2016

MID-YEAR EXPENDITURE REPORT 2016

#Budget17
www.budget.gov.ie

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

Mid-Year Expenditure Report

July 2016

Foreword

The *Programme for a Partnership Government* sets out the Government's aim to support a just society with a resilient economy. Ireland is in a strong position. The unemployment rate is moving below 8 per cent, the economy is growing strongly and the public finances are moving close to balance. We must continue to build on this strong foundation by balancing the need for economic and budgetary sustainability with the continued provision of much needed public services. Of course, future economic growth depends to a large extent on prudent investment in both physical and social capital.

The choices to be made for the next budget about where and how we spend our money must be carefully considered, particularly in light of the challenges facing the economy. This was demonstrated most recently by the decision by the UK to leave the European Union, but there are also domestic challenges such as housing and healthcare. To face these challenges now and into the future we must invest, in a targeted way, to build a just society supported by a strong economy.

The *Summer Economic Statement* (SES), published last month, set out the Government's medium-term economic and fiscal plan. On the basis of the latest information available at that time, the estimate of fiscal space for the period to 2021 was €11.3 billion. An official update of the forecasts – incorporating the anticipated effects of the UK decision - will be completed by my colleague the Minister for Finance for the Budget in October. However, it is important to note that the Government prudently did not allocate all fiscal space to tax and expenditure measures, instead establishing the Rainy Day Fund as a buffer against such shocks.

The strategy presented in the SES provided for key commitments in the Programme for a Partnership Government; increasing current expenditure on public services by €6.75 billion by 2021 relative to 2016 and going beyond the commitment on capital expenditure in allocating €5.1 billion over and above the 2017 allocation.

These increases, while significant, must not shift the focus from the totality of Departmental expenditure - €280 billion – to be spent over the same period. The totality of this expenditure must be considered when priorities are examined. Regarding public investment – a key area of interest at the National Economic Dialogue - the focus of much of the discussion has been around targeting a particular share of national income. The plan set out in the SES would take investment in capital expenditure as a percentage of national income to 3.8 per cent by 2021. However, the issue of what projects represent good value for the taxpayer and what projects deliver against social cohesion is of greater importance. Commitments relating to additional capital expenditure must not lead to price rises or prompt rent seeking behaviour taking place in the economy. This Government is determined to deliver outputs at better value to the taxpayer than has been the case in the past.

A positive legacy of the crisis is the major reforms to how public services are managed and delivered. These reforms are designed to replace periodic, sharp fiscal retrenchments with an ongoing emphasis on prudent and sustainable growth in public expenditure. Public expenditure has a role in pursuing social, re-distributive and growth-enhancing aims within the available resources. The existing public expenditure framework is designed to provide a lens through which such trade-offs can be viewed over the medium-term. The reformed framework also emphasises the importance of value-for-money and the effectiveness of every euro of public expenditure. That is why we must continue to drive reform in our public services in the coming years.

In the last two years, Departmental spending has increased by an average 2½ per cent per annum, while staffing numbers across the Public Service increased by 8,600 in 2015, and by more than 2,000 to date this year. To ensure these increases translate to the necessary improvements to services means maintaining the focus on public service reform. The Lansdowne Road Agreement in particular plays a key role in driving increased productivity across the public service while setting out an agreed pathway for pay restoration to 2018 for public servants that is affordable and achievable on a fiscally sustainable basis.

The much changed political landscape in Ireland presents an opportunity to enhance the budgetary process through increased engagement between the Government and the Oireachtas. The need for enhanced engagement by the Oireachtas in budgetary scrutiny is highlighted in the *Programme for a Partnership Government*, with a number of commitments aimed at ensuring the Oireachtas has a more participatory role in the budget process. This process began with last month's *Summer Economic Statement*, which detailed the Government's medium-term strategy for sustaining economic growth and stable public finances. The National Economic Dialogue (NED) widened the conversation on expenditure priorities.

With the publication of this document - which outlines not only the latest public expenditure position but also key areas of analysis - the Government has committed to more openness and transparency in the process of budget formulation. This will allow the Oireachtas to help shape policy priorities and budgetary allocations in advance of draft Budget proposals being announced by Government in October.

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

Contents

Figures contained in this Report were finalised on 11 July 2016.

Chapter 1
Public Expenditure Strategy

The Government's medium term budgetary strategy - to 'balance the books' by 2018 once account is taken of the impact of the economic cycle on the public finances - was set out in the Summer Economic Statement (SES), published 21 June. The SES also set out the high-level parameters for *Budget 2017,* including the estimated gross voted expenditure amounts for the medium-term on both a pre-Budget and post-Budget basis.

The *Programme for a Partnership Government* set out the key priorities for this Government. Public expenditure policy has a role in meeting these social, redistributive and growth-enhancing aims. However, public expenditure planning must consider these goals within the available resources. This document shows the significant levels of investment proposed by Government in physical and social infrastructure to support growth, create jobs and address the key challenges of housing and health while maintaining social cohesion.

This chapter provides further detail in relation to the pre-Budget position with the overall gross voted expenditure amounts split out at Ministerial Vote Group level for the period 2017 to 2019.

1.1 Overview of Budgetary Strategy

Based on the latest available data, the SES estimated that there will be of the order of €1 billion available for additional expenditure increases and taxation measures in 2017. This is the amount of fiscal space that remains after providing for demographics in health, social protection and education, the Lansdowne Road Agreement, capital plans and certain other pre-committed policies. It is estimated that there will be cumulative net fiscal space of €11.3 billion over the period 2017 to 2021.

The distribution of fiscal space is consistent with commitments in the *Programme for a Partnership Government* including:

- At least a 2:1 split between public spending increases and tax reductions.
- To increase the level of current expenditure from its 2016 base level by at least €6.75 billion by 2021.
- To deliver an additional €4.0 billion in cumulative capital expenditure over the period 2017 to 2021. In fact €5.1 billion will be delivered.
- To provide for a contingency reserve. €1 billion per annum is to be contributed to the rainy day fund from 2019 onwards.

The proposed budgetary strategy for 2017 set out in the SES is not expected to change materially following the result of the UK's referendum on EU membership. The majority of components feeding into the expenditure benchmark calculation for 2017 are included in the European Commission's 2016 Spring Economic Forecast and, based on the forecasts in the SES, the 2017 budgetary strategy is consistent with compliance with the balanced budget rule. As noted in the SES, the Department of Finance will prepare a full macroeconomic projection in advance of

Budget 2017. This will include updated estimates of economic growth taking account of developments up to that time.

The estimates of Fiscal Space in the SES have been derived using the Expenditure Benchmark (referred to as the budgetary benchmark in the SES). The concepts driving the development of fiscal rules and some initial work on developing and improving rules for Ireland are discussed in chapter 4.

Table 1.1 Indicative allocation of available net fiscal space 2017 – 2021

€ billions	2017	2018	2019	2020	2021	Cumulative
Net fiscal space	**1.0**	**1.2**	**3.0**	**3.1**	**3.0**	**11.3**
Allocated to:						
Expenditure	**0.67**	**0.79**	**1.38**	**1.46**	**1.44**	**5.74**
Current	*0.61*	*0.61*	*0.95*	*1.02*	*0.98*	*4.16*
Capital	*0.06*	*0.19*	*0.43*	*0.45*	*0.46*	*1.58*
Taxation	**0.33**	**0.39**	**0.59**	**0.62**	**0.61**	**2.54**
Rainy Day Fund	**0.00**	**0.00**	**1.00**	**1.00**	**1.00**	**3.00**
Memo item						
Total additional capital	0.25	0.75	1.18	1.38	1.59	**5.14**

Source: Summer Economic Statement

1. Net fiscal space for 2017 - 2021 derived in compliance with budgetary framework.
2. The budgetary benchmark (Expenditure Benchmark) applies a 4 year smoothing adjustment to capital formation. In both 2017 and 2018, all the fiscal space for capital is assumed to relate to capital formation. For 2019 to 2021, €180 million, €195 million and €210 million respectively of the annual fiscal space will be used for capital grants; this element is not subject to the smoothing adjustment.
3. Rainy day fund contingency reserve is activated post achievement of the MTO in 2018.
4. Total additional capital expenditure is by reference to the Gross Voted Capital expenditure set out in the revised baseline forecast.

As outlined below, after adding these expenditure increases to the amounts included in the pre-Budget baseline position, it is planned that total gross voted expenditure grows by an annual average of 3⅓ per cent, with day-to-day expenditure (gross voted current expenditure) growing by an annual average of 2½ per cent and capital by an average of 12½ per cent (see Table 1.2). Already, the planned current expenditure for 2017 of €53.2 billion will be broadly in line with the amount of €53.4 billion spent in 2008. By 2021 total gross voted expenditure is estimated to be €10 billion, or 18 per cent, higher in 2021 than in 2016.

Table 1.2 Indicative Government Expenditure Ceilings, 2017 – 2021

€ billions	2016	2017	2018	2019	2020	2021
Gross Voted Current Expenditure	*51.9*	*53.2*	*54.4*	*55.8*	*57.2*	*58.6*
year on year % change		*2.5%*	*2.3%*	*2.5%*	*2.6%*	*2.5%*
Gross Voted Capital Expenditure	*4.0*	*4.4*	*5.1*	*5.9*	*6.5*	*7.1*
year on year % change		*10.5%*	*17.4%*	*15.1%*	*10.1%*	*9.4%*
Total Gross Voted Expenditure	*55.8*	*57.6*	*59.5*	*61.7*	*63.7*	*65.8*
year on year % change		*3.1%*	*3.4%*	*3.6%*	*3.3%*	*3.2%*

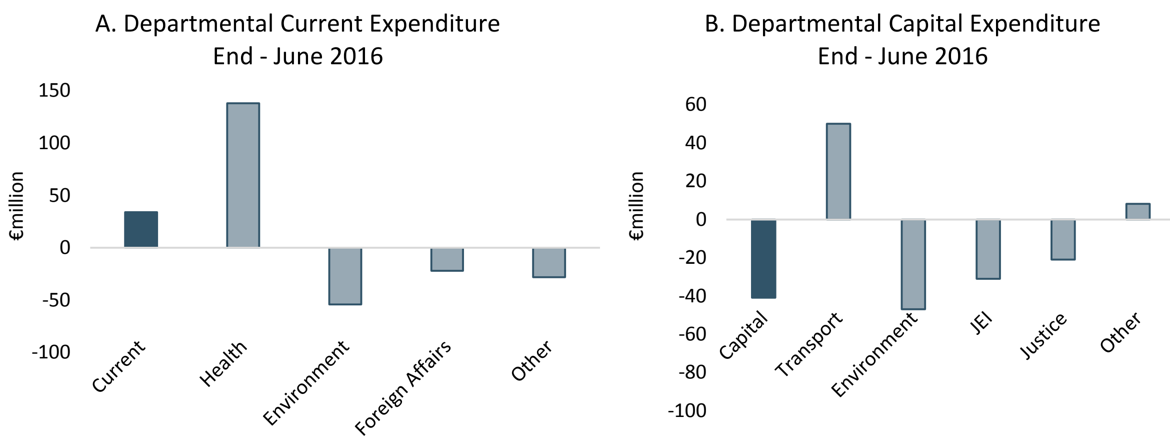
1.2 Ministerial Expenditure Ceilings 2016

Departmental Expenditure in 2016

The Stability Programme Update, published by the Department of Finance in April 2016, outlined that it was likely that voted spending pressures amounting to approximately ¼ per cent of GDP could materialise this year and that, with potential upside to the revenue projections, this level of spending pressures can be accommodated within the fiscal rules. The SES included an additional €540 million in expenditure for 2016, bringing total estimated gross voted expenditure for the year to €55.8 billion.

As outlined in Figure 1.1 below, and as set out in the June Exchequer Statement, overall expenditure is broadly in line with the published profiles based on the Budget 2016 position. Total gross voted expenditure to end-June 2016 amounted to €26.3 billion. This is 2.2 per cent or €556 million higher than the same period in 2015 and €7 million behind profile. Gross current expenditure is up 1.9 per cent or €459 million year on year and is 0.1 per cent or €34 million ahead of profile. Gross capital is 8.6 per cent or €96 million ahead of the end-June 2015 position and is -3.2 per cent or €41 million behind profile.

Figure 1.1 Departmental Expenditure performance against profile to end-June 2016



Source: End-June 2016 Exchequer Returns, gross current and capital expenditure against profile.
Note: Figure 1.1 compares the outturn to date to profiles as set in *Budget 2016.* As such, these profile do not include the additional funding provided earlier this year for the Departments of Health and Justice and Equality.

While overall expenditure is broadly in line with the original expenditure profiles, pressures are evident in a number of Departments. Gross current expenditure up to the end of June for the Department of Health of €6.8 billion was ahead of profile by €138 million (2.1 per cent). This pressure has been recognised in the Estimate for 2016 presented to the Dáil in June. This Estimate includes an additional €500m for the Department of Health to deal with spending pressures, including an overspend in the acute sector in the year to date, and to ensure that service levels are maintained in relation to health and social care. This substantial allocation is conditional on an improved governance and accountability framework. This will be applied consistently across the acute sector in particular, with the development, for the first time, of Efficiency and Productivity Improvement Plans signed off by individual hospital CEOs and the application of Hospital Intervention Teams where needed.

Gross current expenditure of €1.1 billion in the Justice Group of Votes to the end of June is ahead of profile by €13 million (1.2 per cent). This reflects in particular additional expenditure in the Garda Vote. The 2016 Estimate for the Garda Vote, presented to the Dáil in June, includes an additional €40m to support an intensified police response to the recent spate of serious crime related violence in Dublin.

Capital expenditure in the Department of Transport, Tourism and Sport is €50 million ahead of profile at the end of June due to better than anticipated progress on a number of fronts including roads and public transport investment. Additional expenditure pressures may arise in the Transport area as it is estimated that, following the flooding at the start of the year, c. €100 million will be required for repairs to transport infrastructure. It is anticipated that additional expenditure arising from the scheduling of expenditure on the school building programme will also arise. The actual amounts required will only be ascertained as work progresses during the year.

