUSING, LOCAL GOVERNMENT AND HERITAGE
DoD	DEPARTMENT OF DEFENCE
DoH	DEPARTMENT OF HEALTH
DoJ	DEPARTMENT OF JUSTICE
DoT	DEPARTMENT OF TAOISEACH'S
DPER	DEPARTMENT OF PUBLIC EXPENDITURE AND REFORM
DRCD	DEPARTMENT OF RURAL AND COMMUNITY DEVELOPMENT
DSP	DEPARTMENT OF SOCIAL PROTECTION
DTCAGSM	DEPARTMENT OF TOURISM, CULTURE, ARTS, GAELTACHT, SPORT AND MEDIA
DTr	DEPARTMENT OF TRANSPORT
NDP	NATIONAL DEVELOPMENT PLAN

NRRP	NATIONAL RECOVERY AND RESILIENCE PLAN
REV	REVISED ESTIMATES FOR PUBLIC SERVICES

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