Turning to the estimated outturn position for 2016, the Estimates presented to the Dáil in June address the key areas where current expenditure pressures have been identified. The position in relation to capital expenditure can be difficult to assess at this stage of the year given that, while we are half way through the year, only just over 30 per cent of the capital allocation has been spent. As outlined above there may be additional pressures. However, there may also be some offsetting savings that cannot be quantified at this stage. Looking at 2015, the capital allocation was €3.8 billion and actual spend against that allocation was €3.7 billion with the saving of €0.1 billion brought into 2016 by way of capital carryover. Current expenditure for 2015 of €50.8 billion was €0.25 billion less than the overall current expenditure allocation. Taking this into account, the 2016 Estimates - as approved by Dáil Éireann on 7 July 2016 - represent a reasonable approximation for the aggregate outturn for the year. This would see gross voted expenditure for 2016 increase by €1.2 billion relative to 2015.

Table 1.3 Gross Voted Expenditure Trends

€ billions	2013 [1]	2014[1]	2015 [2]	2016
Gross Voted Current Expenditure	*50.0*	*49.5*	*50.8*	*51.9*
year on year % change		*-0.9%*	*2.6%*	*2.1%*
Gross Voted Capital Expenditure	*3.4*	*3.6*	*3.8*	*4.0*
year on year % change		*6.2%*	*6.3%*	*3.7%*
Total Gross Voted Expenditure	*53.4*	*53.1*	*54.6*	*55.8*
year on year % change		*-0.5%*	*2.8%*	*2.2%*

[1] Adjusted to reflect the disestablishment of the HSE Vote.

[2] Includes capital carryover of €0.1 billion into 2016.

The Estimates presented to the Dáil in June 2016 reflected transfers of functions to the extent that transfers of functions orders had been agreed. The transfer of environmental services from the Department of Environment, Communities and Local Government is not yet complete. In order to assist with planning for Budget 2017, the expenditure ceilings in this document are stated based on all transfers being complete. The adjusted ceilings for 2016 are set out in Table 1.4 below.

Table 1.4: Ministerial Gross Current and Capital Expenditure Ceilings 2016

	Estimates 2016 Current Ceilings	Transfers	**Adjusted 2016 Current Ceilings**	Estimates 2016 Capital Ceilings	Transfers	**Adjusted 2016 Capital Ceilings**
	€ million	*€ million*	***€ million***	*€ million*	*€ million*	***€ million***
Agriculture, Food & the Marine	1,134		**1,134**	217		**217**
Arts, Heritage, Regional, Rural and Gaeltacht Affairs	247		**247**	135		**135**
Children & Youth Affairs	1,113		**1,113**	25		**25**
Communications, Climate Action & Environment**	319	27	**346**	106	15	**121**
Defence	837		**837**	68		**68**
Education and Skills	8,477		**8,477**	595		**595**
Finance Group	430		**430**	25		**25**
Foreign Affairs and Trade Group	692		**692**	6		**6**
Health Group	13,695		**13,695**	414		**414**
Housing, Planning and Local Government**	937	(27)	**911**	488	(15)	**473**
Jobs, Enterprise, & Innovation	297		**297**	503		**503**
Justice Group	2,301		**2,301**	157		**157**
Public Expenditure & Reform Group	910		**910**	140		**140**
Social Protection	19,614		**19,614**	11		**11**
Taoiseach	204		**204**			
Transport, Tourism & Sport	663		**663**	1,075		**1,075**
Gross Expenditure Ceiling *	**51,872**		**51,872**	**3,967**		**3,967**

Note: * rounding effects
Departments marked ** are subject to finalisation for transfers of functions.

1.3 Updated Expenditure Ceilings 2017 to 2019

Pre-Budget Ministerial Expenditure Ceilings 2017 to 2019

Expenditure Report 2016, published on Budget day last year, set out current and capital expenditure ceilings for the period 2016 to 2018. These expenditure ceilings reflected certain expenditure pressures in Health, Education and Social Protection arising from demographics, additional expenditure in Agriculture arising from the roll-out of the Rural Development Programme and the carry-over impact of certain Budget 2016 measures, including the Lansdowne Road Agreement. The ceilings for Social Protection reflect an adjustment to take account of expected lower numbers on the Live Register.

The Public Capital Plan published in September last year outlines the framework and broad direction for investment priorities and sets out the Exchequer allocations to Departments over the period to 2021. The capital ceilings published in the Expenditure Report 2016 reflected the allocations set out in the Public Capital Plan.

The revised expenditure ceilings set out for 2017 and 2018 in this Report are consistent with the ceilings published in Expenditure Report 2016 as adjusted to reflect certain changes arising from the 2016 Estimates including transfers of functions. Any changes to the Ministerial level ceilings are detailed in the reconciliation tables included in the Annex. On a technical basis ceilings for 2019 are set with the calculations based on a similar methodology to that applied for the 2017 and 2018 ceilings.

These ceilings are in effect the technical pre-Budget position. Budgetary decisions in relation to dealing with any expenditure pressures and priorities arising from the *Programme for a Partnership Government* will fall to be considered as part of the Budget Estimates process. Such decisions will then be reflected in the Ministerial Expenditure Ceilings set out at Budget time.

Table 1.5: Pre-Budget Ministerial Gross Current Expenditure Ceilings 2017-2019

	2017 *€ million*	2018 *€ million*	2019 *€ million*
Agriculture, Food & the Marine	1,168	1,208	1,248
Arts, Heritage, Regional, Rural and Gaeltacht Affairs	229	229	229
Children & Youth Affairs	1,202	1,202	1,202
Communications, Climate Action & Environment**	346	346	346
Defence	837	837	837
Education & Skills	8,580	8,637	8,686
Finance	433	433	433
Foreign Affairs & Trade	694	694	694
Health	13,768	13,886	14,009
Housing, Planning and Local Government**	911	911	911
Jobs, Enterprise & Innovation	297	297	297
Justice & Equality	2,280	2,280	2,280
Public Expenditure & Reform	924	924	924
Social Protection	19,708	19,791	19,924
Taoiseach	171	171	171
Transport, Tourism & Sport	663	663	687
Lansdowne Road Agreement	320	637	637
Contingency Reserve	47	52	88
Total Gross Current Expenditure	**52,578**	**53,198**	**53,603**

Note: Departments marked ** are subject to finalisation

Table 1.6: Pre-Budget Ministerial Gross Capital Expenditure Ceilings 2017-2019

	2017	2018	2019
	€ million	*€ million*	*€ million*
Agriculture, Food & the Marine	208	208	208
Arts, Heritage, Regional, Rural and Gaeltacht Affairs	98	94	97
Children & Youth Affairs	22	23	23
Communications, Climate Action & Environment**	126	156	211
Defence	67	67	78
Education & Skills	650	675	706
Finance	22	22	22
Foreign Affairs & Trade	4	4	4
Health	454	473	550
Housing, Planning & Local Government**	552	638	614
Jobs, Enterprise & Innovation	525	490	500
Justice & Equality	181	142	174
Public Expenditure & Reform	136	160	162
Social Protection	9	8	8
Transport, Tourism & Sport	1074	1226	1273
Contingency Reserve			*100*
Total Gross Capital Expenditure	**4,128**	**4,386**	**4,730**

Note: Departments marked ** are subject to finalisation

Amounts included in aggregate Pre-Budget Position

The Pre-Budget position for all years to 2019 includes provision for demographic related pressures across Health, Social Protection and Education of c €0.4 billion in total. Further detail in relation to demographic related costs is set out in Chapter 2. A saving arising from lower numbers on the live register has also been taken into account. In 2017, excluding the Lansdowne Road Agreement, the carryover impact of the measures set out in Budget 2016 accounts for just over €0.1 billion. The impact of the Lansdowne Road Agreement amounts to €0.3 billion in 2017. In 2016 Exchequer pay and pensions account for approximately 35 per cent of gross voted current expenditure.

Table 1.7 Pre-Budget Expenditure Increases

€ billions	2016	2017	2018	2019
Gross Voted Current Expenditure - Baseline[1]	***51.87***	***51.87***	***52.58***	***53.20***
Carry forward of Budget Measures and demographics[2]		*0.54*	*0.45*	*0.50*
Carry forward of Budget Measure - Lansdowne Road		*0.32*	*0.32*	
Live Register Savings [3]		*(0.15)*	*(0.15)*	*(0.10)*
Gross Current Expenditure - Pre-Budget Position	***51.87***	***52.58***	***53.20***	***53.60***
year on year change		*0.70*	*0.62*	*0..40*
year on year % change		*1.4%*	*1.2%*	*0.8%*
Gross Voted Capital Expenditure - Baseline [1]	***3.97***	***3.97***	***4.13***	***4.39***
Increase in capital plan		*0.17*	*0.26*	*0.35*
Gross Capital Expenditure - Pre-Budget Position	***3.97***	***4.13***	***4.39***	***4.74***
year on year change		*0.17*	*0.26*	*0.35*
year on year % change		*4.2%*	*6.3%*	*7.9%*
Total Gross Voted Expenditure[4]	***55.84***	***56.71***	***57.59***	***58.33***
year on year change		*0.87*	*0.88*	*0.74*
year on year % change		*1.6%*	*1.6%*	*1.3%*

[1] The baseline for each year in the period 2017 to 2019 is the prior year's expenditure.
[2] Post 2017 includes demographics and additional amount in respect of RDP.
[3] Live Register savings fall to be reassessed each year.
[4] No general inflationary increases included.

Reconciliation of Aggregate Ministerial Expenditure Ceilings 2017 to 2018

Table 1.8 below sets out a reconciliation between the revised pre-Budget ceilings for 2017 and 2018 and the ceilings as published in Expenditure Report 2016. The substantive change arises from the additional €0.5 billion allocated in the 2016 Estimates in June 2016. This additional amount is carried forward within the aggregate ceilings.

Table 1.8: Pre-Budget Ministerial Gross Current and Capital Expenditure Ceilings 2017-2019

	2017	**2018**
Current Expenditure	€ million	€ million
Expenditure Ceilings (Expenditure Report 2016)	**52,195**	**52,815**
Adjustments		
Reclassification including PPP Unitary Payments	(160)	(160)
Additional 2016 Estimates Allocation – June 2016	540	540
Pre-Budget Current Ceilings	**52,575**	**53,195**
Capital Expenditure	€ million	€ million
Capital Envelope as set out in the Public Capital Plan	**3,970**	**4,230**
Reclassification of PPP Unitary Payments	160	160
Pre-Budget Capital Ceilings	**4,130**	**4,390**

* rounding effects

1.4 Expenditure Options for Budget

Gross voted expenditure is projected to rise from just over €55.8 billion in 2016 to almost €57.6 billion in 2017 an increase of over €1.7 billion. As outlined above, €0.6 billion of the current expenditure increases and €0.25 billion of the capital expenditure increases are to be allocated from the available fiscal space. The accommodation of budgetary expenditure options from this available fiscal space will require prioritisation of options adopting a multi-annual approach. In addition, as outlined in the SES, scrutiny of the existing level of spend of almost €56 billion to identify savings and efficiencies can also make resources available for new budgetary measures.

Targeted improvements in public services, with a particular focus on health, housing, education, disability, and child development and care are key priorities of Government.

The provision of quality healthcare is a key Government priority with a commitment to annual increases of 3 per cent in the health budget. The increase provided in 2016 amounts to 6 per cent following an increase of 4½ per cent in 2015. An increase of 3 per cent in the Health allocation for 2017, after taking account of the increase already built into the base for demographics and the Lansdowne Road Agreement would utilise over ⅓ of the fiscal space available for current expenditure increases.

In the Education sector, the recent announcement in relation to Special Needs Assistants supports the growing participation of children with Special Needs and will support their full participation and progression within the educational system. This measure will have an impact on 2017 resources.

Budget 2016 included a significant measure to extend the Early Childhood Care and Education Scheme, including facilitation of children with disabilities. The pre-Budget position for 2017 includes an increase of €89 million for the Department of Children and Youth Affairs to fund the carryover impact of this measure.

The Minister for Housing, Planning and Local Government is currently preparing an Action Plan on Housing to set out how the State will tackle housing supply and increase social housing provision. Certain commitments in this area in relation to increases in rent supplement and the funding of a local infrastructure fund will be a priority call on the resources available for 2017.

Given the range of options and demands for additional resources, it will be necessary to strike a balance between addressing urgent priorities and developing longer term solutions.

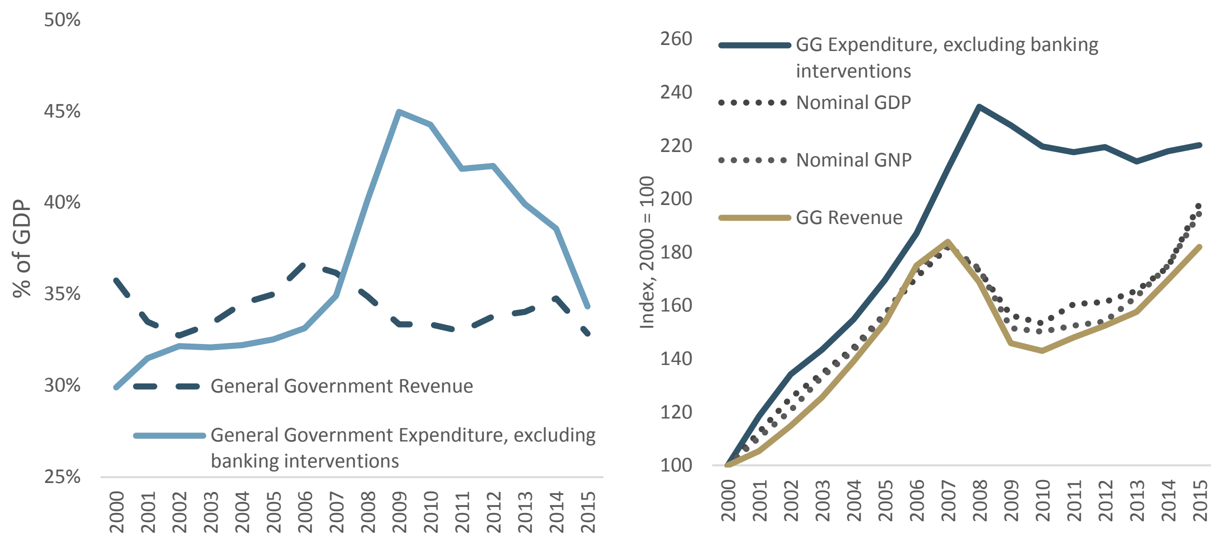
Chapter 2 of this report assesses trends in public expenditure comparing the pre- and post-crisis period. Chapter 3 examines the current framework in place for public expenditure planning and management. Chapter 4 discusses the fiscal rules and public expenditure. Chapter 5 discusses the efficiency and effectiveness of public expenditure and a framework for assessing the impact of expenditure policies. The Annex to the report provides a Departmental overview of pre-Budget spending allocations for the next three years. It also sets out further details on budgetary options on a Departmental basis.

Chapter 2
Public Expenditure Trends

2.1 Recent Expenditure trends

Ireland's fiscal position has undergone significant change over the past decade. Figure 2.1 below plots the trajectory of the public finances since 2000. It shows the scale of the gap between revenue and expenditure which developed from 2008 onwards, necessitating large levels of borrowing to finance the day-to-day running of the State and public services. It also shows the impact of the difficult spending and taxation policies that were adopted in response to the crisis.

Figure 2.1 Evolution of the Public Finances in Ireland, 2000-2015

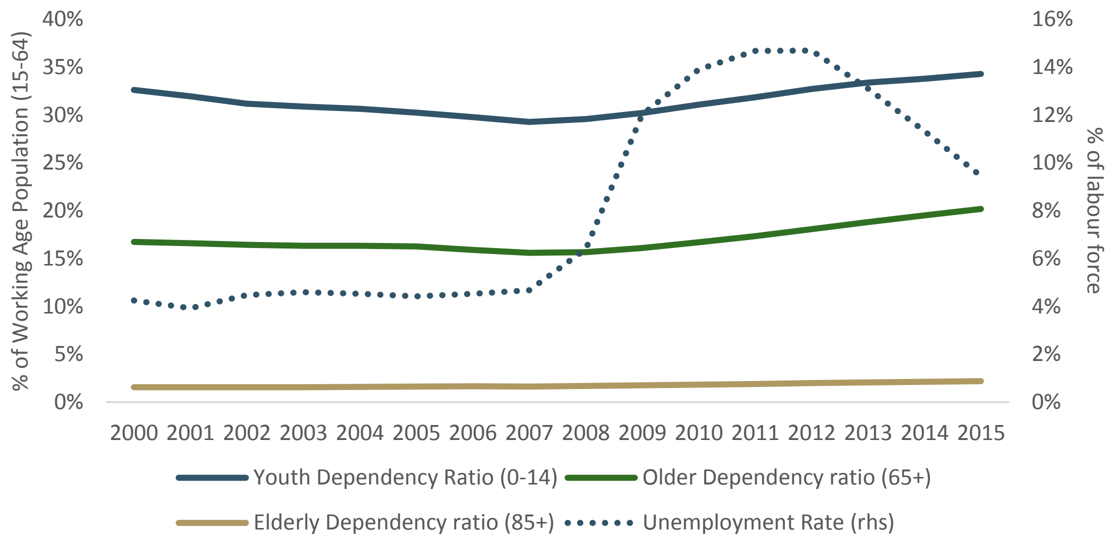


Source: Central Statistics Office and Department of Public Expenditure and Reform calculations

While the misalignment of the public finances becomes clear from 2007 in Figure 2.1, it has its roots in underlying imbalances that had been building over the previous years. The relative growth rates of key economic and fiscal variables show that in the period leading up to the crisis expenditure grew significantly ahead of revenue and economic growth. General Government expenditure increased by 134 per cent between 2000 and peak expenditure in 2008. This compares to economic growth of just under 74 percent and revenue growth of 69 per cent over the same period. Given the significance of the construction sector in driving these rates of economic and tax growth and the subsequent collapse of this sector it is clear that this expenditure growth was unsustainable.

Over this period there was also considerable population growth, mainly through the migration channel. Over the period 2000 to 2008, growth in the overall population averaged 2 per cent per annum. While an increasing population will also increase public service demands, there was relative stability in the key demographic dependency ratios and labour market drivers of spending. Figure 2.2 shows that it was actually over the course of the fiscal crisis when increased service pressures related to demographic change began to build.

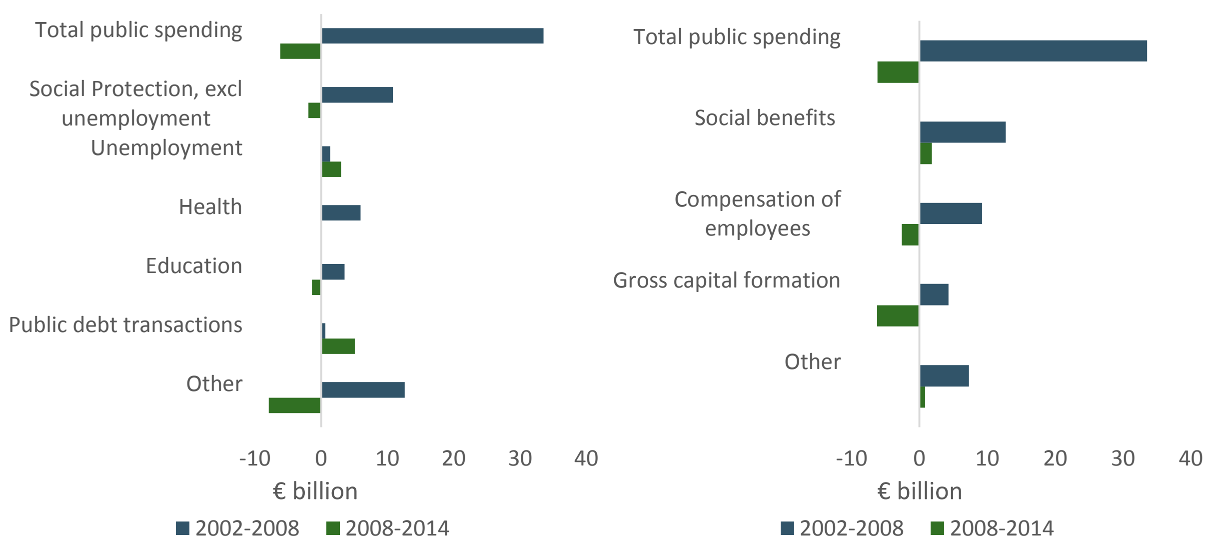
Figure 2.2 Evolution of the Public Finances in Ireland, 2000-2015



Source: Central Statistics Office and Department of Public Expenditure and Reform calculations

Figure 2.3 examines the evolution of the main sectors of public spending in the six years before and after peak spending in 2008. This horizon broadly encompasses the so-called 'Celtic Tiger' period on the one hand and the post-crisis and early recovery on the other. The breakdown examines public spending by key function and economic classification.[1]

Figure 2.3 Changes in expenditure by main category, 2002-2008 and 2008-2014



Source: EUROSTAT

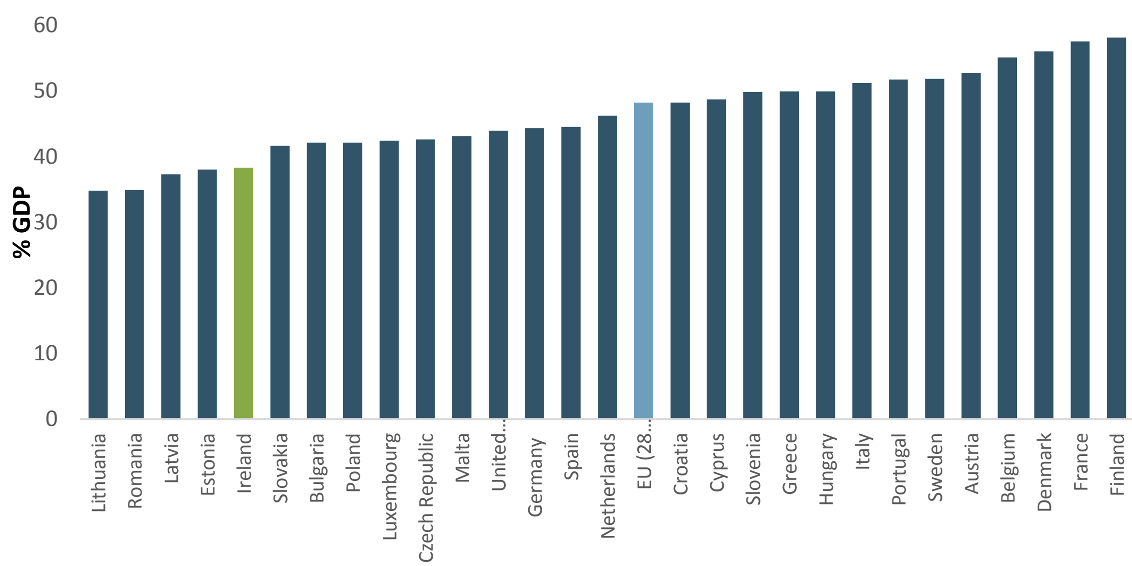
[1] Classification taxonomies for public expenditure include administrative (Departments and schemes), programmatic (e.g. by policy area – widely used as part of performance budgeting), functional (e.g. the OECDs Classification of Functions of Government or COFOG), economic (e.g. the IMF's Government Financial Statistics classification or GFS).

All the main categories of expenditure experienced growth in the six years to 2008, giving an increase in general government expenditure of 75 per cent (€34 billion). This growth reflects a number of broad issues, including increased public service demand as a result of population increases, widening the range of public services and meeting rising costs. Many of the policy changes introduced over this period established commitments to future expenditure that were unsustainable. Once established, unwinding structural rigidities of this nature can be difficult due to, for example, their social impact or legal standing. A significant factor in the extent of this increase can also be traced to the underdeveloped Departmental ('Voted') expenditure control framework in place at that time. The weaknesses in the framework, including semi-automatic provision for projected price rises, are discussed in chapter 3.

In its response to the crisis, the Government introduced a series of measures to correct the excessive deficit and firmly place the debt-to-GDP ratio on a sustainable downward path. This was done in a targeted way in order to protect key public services and social supports, including support for the unemployed, to the greatest extent possible at a time of increasing demand. In order to protect these vital public services a significant share of the consolidation in the post-2008 period was on infrastructural investment (fixed capital formation) as shown in Figure 2.3. The change in infrastructural investment between 2008 and 2014 represented a fall of over 60 per cent, as compared to an overall fall in general government expenditure of 8 per cent.

Moving beyond the crisis and into a period where additional resources are becoming available, it is useful to take stock of where Ireland stands in relation to other EU countries. Figure 2.4 shows that, on a headline basis, Ireland's public expenditure as a share of GDP is relatively low by European standards at just over 38 per cent in 2014. This compares to an average across all European Union countries (EU28) of 48 percent, 10 percentage points higher.

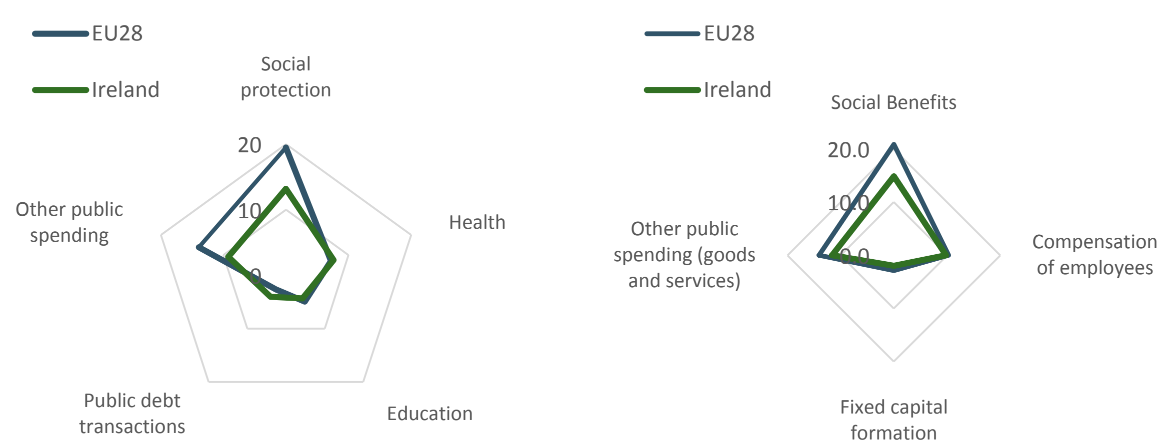
Figure 2.4 Cross country comparison of public expenditure, % GDP in 2014



Source: EUROSTAT

The main source of divergence – when expressed as a share of economic output - is in the area of social protection where Ireland's spending is significantly lower, while spending on health and education is broadly in line with the average (see Figure 2.5). Given the labour intensity of education and health it is not surprising that compensation of employees is also broadly in line with the EU average. Ireland is somewhat behind the EU28 in terms of investment in physical infrastructure. This is an issue highlighted recently by the Irish Fiscal Advisory Council (IFAC) and at the National Economic Dialogue.[2] It is a view shared by Government. That is why a planned increase of €5.1 billion in capital expenditure between 2016 and 2021 was announced in the SES.

Figure 2.5 Cross country comparison by key expenditure component, % GDP in 2014



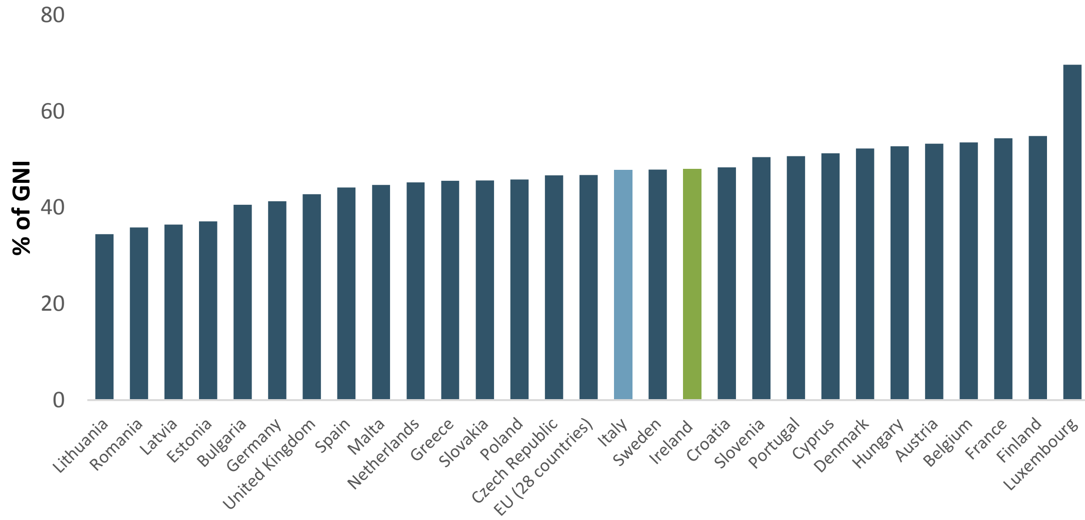
Source: EUROSTAT

While comparisons of this type provide a useful guide, there are a number of distortions that should be addressed before firm conclusions are drawn. First, there is a long running debate as to whether public expenditure in Ireland is better presented as a share of national output or national income (see for example Abbas, 2012). Furthermore, in relation to the composition of spending, there is significant divergence between Ireland and other EU states in relation to Defence. To facilitate a more consistent comparison it may be more appropriate to omit this expenditure category. Lastly, while dependency rates in Ireland are beginning to increase, Ireland remains in a relatively favourable demographic position in comparison to other EU countries. This can be reflected in cross-country comparisons by extending a methodology applied to adjust health spending for demographic outcomes (Redmond, 2012).[3] This allows for the calculation of

[2] Kennedy, A. (2016). *Public Capital: Investment Stocks and Depreciation*. Available here: http://www.fiscalcouncil.ie/wp-content/uploads/2012/01/Public-Capital-_Final_Website_080616.pdf.
[3] Redmond, Paul (2012). *Expenditure and Outputs in the Irish Health system: A cross country comparison*. Available here: http://www.publicpolicy.ie/wp-content/uploads/HealthSystemIreland.pdf.

a demographic adjustor to apply to age-related expenditures, mainly health, pensions and education. Figure 2.6 adjusts for these three issues in comparing Ireland to other EU countries.

Figure 2.6 Cross country comparison of adjusted public expenditure in 2014, % GNI



Source: EUROSTAT and Department of Public Expenditure and Reform calculations
Note: GNI is used as a measure of national income rather than GNP as it is a more widely available.

While somewhat crude, this approach indicates that if Ireland's demographic position and relative defence spending is accounted for when expressing public expenditure as a share of national income Ireland is slightly above the EU average in 2014. Looking to the future, this shows the importance of accounting for demographic drivers and their likely future evolution when making medium-term spending plans; an issue that will be returned to in the following chapter.

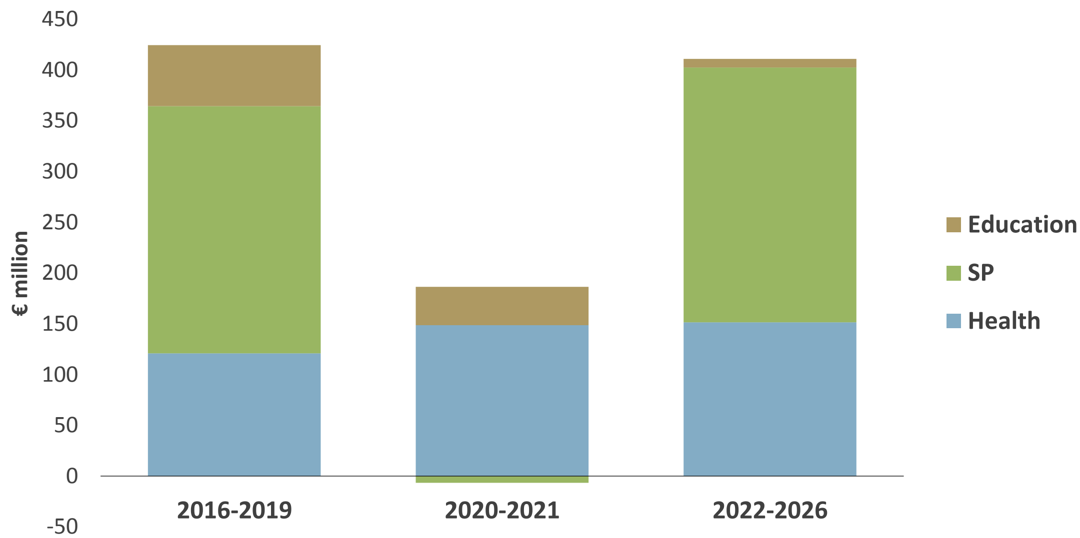
2.2 Assessment of future expenditure trends

Identifying demographic drivers is key to planning for future spending needs. This analysis of demographic impacts provides robust foundation on which to construct a wider approach to modelling future risks and associated uncertainty. While at the moment Ireland's demographic structure is relatively benign, in assessing future expenditure pressures the likely evolution of the population structure must be examined. Connors et al (2016) highlighted the possible impact of a changing age profile on sectors such as, Social Protection, Health and Education. The results of this analysis are presented in Figure 2.7.[4] As set out in chapter 1, the expenditure ceilings published in this Report reflect the pressures in Health, Education and Social Protection arising from demographics highlighted in this analysis.

[4] See Connors, J., Reilly, D. and Ryan, C. (2016) *Budgetary Impact of Changing Demographics 2016-2026,* IGEES. http://igees.gov.ie/wp-content/uploads/2014/11/BUDGETARY-IMPACT-OF-CHANGING-DEMOGRAPHICS-2016-2026-2.pdf

The approach used in identifying the likely public expenditure impact arising from population growth and changing demographic structure is based on the identification of age-related unit costs across various public services. By applying demographic projections to these costs the costs of population change can be estimated.

Figure 2.7 Estimated average annual impact of demographic change on public expenditure



Source: Connors et all (2016)
Note: The figures above reflect the average annual increase over the period in question.

Work is currently underway to develop a common framework for modelling government spending that extends beyond an analysis of demographic drivers. This framework will enable scenario analysis of risks based on consistent and up-to-date demographic and macroeconomic assumptions and shocks. It will also establish, in broad terms, how demographic, macroeconomic and sectoral drivers interact with policy to change expenditure patterns. This will build on and extend existing research, particularly on the impact of demographics, to separately model the evolution volume / demand and price impacts. The volume measure will be the service activity or transfer payment demand based on the interaction of drivers (demographics, labour market factors etc.) with existing policy. Volume parameters will differ across expenditure items and can differ across pay and non-pay. The price parameter will be determined by the relevant sectoral deflators where agreements are in place or the Government acts as a price-taker. The impact of public service reforms in this area will also be taken into account, for example changes to procurement practices. While this scenario based approach will enable an assessment of the risks and uncertainty intrinsic to all medium-term planning there remain certain items – notably the impact of climate change – that are too complex to include directly and separate complementary analysis will be required.

Chapter 3
Public Expenditure Planning and Management

Following the fiscal crisis of 2008, a number of significant reforms and innovations have been introduced to Ireland's budgetary architecture. While the overall fiscal parameters are determined by the operation of the EU Expenditure Benchmark (discussed in chapter 4) , in the area of public expenditure the major reforms relate to the introduction and implementation of the Medium-Term Expenditure Framework (MTEF).[5] Key objectives of the MTEF are:-

i. support economic stability and underpin the medium-term stability of the public finances;

ii. promote the effective allocation of resources on the basis of evidence and evaluations of effectiveness and in furtherance of agreed Government priorities; and

iii. secure greater efficiency in the provision of public services to achieve better value for money (VFM) and with a sharp focus on the quality and accessibility of public services.

Ireland's MTEF was originally put in place in 2011 to address some of the significant weaknesses in public expenditure management disclosed by the budgetary crisis. It builds on the experience of public expenditure management in the period running up to the crisis as well as international best practice in relation to public financial management. The MTEF is designed to reinforce aggregate fiscal discipline, facilitate a more strategic allocation of expenditure within and between sectors and encourage improved planning of expenditure over a three-year time horizon.

The MTEF has operated during a period when Ireland has implemented significant fiscal consolidation in order to return sustainability to the public finances. This chapter outlines the current design of Ireland's MTEF, discusses some observations made on its operation and identifies some areas in which the MTEF might be enhanced.

3.1 Background

Ireland's MTEF was first introduced in December 2011 and was put in place on a legislative basis under the Ministers and Secretaries Act, 2013. The core element of Ireland's current MTEF set out under the Ministers and Secretaries Act, 2013 is the determination of:[6]

i. a Government Expenditure Ceiling (GEC) essentially equivalent to total gross voted expenditure (i.e. current and capital); and

---

[5] This section draws on Department of Public Expenditure and Reform (2013) Ireland's Public Expenditure Framework in Comparative Perspective (Expenditure Report 2014) and Department of Finance (2011) Reforming Ireland's Budgetary Framework: A Discussion Document.

[6] The detailed requirements of the current MTEF are set out in the Department of Expenditure and Reforms circular http://circulars.gov.ie/pdf/circular/per/2013/15.pdf

ii. the allocation of the GEC into individual Ministerial Expenditure Ceilings (MEC) encompassing both current and capital expenditure.

Other important elements of the MTEF include:

i. the further development of performance budgeting with a focus on the impact of public services to enhance ex-post scrutiny of outputs achieved from public spending;[7]

ii. ongoing Value For Money (VFM) evaluations assessing the effectiveness and efficiency of spending programmes utilising the Irish Government Economic and Evaluation Service and drawing on the Public Spending Code;[8]

iii. periodic Comprehensive Reviews of Expenditure to assess whether or not programmes are delivering in light of changes in government priorities as well as proposals for new expenditure programmes; and

iv. openness, transparency and public accountability in relation to the operation of the Framework including through greater engagement with the Oireachtas and through a whole-of-year budgetary process.

The conduct of Ireland's MTEF has not been without its challenges. It has, however, been central to the major consolidation of public expenditure that was essential to restore stability to the public finances. This chapter will review some issues that have been raised by the Irish Fiscal Advisory Council (IFAC) and the European Commission regarding in particular the expenditure ceilings. It also highlights the importance, as Ireland now falls under the preventive arm of the Stability and Growth Pact (SGP), of taking steps over time to strengthening the effect of the MECs on the conduct of expenditure policy to improve the focus on medium-term, structural and strategic planning of expenditure within each sector of the public service.

Pre-Crisis growth in public expenditure

Chapter 2 presented an overview of the large, and ultimately unsustainable, increases in expenditure during the pre-crisis period. These increases highlight the underlying rationale for the introduction of expenditure ceilings. It also stresses the risks to responsible conduct of expenditure and fiscal policy from a budgeting model applying indexation of substantial elements of overall public expenditure. The clear evidence from the pre-crisis period demonstrates how this creates an upward momentum in public expenditure growth and discourages reform initiatives to generate efficiency savings and effectiveness gains as well as prioritisation of spending within overall allocations.

Prior to the economic and fiscal crisis Departmental expenditure estimates were based primarily on a bottom-up assessment of demands, which led to high, and ultimately unsustainable, rates

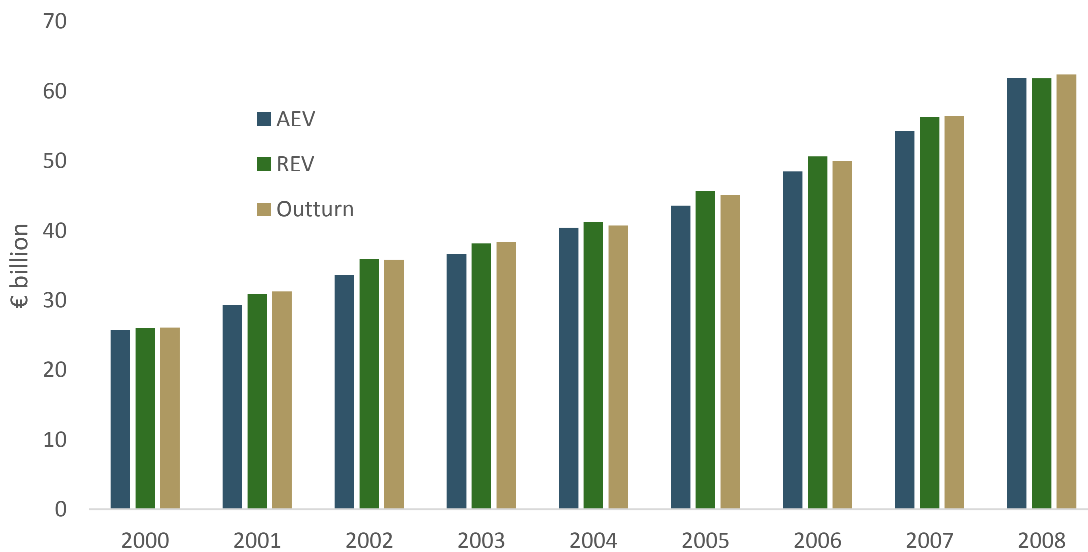
[7] Further information on on performance budgeting is set out in Section 5.3.

[8] As part of the Performance Report which the Minister for Public Expenditure and Reform has committed to submitting to the Oireachtas commencing Q1 2017, an update will be provided on progress in performance budgeting as well as in relation to VFM reviews consistent with the commitment in the *Programme for a Partnership Government*.

of expenditure growth. This was exacerbated as the process for agreeing final expenditure allocations had multiple stages where negotiations took place between the Department of Finance and line Departments. Price rises were semi-automatically applied to both pay and non-pay Departmental expenditure allocations early in the process and subsequent negotiations incrementally increased expenditure with no formal link to medium-term fiscal policy. The crisis period - and the need to stabilise and subsequently reduce the deficit - then led to a sharp shift in the focus of expenditure management away from the sectoral, 'bottom-up' approach to a focus on the availability of resources.

As outlined in Figure 3.1 below, significant increases in expenditure occurred at each stage in the process.

Figure 3.1 Departmental Expenditure, Comparison of AEV and Outturn



Source: The pre-budget position published in the Abridged Estimates Volume (various years), final allocations voted by the Dáil published in the Revised Estimates Volume (various years) and outturns from the Department of Public Expenditure and Reform Databank.

The outcome of this process saw on average a 7½ per cent increase factored into the pre-budget position with a further 4¼ per cent in the final Departmental budgets voted by the Dáil after taking account of Budget measures. The clear conclusion is that this multi-step process and indexation of expenditure aggregates failed to control, and in fact facilitated unsustainable growth in public expenditure.

3.2 Expenditure Ceilings

The establishment of multi-annual (i.e. three year) Expenditure Ceilings are at the heart of the design and operation of the MTEF. The EU Expenditure Benchmark is currently used to set a Government Expenditure Ceiling (GEC) which is the maximum volume of financial resources that it can use in each of three years. The Government then decides upon the share of the overall expenditure ceiling across Government Departments in the Ministerial Expenditure Ceilings (MEC) also set for three years.

In comparative international terms, Ireland's expenditure ceilings perform well in terms of their coverage, the limited exclusions of expenditure items and in terms of the level of detail involved given their application at ministerial level.

Setting Departmental spending ceilings on a multi-annual basis seeks to ensure the allocations decided in the budgetary process are consistent with aggregate fiscal objectives. It is intended to provide clarity about the resources Departments will have available over a number of years facilitating better planning for the provision of key public services. Such an approach should also facilitate a more strategic approach to resource allocation by emphasising prioritisation of key services over reaction to day-to-day pressures. The multi-annual approach reinforces fiscal discipline, as decision makers and the public are aware of the budgetary parameters.

IFAC and European Commission views on the operation of the MTEF

The perspectives and advice of expert national and international bodies has made an important contribution to the design and operation of the MTEF. At national level, the Irish Fiscal Advisory Council (IFAC) in its assessments have raised two main issues in relation to the MTEF as follows:[9]

i. Government expenditure forecasts do not provide a meaningful anchor for medium-term budgetary planning reflecting the non-indexation of key spending aggregates; [10] and

ii. the system of multi-year expenditure ceilings is not being implemented effectively owing to continuous upward revisions to spending.[11]

At EU level, in the Country Report for Ireland published by the EU Commission in February 2016, the Commission has commented on the frequency with which the expenditure ceilings have been revised.

These contributions point to some important elements relating to Ireland's MTEF and how it might be developed further and strengthened in the future to respond to the new challenges facing the effective management and planning of public expenditure over the medium-term. It is, however, valuable to consider in more detail the specific issues raised.

Revisions to Expenditure Ceilings

The assessment in relation to this issue by the Commission are based on an analysis of the changes in ceilings over the period since their introduction. This, in fact, covers a period of significant expenditure consolidation where a certain degree of flexibility was required to meet deficit reduction targets while maintaining key services.

---

[9] See for example the Fiscal Assessment Report of November 2015

[10] This is also reflected in light of currently projected strong medium-term growth performance in a declining ratio of government spending to GDP/GNP over that period.

[11] The European Commission in its Country Specific Recommendations for Ireland have recommended that the existing discretionary powers to change expenditure ceilings should be limited beyond specific and predefined contingencies.

The credibility of any medium term expenditure framework rests on how it balances the need to be firm and yet responsive. An overly mechanistic framework could be unresponsive to needs, changing priorities or unexpected challenges, whereas an overly flexible system will be seen as a notional exercise rather than real expenditure control.

Under the corrective arm of the Stability and Growth Pact to which Ireland has been subject up to the beginning of this year, the fiscal anchor has been the target for the headline General Government Deficit. The over-achievement of these targets has permitted revisions to Budget expenditure targets and expenditure ceilings.

Better than forecast economic and tax revenue growth and lower debt servicing costs allowed an easing of the consolidation burden while deficit targets were achieved. The ability to revise expenditure ceilings allowed Government to address social priorities and invest in infrastructure to support economic recovery during a period of significant and severe fiscal consolidation.

In light of the very significant challenge involved in restoring Ireland's public finances, the scale of the fiscal consolidation required and the importance of maintaining political and public support for the objective of achieving stable public finances an excessively rigid adherence to the expenditure ceilings - which in any event were subject to a high degree of uncertainty - would have exacerbated the risk of failure.

It is also important to note that the revision of the GEC by Government must be consistent with overall compliance with the SGP. Providing this is achieved, under the preventive arm of the SGP, changes in the GEC will be driven by changes in the amount that can be spent while still complying with requirements in relation to the MTO or the adjustment path towards the MTO. In practice changes in this can arise from changes in a broad number of projected / technical parameters.

3.3 Medium-Term Expenditure Projections

The discussion above on the conduct of fiscal policy in the pre-crisis period strongly highlights the risks to sensible and responsible expenditure policy and to the overall sustainability of fiscal policy in circumstances where semi-automatic indexation of all the main components of public expenditure is adopted as the new baseline of growth in public expenditure. As illustrated by the evolution of public expenditure in the period running up 2008, this not only introduces an inflationary momentum into public expenditure increases, it can also erode the funding resources that need to be prioritised by Government to address economic and social priorities.[12]

Moving beyond the crisis period the challenge - in a growing economy with increasing pressures on the public purse – is to ensure that our assessment of spending pressures taking account of likely expenditure developments is well-grounded. Consequently, while expenditure policy must focus on resource availability, this should be complemented by a 'bottom-up' analysis of expenditure growth based on existing policy. Such an analysis means that decisions on setting

[12] As highlighted by the *Standstill* scenario outlined in IFAC's Fiscal Assessment Report [CHECK REFERENCE]

MECs and future sectoral strategies are based on an assessment of the affordability of both existing and new policies. Scenario based analysis, as discussed in chapter 2, is also a useful means of assessing risk and could be used in developing appropriate 'buffers' against uncertainty in later years. This also provides certainty to Departments by maintaining the MEC's. Such a buffer is distinct from the 'Rainy Day Fund', which was proposed to address significant shocks.

Chapter 1 of this report set out the technical pre-budget ceilings, which incorporate a range of factors (other than indexation) giving rise to increased public expenditure over the medium-term period in order to serve as a realistic baseline for budgetary discussions and decision-making.

In specific terms the current practice which is retained in the technical ceilings included in this report is that the social welfare expenditure ceiling accommodate changes due to demographics and unemployment related expenditure and then is adjusted as necessary to reflect Budget day decisions. In relation to pay rates, the technical MECs are adjusted to reflect any new public service pay and pensions agreements decided by Government but do not benefit from general inflationary increases.

Non-pay expenditure is subject to drivers other than inflation and demographics that can either increase or reduce the amount required year on year. It is obviously important that these drivers are identified to ensure that overprovision is not made in ceilings in subsequent years. Detailed analysis is required to ensure that such changes in non-pay expenditure are reflected appropriately. How it is planned to advance this programme of work is set out in chapter 2 of this report. Pending the outcome of this analysis, holding non-pay expenditure broadly flat in nominal terms is the best option to support the achievement of efficiencies in non-pay expenditure.

Surveying the international experience in this area, the non-application of price increases (de-indexation) where the decision is discretionary is a mechanism utilised in other jurisdictions to generate efficiency dividends and promote productivity where State bodies are effectively challenged to maintain the existing level of service with less resources.[13] Automatically linking particular areas of spending to price rises can also 'crowd' out other areas of spending where more efficient policies could be pursued.

In summary, the pre-crisis period has demonstrated the risks inherent in restating expenditure amounts ('ceilings') applying inflationary increases as a new baseline (i.e. floor) for any new increased expenditure. A key objective of the MTEF is to ensure that Ministers and their Departments manage public expenditure strictly within their Expenditure Ceiling. This necessitates an approach to expenditure management in which a systematic programme of expenditure reviews and efficiency-generating reforms is underway in each sector to ensure that priority initiatives can be supported and developed within the allocated ceiling is respected.

[13] See, for example; Marcel, M. (2012) *Budgeting for Fiscal Space and Government Performance beyond the Great Recession*. Organisation for Economic Coordination and Development (OECD).

3.4 Strengthening the expenditure ceilings under MTEF

Substantial progress has been made in restoring stability to the public finances and enhancing the long-term sustainability of fiscal policy through the operation of the MTEF. This is demonstrated in particular through the shift from the corrective to the preventive arm of the Stability and Growth Pact (SGP) from the beginning of 2016.

It is essential however to build on the progress achieved to date by examining the scope to further strengthen the operation of the MTEF to help secure the achievement of the fiscal policy objectives set out in the Summer Economic Statement and also to support the operation of the reformed budgetary process.

While the specific points made by IFAC and the European Commission in relation to the MTEF are addressed above, they do draw attention to an area where the framework requires further development. This relates to the strong focus being placed on the first year's spending plans, with the multi-annual dimension of expenditure planning (i.e. year two and year three) heretofore often seen as indicative, non-binding and subject to future budgetary processes. Moreover, as described above the nature of the corrective arm of the Stability Growth Pact (SGP) to which Ireland was subject up to the end of 2015 was such that stronger economic and revenue performance over and above that forecasted allowed for upward revisions in expenditure ceilings in the course of the year.

Ireland has moved since the beginning of 2016 from a situation where the main objective of fiscal policy under the corrective arm of the SGP was to correct the Excessive Deficit by bringing the headline General Government Deficit below 3 per cent of GDP. Under the preventive arm of the SGP the primary objective of fiscal policy is the achievement of the Medium-Term Budgetary Objective - a small deficit structural (i.e. underlying terms).[14] Therefore, full compliance with the EU Expenditure Benchmark, in circumstances where all available fiscal space is allocated to MECs, essentially rules out upward adjustments to expenditure ceilings on the basis of better than expected economic / revenue performance irrespective of whether it relates to structural or cyclical factors (which are in any event very difficult to identify robustly in real time).

In this scenario, revised / supplementary estimates are not ruled out but must be funded by re-prioritisation and re-allocation of other expenditure or through new revenue raising measures.[15,16]

[14] Formally defined as a Structural General Government Deficit of -0.5 of GDP.

[15] The need for revised / supplementary Estimates can arise for: policy reasons where the Government may decide that it is appropriate to allocate additional funding to a certain area; on account of an expenditure overrun; it may reflect timing factors affecting receipts or expenditure; or it may be attributable to technical factors.

[16] In the case of the revised estimates for the Department of Health and the Department of Justice in Estimates 2016, the scope for meetings these requirements arose from the unanticipated re-categorisation by Eurostat of what had been treated as a financial transaction as general government expenditure

Under this framework, MECs for 2017 and the following two years will apply with significantly greater rigour than heretofore. Changes will be limited to those arising, for example, from budgetary initiatives where new funding is provided from the available estimated fiscal space or on account of re-allocations with the overall GEC. Increases in tax revenue – other than where it reflects discretionary tax increases - will not be available to support additional expenditure.

Consequently, it is essential - in order to underpin effective planning of public service provision - that expenditure planning is now conducted in a manner where multi-annual expenditure ceilings increasingly function as real anchors of medium-term expenditure policy rather than as indicative and non-binding.

This requirement, highlights the importance of the assessment of expenditure trends and analysis of key drivers of significant elements of public expenditure as discussed in chapter 2 of this report in terms for example of demographics, demand-led schemes or those that are sensitive to economic conditions (e.g. unemployment payments) and public service pay developments.

The Department of Public Expenditure and Reform will develop proposals for consideration by the Minister for Public Expenditure and Reform, Government and the Oireachtas by end-year on the options available for reinforcing the role of three-year expenditure ceilings in copper-fastening the progress achieved in restoring stability to Ireland’s public finances and for sustaining this stability over the medium-term period, particularly in light of the increased uncertainty and risks faced by the Irish economy in the wake of the result of the recent referendum in the UK on EU membership.

Chapter 4
Fiscal Rules and Public Expenditure

The chapter gives an overview of the aspects of the EU fiscal framework that currently applies to Ireland under the Preventive Arm of the Stability and Growth Pact (SGP). Furthermore, it reviews the benefits and drawbacks of expenditure rules more broadly. The effective operation of Ireland's fiscal framework has a critical role in maintaining and securing long-term sustainability of Ireland's public finances and contributing to the realisation of economic and social objectives through public expenditure and taxation policies.

Box 1 presents an analysis of the impacts that expenditure rules have on public investment as it has been indicated in the literature that investment can reduce on implementation of expenditure rules.

4.1 Assessment of the SGP rules

The current Stability and Growth Pact rules are based on macroeconomic theory. The key indicator that forms part of the Stability and Growth Pact, the 'Fiscal Compact' treaty and the domestic Fiscal Responsibility Act 2012 is the structural budget balance. This is the government budget balance corrected for the effects of the business cycle (using the output gap methodology grounded in the Phillips Curve) and one-off payments such as bank bailouts.

The Structural Balance

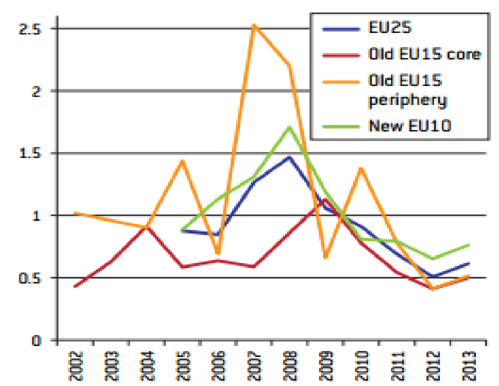
The structural balance is intended to account for certain variables that fluctuate across positive and negative business cycles and give policymakers certainty when setting fiscal policy for the future. In addition, the rules set out a sustainability target that Member States must achieve if the structural deficit is too high. Countries then must adjust their budgets to meet a Medium-Term Budgetary Objective (MTO) which is expressed in structural terms. In theory, when a recession (or high growth period) hits, the actual budget deficit deteriorates (improves) because of falling (increasingly buoyant) tax revenues and increased (reduced) unemployment benefit payments, but the structural balance does not change for these reasons and therefore it does not trigger austerity (unsustainable fiscal growth) policies.

While this is useful in theory, in practice the structural budget balance (SBB) is extremely difficult to estimate. The estimate relies on uncertain assessments of the economic cycle and its impact on government revenues and spending. Estimated changes in the structural balance are typically revised by more than half a percent of GDP, which is more than the adjustment that the rules require. These revisions are considerably higher for peripheral EU countries such as Ireland (Figure 1 (a), Bruegel, 2016)[17]. Separately, using the real-time estimates of Irish Output Gap

[17] Claeys, Darvas and Leandro (2016), *A proposal to revive the European Fiscal Framework*; Brussels. http://bruegel.org/2016/03/a-proposal-to-revive-the-european-fiscal-framework/

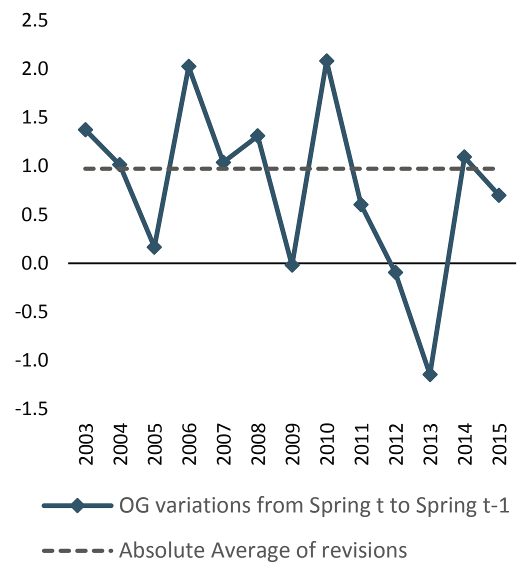
forecasts on the CIRCABC website, this analysis shows that absolute average annual revisions of Irish output gaps are in the region of 1 per cent.

Figure 4.1(a): Bruegel Analysis of average revisions



Source: Bruegel. Note: Average absolute revision of the real-time estimate made in spring of the subsequent year. For example, the last observation shows the difference between the May 2015 and May 2014 estimates for the 2013-14 change in the structural balance (absolute values of the differences averaged for the country group indicated in the legend). We could not find real-time structural balance estimates made before 2006, but we found real-time cyclically adjusted budget balance estimates made in 2003, 2004 and 2005. Therefore, for the first three years shown we report the revision in the change to the cyclically adjusted budget balance. EU15 Periphery: Greece, Ireland, Italy, Portugal and Spain; EU15 Core: other 10 countries which were members of the EU before 2004. New EU10: member states joined in 2004. Bulgaria, Croatia and Romania are not included because of data limitations.

Figure 4.1(b): Analysis of average Irish OG revisions



Source: CIRCABC European Commission website; Author's calculations of Irish average absolute OG revisions based on real-time European Commission Output Gap estimates between Spring t and Spring t+1.

The European Commission have stressed that the concepts of potential growth and the output gap form a crucial part of the toolkit for assessing the cyclical position of the economy and its productive capacity. The Commission emphasise that these concepts have become an essential ingredient of the fiscal surveillance process emanating from the Stability and Growth Pact. However as highlighted above, there are a number of significant methodological concerns relating to the implementation of the EU fiscal framework. These apply with particular force to a small open economy with a high degree of responsiveness in labour supply owing to migration flows. A particular issue relates to pro-cyclicality in real time estimates of both Ireland's estimated trend (or potential) growth rate and output gap (i.e. the extent to which actual GDP exceeds or fall short of projected potential GDP).

A recent European Commission paper (Aramendía and Raciborski, 2015)[18] showed that taking into account financial variables would have better predicted the output gap for the Irish economy

[18] Aramendía and Raciborski (2015), *Using financial variables to estimate the Irish output gap: do they make a difference?* European Commission's Directorate-General for Economic and Financial Affairs, Economic Brief 004.

in the lead up to the financial crisis which "…could have helped inform better economic policies in Ireland". However, this may not be the panacea for the use of the output gap in terms of the Irish economy as the authors found "the financial output gap in the late 1980s and early 1990s are less plausible when compared with conventional estimates of the business cycle". So while further work on the impact of financial variables on economic growth is obviously desirable, it is not very evident that the financial cycle is currently a significant driver of growth in the economy at this time.

Expenditure Benchmark

The Structural Balance pillar in the Preventive Arm of the Stability and Growth Pact is supplemented by the Expenditure Benchmark which is intended to assist Member States in achieving their MTO. The Expenditure Benchmark primarily focusses on fiscal policy through managing the real growth of expenditure year-to-year, by which it limits expenditure growth to the medium-term potential growth rate of the economy. The Expenditure Benchmark does exclude some elements of expenditure that are considered to be not fully under the control of Government, such as debt interest spending and cyclical unemployment expenditure. The European Commission (EC) recently stated that in focusing on aggregate expenditure developments and discretionary revenue measures, the expenditure benchmark is actually immune to most of the shortcomings of the structural balance, thus better capturing the underlying fiscal policy of the Member State.

However as the European Commission acknowledge, the expenditure benchmark is not without its own weaknesses. They point out that the following characteristics are weaknesses of the current benchmark methodology:

i. reliance on unobservable variables when setting the targets;

ii. detailed data requirements;

iii. the non-exclusion of one-off measures; and

iv. investment matched by EU funds could be improved to avoid possible double counting.

The EC state that the calculation of the expenditure benchmark could be usefully amended, in particular to exclude one-offs from the revenue and expenditure aggregates used and thus to ensure greater consistency with the Structural Balance pillar.

The Brussels-based economic think tank, Bruegel, have also detailed some of the shortfalls in the Expenditure Benchmark methodology (Bruegel, 2016). The fact that the benchmark uses an estimate of the GDP deflator to convert nominal expenditure into real expenditure means that it can also suffer from elements of forecasting error. In addition, the inclusion of the unobservable 'cyclical unemployment expenditure' means that the Expenditure Benchmark suffers from similar forecasting issues as the Structural Budget Balance measures (both are reliant on the notoriously difficult measurement of the NAIRU).

4.2 Rationale for expenditure rules

There has been considerable focus given to the importance of expenditure rules in recent literature (IMF 2015[19]; Ayuso i Casals, 2012[20]) which have discussed the positives and negatives of such fiscal policy tools. This analysis will aim to discuss this in relevant terms for Ireland.

Benefits of Expenditure Rules

The presence of expenditure rules may contain expenditure and mitigate the effects of shocks on expenditure developments. Expenditure rules primarily aim to ensure spending decisions do not cater to short-term pressures and don't lead to spending increases beyond current available resources and/or longer-term sustainability levels. These pressures typically arise from competing stakeholders claiming government resources, known as the "common pool" problem. This was evidenced in Ireland over the past 15 years when incremental increases in spending were agreed on sectoral levels which cumulatively added up to significant increases.

Without constraints on fiscal decisions, there is a significant risk of excessive deficits, pro-cyclicality (which may involve spending temporary revenues on permanent expenditure measures) and the build-up of debt. In addition, although expenditure rules are not aimed primarily at achieving expenditure reforms, they can directly spill over onto reform incentives by promoting expenditure efficiency and prioritization. While it is evident that Ireland has faced problems with deficits and debt in recent years, causing entry into an EU Excessive Deficit Procedure in 2009, literature has also shown Irish fiscal policy to exhibit above-average pro-cyclicality (Lane, 2002)[21].

Expenditure rules exhibit a number of attractive features:

i. They contain expenditure growth to a sustainable level reducing the likelihood of excessive deficits. This means that unrealistic spending commitments can be prevented in times of growth and makes retrenchment less severe in times of recession. In combination with other rules, they can ensure that annual budgets remain consistent with sustainable medium-term public debt and deficit targets.

ii. Revenues are susceptible to fluctuations based on the business cycle (as was experienced in Ireland in 2008/2009) but expenditure rules can maintain sustainable expenditure growth that counteracts the business cycle and revenue fluctuations. This countercyclical property also makes expenditure rules particularly attractive for countries where structural budget balances are challenging to estimate, as is the case in Ireland.

---

[19] Cordes, Kinda, Muthoora, and Weber (2015), *Expenditure Rules: Effective Tools for Sound Fiscal Policy?* IMF Working Paper, 2015.

[20] Ayuso-i-Casals, J. (2012), *National Expenditure Rules: Why How and When*, Economic Papers 473 (Brussels: European Commission).

[21] Lane (2002), *The Cyclical Behaviour of Fiscal Policy: Evidence from the OECD*, Trinity Economics Papers 20022, Trinity College Dublin, Department of Economics.

iii. An expenditure rule maps directly into the formulation of the annual budget, thus contributing to its predictability and enforceability. Expenditure rules can be designed in a simple manner to enhance predictability and monitoring.

iv. A well-designed expenditure rule, like other fiscal rules, can usefully anchor medium-term budget frameworks.

Drawbacks of Expenditure Rules

However, the potential complementarity between expenditure rules and expenditure reforms does require genuine commitment of policymakers to strive towards sound and high-quality public finances. Without such commitments, expenditure rules can have adverse side effects. For instance, when faced with a spending limit, policymakers could preserve some low-quality projects at the expense of higher-quality programmes with long-term benefits, or shift the adjustment burden to lower levels of government, if the coverage of the rule is narrow, or simply develop extra-budgetary and quasi-fiscal activities.

There is also some suggestion from literature that the introduction of expenditure rules often coincides with decreasing levels of public investment in capital infrastructure, where weaker institutions may be less effective in preventing policymakers from deferring high-quality/growth enhancing spending for the sake of complying with the rule. In order to explore the issue of the implications of expenditure rules on public investment further, the impact on public investment of expenditure rules is modelled using publicly available data sources from countries where expenditure rules have been in place over the past 30 years. This analysis is shown in Box 1.

Box 1: Assessment of the impact of expenditure rules on public investment

Given concerns regarding the negative effects that might be exerted by fiscal rules, we perform an empirical analysis on the relationship between public investment and expenditure rules.

Results are displayed in Table 4.1. In column 1, a model is estimated regressing public investment, as measured by gross fixed capital formation (GFCF), on the dummy variable for the presence or absence of an expenditure rule (ER). The model is estimated using the fixed effects model. The coefficient on ER is negative and statistically significant (-0.56). This would predict that the existence of an expenditure rule would decrease the ratio of gross fixed capital formation to GDP by almost 0.6 per cent. In columns 2-3, a set of control variables are included. These are the lagged value of the output gap; a dummy variable that equals 1 if a parliamentary election took place, 0 otherwise; and an index of political fragmentation. These variables are used for the following key reasons: the output gap is used to control for cyclical fluctuations; the election variable investigates the existence of a political budget cycle; the index of political fragmentations deals with the "common pool problem". One can observe that the negative effect of an expenditure rule on public investment persists even when additional explanatory variables are included in the model (-0.54). The result appears to be robust and statistically significant across all the estimated models.

In summary, empirical evidence suggests the existence of a negative correlation between public investment and the use of an expenditure rule. Given the necessary caveats that apply to any empirical analysis, the estimates would imply that countries that have an ER in place, would see their ratio of gross fixed capital formation to GDP decrease by almost 0.6 per cent. However, this does not mean that expenditure rules are entirely negative. The section above has highlighted the positive effects that fiscal rules have on fiscal sustainability and stability and expenditure rules seem to be effective in mitigating the pro-cyclical bias which characterises government spending.

Table 4.1 Regressions for Public Investment

Explanatory variable	(1)	(2)	(3)
Expenditure rule	-0.56**	-0.53**	-0.54***
	(0.19)	(0.18)	(0.16)
Output gap		0.04**	0.02
		(0.02)	(0.01)
Election year			0.009
			(0.03)
Government Fractionalization			0.14
			(0.42)
Constant	4.09***	4.05***	4.01***
	(0.09)	(0.09)	(0.13)
Observations	389	349	296
R-squared	0.15	0.19	0.20
Number of Countries	14	13	12

Note: Cluster robust standard errors in parentheses.
**** p<0.01, ** p<0.05, * p<0.1*

Data: A balanced panel of advanced countries (11 European countries plus US, Japan and Canada) from 1985-2014 is used. Data is taken from OECD.stat, the Quality of Government Standard dataset 2016 – Time-Series provided by the University of Gothenburg and from the IMF Fiscal Rules dataset. Equation: $GFCF_{it}=\beta_0+\gamma ER_{it}+\delta X`+a_i+u_{it}$; where $GFCF_{it}$ represents gross fixed capital formation as a percentage of GDP in country *i* at time *t*; ER is a dummy variable that equals 1 if the country has an expenditure rule, 0 otherwise; X` is a set of control variables; a_i represent country-specific time-invariant characteristics; u_{it} is an error term capturing the effect of all the other variables for which the regression model is not controlling for.

4.3 Importance of expenditure rules

The consensus within the EU is that SGP rules should be simplified to make them easier to calculate and allow policymakers more certainty when setting fiscal policy. The means of doing this would be to focus more on an expenditure rule than a structural balance rule. The analysis above suggests that there are more positives and less negatives in applying an expenditure rule over other types of rules, and possibly in conjunction with a debt rule.

However, a reassessment of how public investment is treated should be at the top of the agenda given the benefits that it can have for potential output. The approach that it is currently followed under the EU fiscal rules, which averages capital expenditure over a 4-year period and envisages flexibility clauses for investment, may represent a first step in that direction. However, alternative approaches are often suggested, particularly with regards to the way public investment is accounted for (Bruegel, 2016) or by recommending the use of a golden rule

[Blanchard and Giavazzi (2004)[22]; Truger (2015)[23]] and thus excluding net public investment from any fiscal rule.

Therefore, an expenditure rule which puts a reasonable constraint on expenditure growth, linked to medium-term growth in the economy, and has special treatment for capital expenditure will have a critical role in maintaining and securing long-term sustainability of Ireland's public finances. This would assist in contributing to social objectives while also maintaining a viable and just economy.

[22] Blanchard and Giavazzi (2004), *Improving the SGP through a Proper Accounting of Public Investment*, CEPR Working Paper 4220.
[23] Truger (2015), *Implementing the Golden Rule for Public Investment in Europe: Safeguarding Public Investment and Supporting the Recovery,* WWWforEurope Policy Paper no 22.

Chapter 5
Quality of Public Expenditure

While much of the focus on public spending remains on the overall quantity, the quality can be more important in achieving policy aims. Quality of public expenditure includes the effectiveness of spending in achieving specified policy outcomes, while expenditure efficiency is a measure of the value-for-money achieved. Public expenditure policy also has a key role in pursuing social and re-distributive aims. These goals must be pursued just as rigorously as our economic and fiscal goals. For example, the State is either the primary or sole provider or funder in areas such as health care, education and welfare and such expenditure rarely lends itself to being judged on purely financial merits.

There are a number of tools to generate and scrutinise the quality of public expenditure. This chapter presents an overview of the reform agenda driving public service efficiency before setting out the main approaches in place to monitor the quality of public expenditure and to ensure social impacts and outcomes.

5.1 Public Service Reform

There is evidence that Ireland has a strong record of efficient use of public funds.[24,25] For example, recent public service pay deals have introduced numerous productivity measures - including additional working hours - while the sick leave scheme has been significantly reformed. This is in addition to the delivery of more public services with fewer staff than when the public service was at its peak size.

The importance of continuing to pursue effective and efficient Public Services cannot be overstated - the performance of the Public Service has major implications for the management of the State's finances and for employment creation. The analysis in Box 2 demonstrates the importance of pursuing efficiency and effectiveness in public expenditure in order to protect growth. Most importantly, the Public Service provides essential services when needed most.

Public Service Reform was a key element of the response to the challenges of recent years and continues to be a central part of building for the future. The primary objective of the current Public Service Reform Plan, which runs to end 2016, is to improve service delivery and outcomes for users of public services. It also maintains an emphasis on efficiency measures, which was a key element of the first Reform Plan published in late 2011.

---

[24] Dutu, R. and P. Sicari (2016), "Public Spending Efficiency in the OECD: Benchmarking Health Care, Education and General Administration", OECD Economics Department Working Papers, No. 1278, OECD Publishing, Paris. http://dx.doi.org/10.1787/5jm3st732jnq-en

[25] https://www.imf.org/external/pubs/ft/wp/2016/wp1607.pdf

The actions set out in the Reform Plan address areas such as increased use of technology and improved engagement with service users; greater use of shared services and innovative approaches to service delivery; more efficient and effective public procurement and property management; increased accountability and transparency in public decision making; and enhanced leadership and performance management. A comprehensive Progress Report on the implementation of the Public Service Reform Plan 2014-16 was published in April and is available at www.reformplan.per.gov.ie.

The final year of the implementation of the current Public Service Reform Plan commenced in January and work is also continuing on implementing the Civil Service Renewal and other sectoral reform programmes. The three year Civil Service Renewal Plan was published in late 2014 and is leading to major changes across Government Departments and Offices. The Plan provides a framework to deliver a more unified, responsive, professional and open and accountable Civil Service with the aim of providing a world-class service to the State.

In addition to overseeing the final phase of the implementation of the current Public Service Reform Plan, the Minister for Public Expenditure and Reform has asked his Department to initiate the development of the next phase of Public Service Reform. While there has been significant progress on the reform programme in recent years, there is a need to build on this progress and maintain a strong focus on reform over the coming years. It is essential that targeted recruitment and investment in public services is done in tandem with further Public Service Reform measures, not least as current and future demographic trends will continue to place demands on public service delivery.

It is critical – given the scale of need and demand for a greater level and a higher quality of public services against the backdrop of the available resources from taxation – that the process of reform continues to build on the existing strong foundations. Every effort must be made to identify and drive reforms and change at every level of the sector of the public service to free-up and maximise the effectiveness of existing resources to meet public service needs. These can complement those new resources that are expected to become available as set out in this report from prudent and responsible management of the economy and the public finances.

This will require for example:-

- a renewed commitment to the assessment and evaluation of the output and outcomes of spending programmes;
- effective new structures for fair public service pay determination; and
- re-prioritisation and re-allocation of resources away from inefficient, ineffective and untargeted programmes towards those clearly demonstrating better value and outcomes.

5.2 Assessing the social impact of expenditure policy

Existing ex-post Budgetary analysis conducted by the Departments of Finance, PER and Social Protection and externally by the ESRI use a micro-simulation (SWITCH) model to assess the impact of certain tax and welfare policy measures across different household types based on a large-scale nationally representative survey. However, micro-simulation has limitations with regard to measuring the impacts of public expenditure measures.

Furthermore, the Programme for a Partnership Government published in May 2016 set out a commitment to developing a process of budget and policy proofing as a means of advancing equality, reducing poverty and strengthening economic and social rights.

To address these issues, the Department of Public Expenditure and Reform has developed a new ex-post Social Impact Assessment (SIA) Framework as a first step towards supporting a more comprehensive assessment of the impacts of certain budgetary measures on household outcomes.

This new Framework has been designed to complement the current distributive analysis of the proposed tax and social welfare measures set out in the Budget each year Departments of Finance and Social Protection and published immediately post-Budget. This work will now be supplemented by a series of papers published by the Irish Government Economic and Evaluation Service (IGEES) each year. These papers will focus on policy areas that cannot easily be incorporated into the SWITCH model. In this regard, the papers will largely focus on the impacts of public expenditure on recipients.

As the first step in this iterative process, it is intended to undertake point-in-time exercises examining current expenditure in certain policy areas in order to establish a baseline position. This baseline position should identify the level of spend in a given policy area, the key drivers of expenditure and will aim to generate a profile of those impacted by the expenditure. This should facilitate the analysis in future years of the impacts of future Budgetary policy changes in those areas.

It is intended that the first of these baseline position papers will be published in advance of *Budget 2017*.

5.3 Performance Budgeting

The performance budgeting initiative has sought to strengthen the focus upon what the public service delivers with public funds, and build this into the policy-making process. At its core it is concerned with ensuring that policy development and resource allocation decisions are better informed. Over the past number of years new structures have been put in place to enhance how public service performance information is collected and presented. The most significant development in this area has been the redesign of the Revised Estimates Volume (REV). The new reformatted REV, in addition to providing information on financial and human resources, now provides information describing the services that resources are delivering and the impact of these services.

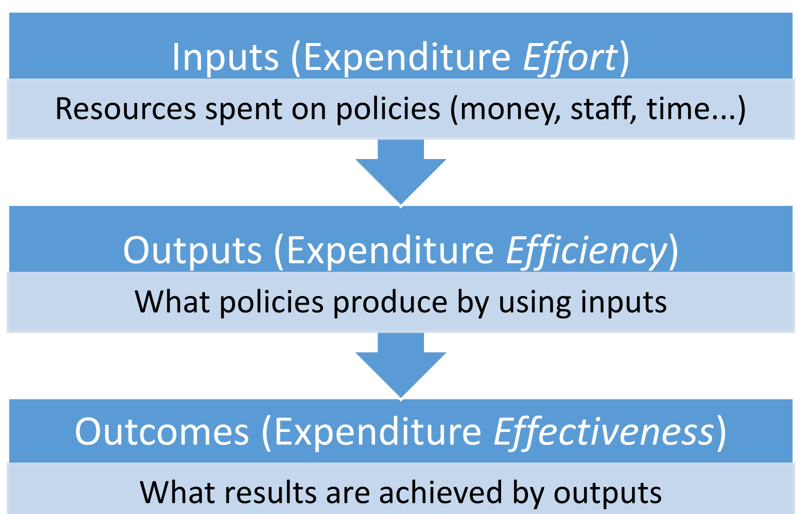
This new approach ensures that the key information needed by decision-makers, and by those who scrutinise public policy, is available at a glance, with the main concepts summarised in Figure 5.1:

- **Financial and Human Resource Inputs** The amount of money going to each spending area is clearly laid out. Expenditure is broken down between Administration Costs – both Pay and Non-pay – and the actual costs of programme delivery. In this way, areas of relative efficiency and inefficiency can be identified.

- **Outputs and Public Service Activities** This section contains key high level indicators that show what is being delivered through the expenditure of public funds. This information is presented under three different categories – quantitative metrics, discrete metrics (publications and legislation) and qualitative metrics.

- **Context and Impact Indicators** The impacts or outcomes that public policy is aiming to influence are set out clearly. While some of these measures are not directly or fully controlled by Government they are important to show a clear sense of the broad 'direction of travel' to see whether progress is being made.

Figure 5.1 Key Expenditure quality metrics



The process of enhancing the quality performance information is ongoing. Following the publication of REV 2016, a comprehensive guidance note was developed on enhancing the quality of performance information in the REV. The guidance note aims to assist Departments in selecting and reporting appropriate performance information under the performance budgeting initiative. A detailed review of the performance information provided for REV 2016 was also carried out. The purpose of this review was to determine the main types of information being provided and the quality of that information. As a result of this review, detailed feedback was circulated to each of the main Government Departments, along with the guidance note. The intention is that this process will benefit from the enhanced engagement by Oireachtas Committees to provide feedback to further enhance the quality and relevance of performance indicators being reported on.

In order to facilitate a structured discussion on performance by the Oireachtas with government Departments and Offices, it is crucial to ensure that parliamentarians have access to the right tools to enable them to engage in ex post scrutiny of budgetary measures. To this end, it is proposed that by the end of the first quarter of each year the Minister for Public Expenditure and Reform will submit a Performance Report to the Oireachtas to provide information on the performance of each Vote and the linkages between results and resources. The Report will lay the foundation for a more systematic engagement by parliamentarians and public on the impact of public policies and on resource allocation decisions. It will ensure that the relevant sectoral Committees are equipped to track progress in achievement or non-achievement of strategic outcomes.

Box 2: The role of public expenditure in economic growth

To what extent should the government intervene in an economy? To what extent should the Government prioritise particular areas of spending when supporting the economy? In particular, one of the most important questions concerns the relationship between government size and economic growth.

A cross-country panel of data is used in the analysis below to investigate these issues. An empirical analysis is conducted on the relationship between government size and growth in the EU-15 member states during the period 1950-2010. Results are displayed in Table 5.1 below. In column 1, the average annual growth rate over a five-year period is regressed on the initial level of government size, as measured by the share of government consumption. The use of the Ordinary Least Squares (OLS) estimator suggests the existence of a negative relationship between government size and economic growth (-0.09). Estimating the model using the fixed effects estimator (FE), which allows to control for time-invariant country-specific characteristics, one can observe that similarly in this case larger governments seem to be associated with lower growth rates (-0.1).

Table 5.1 Regressions for Economic Growth

Explanatory variable	(1) OLS	(2) FE	(3) OLS	(4) FE
Government size	-0.09***	-0.1***	-0.08***	-0.23***
	(0.03)	(0.03)	(0.02)	(0.06)
Income (GDP)			-0.03***	-0.08***
			(0.003)	(0.02)
Capital stock			0.001	0.05**
			(0.001)	(0.02)
Human capital			0.01***	0.003
			(0.002)	(0.01)
Trade			0.0001	0.0002
			(0.0001)	(0.0002)
Constant	0.04***	0.04***	0.23***	0.21***
	(0.01)	(0.01)	(0.02)	(0.06)
Observations	169	169	143	143
R-squared	0.04	0.03	0.21	0.25
Number of Countries	15	15	15	15

Cluster robust standard errors in parentheses. Income and capital stock are measured in log terms. *** $p<0.01$, ** $p<0.05$, * $p<0.1$. Data: The empirical analysis is performed using a balanced panel of European countries (EU-15) observed over the period 1950-2010. Growth is averaged over five-year periods and measured as the average annual growth rate in real per capita GDP. As a proxy for government size, the share of government consumption is used and preferred to total government expenditure as it tends not to be too affected by the automatic stabilisers. Real per capita GDP is taken from Gleditsch (2002). Government consumption, capital stock and human capital are drawn from the Penn World table (version 8.1). Data on trade is taken from the World Bank World Development Indicators. Panel systems cover five-year periods, starting from 1950-1955 and ending with 2005-2010. Economic growth is represented by the average annual growth over a five-year period and all the explanatory variables are measured at the beginning of each period. For example, the average annual growth over the period 2006-2010 will be explained using explanatory factors measured in 2005 and so forth. To deal with the endogenous dependent variable of columns 3-4, instrumental variable techniques are used. The GMM estimator does not contrast with previous results and highlights the existence of a negative relationship between government size and economic growth (-0.24).

In columns 3-4, a set of variables that the literature considers to be important in explaining the growth process are included. These are the initial values of GDP per capita, the capital stock, human capital and trade. The negative effect of government size on growth persists even if additional variables are included in the model (-0.08). The negative and significant coefficient on the initial level of income (-0.03) predicts a conditional convergence effect: countries that start out with lower levels of income per capita will grow faster to reach their steady state levels. Capital stock and trade appear to be positively correlated with growth, but their effect is not statistically significant. Human capital exerts a positive and significant effect on growth (0.01). This estimate would imply that investment in education, which increases the stock of competences, abilities and skills possessed by people, will be conducive to economic growth. The OLS predictions are confirmed by the estimation through FE (column 4), with the notable exception that the FE gives more importance to physical capital than human capital in relation to the growth process.

To sum up, this empirical analysis highlights that public spending should be efficient and that value-for-money should be maximised for every euro spent. In addition, other evidence suggests that more effective government policies can further support the economy.

Annex
Departmental Overview

This Annex outlines the individual Vote Group (Departmental) allocations for 2016 by main component as well as by expenditure programme. This provides a broad overview of how public resources are allocated across Departments.

Also set out for each Vote Group is a reconciliation between the ceilings published in Expenditure Report 2016 and the technical pre-Budget ceilings outlined in Chapter 1 of this report.

As part of the Budget Estimates process for 2017 and subsequent years Departments will have a range of expenditure proposals that would need to be considered. This Annex provides some detail in relation to areas of expenditure that could give rise to additional demands and provides indicative ready reckoners setting out the potential impact of certain policy measures that could be considered. Given the range of options and demands for additional resources, it will be necessary to strike a balance between addressing urgent priorities and developing longer term solutions.

Agriculture, Food and the Marine

A. Resource Allocation 2016-2019

The current and capital expenditure ceilings for 2016, consistent with the 2016 Estimates, and the technical pre-budget ceilings for the period to 2017-2019 are presented in the table below.

Agriculture, Food and the Marine	2016 €m	2017 €m	2018 €m	2019 €m
Gross Voted Current Expenditure	1,134	1,168	1,208	1,248
Gross Voted Capital Expenditure	217	208	208	208
Total Gross Voted Expenditure	1,351	1,376	1,416	1,456

2016 Expenditure Allocation (€m)

Chart 1(a): Pay, Pensions[26] and Non-Pay Breakdown

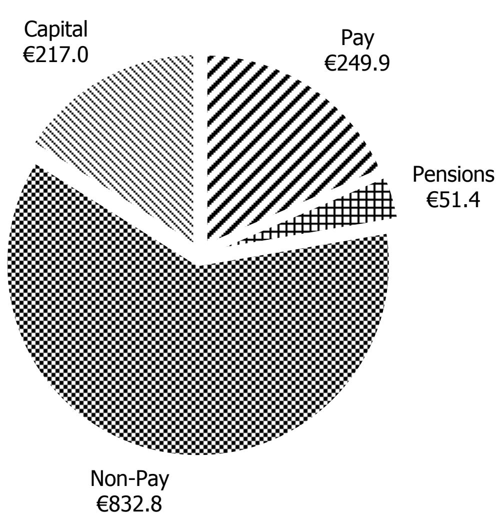
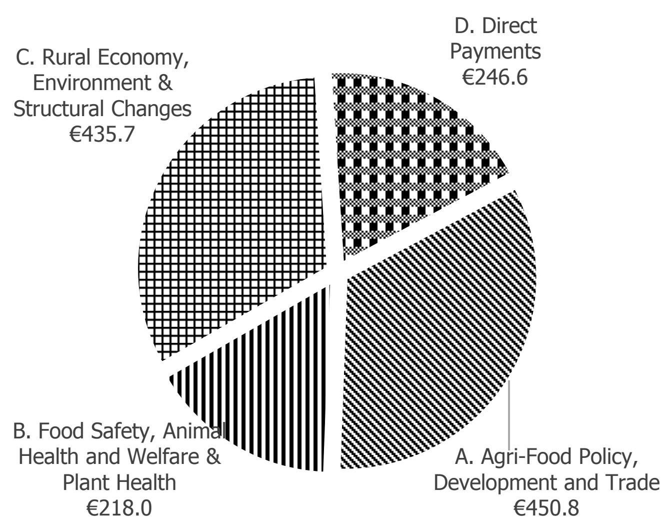


Chart 1(b): Programme Breakdown



[26] Retired Civil Servants paid from Superannuation Vote

B. Reconciliation of 2017 Expenditure Ceiling

Department of Agriculture, Food and the Marine	2016	2017	2018	2019
Current Expenditure	€million	€million	€million	€million
Opening Position - Based on Expenditure Report 2016 Ceilings	**1,134**	**1,168**	**1,208**	**1,248**
Technical Adjustments to the Ceiling				
Adjusted Ceilings	**1,134**	**1,168**	**1,208**	**1,248**
Capital Expenditure	€million	€million	€million	€million
Capital Envelope as set out in the Public Capital Plan	**217**	**208**	**208**	**208**
Technical Adjustments				
Adjusted Capital Ceiling	**217**	**208**	**208**	**208**
Ministerial Expenditure Ceiling	**1,351**	**1,376**	**1,416**	**1,456**

Rounding affects totals

C. Expenditure Options

The increases in the ceilings reflect a provision for additional expenditure in relation to the Rural Development Programme (RDP). Any further increases beyond the level included in these ceilings either relating to RDP current expenditure or capital expenditure on Targeted Agricultural Modernisation Schemes would be a demand on the available resources for 2017.

The *Programme for a Partnership Government* proposes €25 million in relation to a new Sheep scheme.

The expenditure allocation for 2016 includes €8 million for the remediation of Haulbowline Island. Additional resources may be required for completion of this project.

Arts, Heritage, Regional, Rural and Gaeltacht Affairs

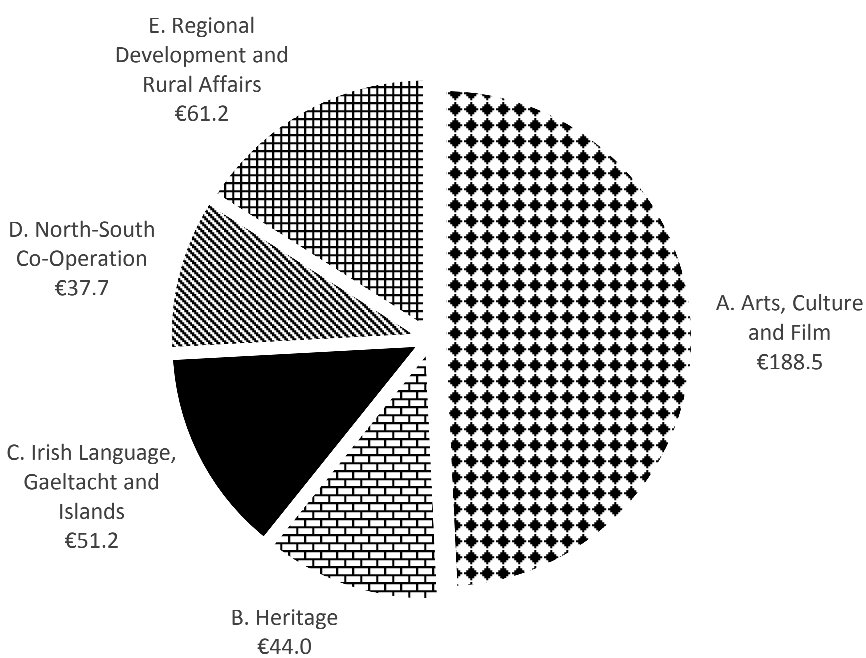
A. Resource Allocation 2016-2019

The current and capital expenditure ceilings for 2016, consistent with the 2016 Estimates, and the technical pre-budget ceilings for the period to 2017-2019 are presented in the table below.

Arts, Heritage, Regional, Rural and Gaeltacht Affairs	2016 €m	2017 €m	2018 €m	2019 €m
Gross Voted Current Expenditure	247	229	229	229
Gross Voted Capital Expenditure	136	98	94	97
Total Gross Voted Expenditure	383	327	323	326

2016 Expenditure Allocation (€m)

Chart 1: Programme Breakdown



B. Reconciliation of 2017 Expenditure Ceiling

Arts, Heritage, Regional, Rural and Gaeltacht Affairs	2016	2017	2018	2019
Current Expenditure	€million	€million	€million	€million
Opening Position - Based on Expenditure Report 2016 Ceilings	**234**	**216**	**216**	**216**
Technical Adjustments to the Ceiling				
Transfer from Housing Planning and Local Government	11	11	11	11
REV 2016 adjustment	2	2	2	2
Adjusted Ceilings	**247**	**229**	**229**	**229**
Capital Expenditure	€million	€million	€million	€million
Capital Envelope as set out in the Public Capital Plan	**76**	**45**	**43**	**46**
Technical Adjustments				
Transfer from Housing Planning and Local Government	57	53	51	51
REV 2016 adjustment	3			
Adjusted Capital Ceiling	**136**	**98**	**94**	**97**
Ministerial Expenditure Ceiling	**383**	**327**	**323**	**326**

Rounding affects totals

C. Expenditure Options

The reduction in the expenditure ceiling in 2017 reflects the one-off funding provided in 2016 for expenditure relating to the 1916 commemorations.

With the transfer of responsibilities in relation to Rural Affairs, there will be additional costs arising in 2017 to develop an action plan for Rural Ireland, Rural Strategy Unit, Implementation & rollout of broadband plan.

As part of the mid-term review of the Capital Plan consideration could be given to a small grants scheme to provide essential upgrades to existing regional arts and culture centres and support the Heritage Council; Increase funding for the Arts including the Arts Council and the Irish Film Board; Investment in the Irish Language.

Children and Youth Affairs

A. Resource Allocation 2016-2019

The current and capital expenditure ceilings for 2016, consistent with the 2016 Estimates, and the technical pre-budget ceilings for the period to 2017-2019 are presented in the table below.

Children and Youth Affairs	2016 €m	2017 €m	2018 €m	2019 €m
Gross Voted Current Expenditure	1,113	1,202	1,202	1,202
Gross Voted Capital Expenditure	25	22	23	23
Total Gross Voted Expenditure	1,138	1,224	1,225	1,225

2016 Expenditure Allocation (€m)

Chart 1(a): Pay, Pensions[27] and Non-Pay Breakdown

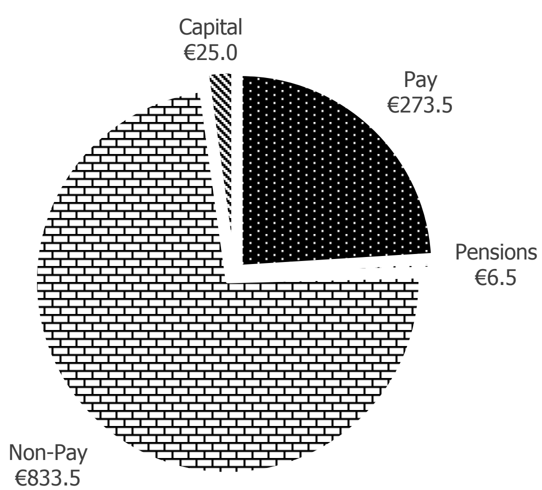
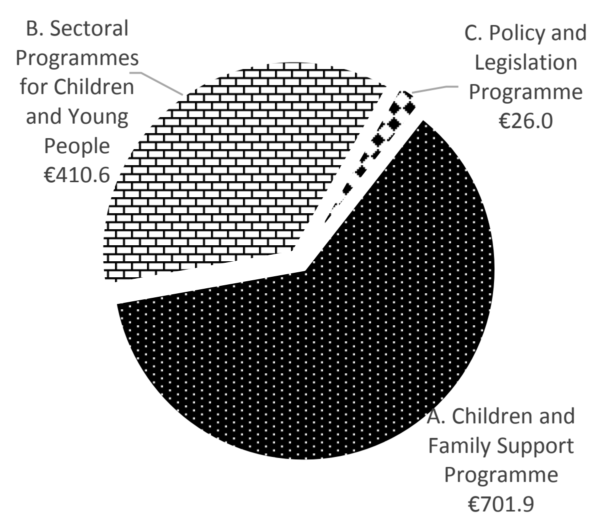


Chart 1(b): Programme Breakdown



[27] Retired Civil Servants paid from Superannuation Vote

B. Reconciliation of 2017 Expenditure Ceiling

Department of Children and Youth Affairs	2016	2017	2018	2019
Current Expenditure	€million	€million	€million	€million
Opening Position - Based on Expenditure Report 2016 Ceilings	**1,113**	**1,202**	**1,202**	**1,202**
Technical Adjustments to the Ceiling				
Pre-Budget 2017				
Adjusted Ceilings	**1,113**	**1,202**	**1,202**	**1,202**
Capital Expenditure	€million	€million	€million	€million
Capital Envelope as set out in the Public Capital Plan	**25**	**22**	**23**	**23**
Technical Adjustments				
Adjusted Capital Ceiling	**25**	**22**	**23**	**23**
Ministerial Expenditure Ceiling	**1,138**	**1,224**	**1,225**	**1,225**

Rounding affects totals

C. Expenditure Options

Budget 2016 included a significant measure to extend the Early Childhood Care and Education Scheme, including facilitation of children with disabilities. The pre-Budget position for 2017 includes an increase of €89 million for the Department of Children and Youth Affairs to fund the carryover impact of this measure.

The Budget 2016 package also funded the establishment of a dedicated Project Team to develop a Single Affordable Childcare Programme to provide for more streamlined eligibility criteria that will assist families to avail of good quality childcare at a cost they can afford. Work on developing the Affordable Childcare Programme has begun. Any impact on 2017 would depend on the timing of implementation.

Communications, Climate Action and the Environment

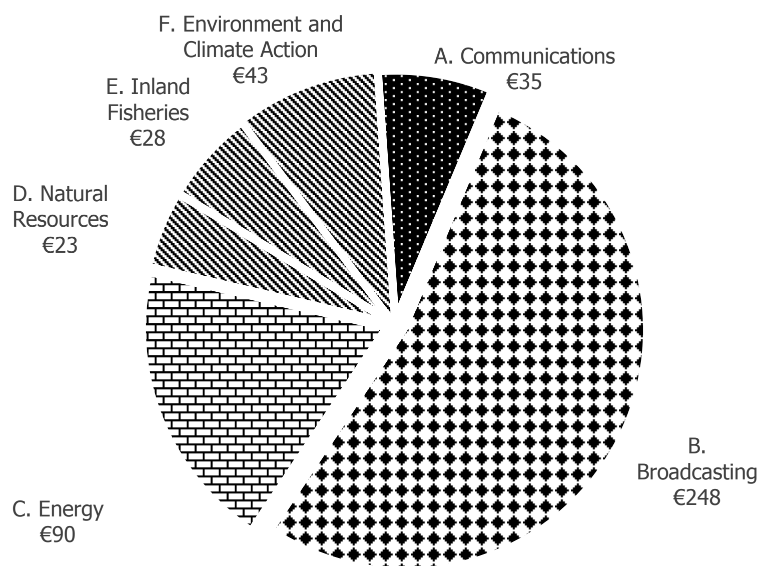
A. Resource Allocation 2016-2019

The current and capital expenditure ceilings for 2016, consistent with the 2016 Estimates, and the technical pre-budget ceilings for the period to 2017-2019 are presented in the table below.

Communications, Climate Action and the Environment	2016 €m	2017 €m	2018 €m	2019 €m
Gross Voted Current Expenditure	346	346	346	346
Gross Voted Capital Expenditure	121	126	156	211
Total Gross Voted Expenditure	467	472	502	557

2016 Expenditure Allocation (€m)

Chart 1: Programme Breakdown



B. Reconciliation of 2017 Expenditure Ceiling

Department of Communications, Climate Action and Environment	2016	2017	2018	2019
Current Expenditure	€million	€million	€million	€million
Opening Position - Based on Expenditure Report 2016 Ceilings	**325**	**325**	**325**	**325**
Technical Adjustments to the Ceiling				
Transfer of OSI to Justice	-6	-6	-6	-6
Transfer from Dept of Housing Planning and Local Government	227	227	227	227
Adjusted Ceilings	**346**	**346**	**346**	**346**
Capital Expenditure	€million	€million	€million	€million
Capital Envelope as set out in the Public Capital Plan	**107**	**107**	**137**	**192**
Technical Adjustments				
Transfer of OSI to Justice	-1	-1	-1	-1
Transfer from Dept of Housing Planning and Local Government	15	20	20	20
Adjusted Capital Ceiling	**121**	**126**	**156**	**211**
Ministerial Expenditure Ceiling	**467**	**472**	**502**	**557**

Transfer from the Department of Housing, Planning and Local Government to be finalised.

C. Expenditure Options

Although funding has already been allocated, the amount of Exchequer capital funding required to deliver on the National Broadband Plan in line with Programme for a Partnership Government commitments will depend on the outcome of the procurement process currently underway.

The PfG proposes that the public sector be exemplars of Smart Energy Management. Spending in this area comprising support for projects to achieve a 33 per cent energy efficiency target for the public sector

Consideration of additional climate action and energy efficiency measures across different sectors in relation to Ireland's statutory EU targets in renewable energy and emissions targets.

The phasing of additional capital investment would need to be considered alongside other capital priorities including as part of the mid-term review of the Capital Plan.

Defence

A. Resource Allocation 2016-2019

The current and capital expenditure ceilings for 2016, consistent with the 2016 Estimates, and the technical pre-budget ceilings for the period to 2017-2019 are presented in the table below.

Defence	2016 €m	2017 €m	2018 €m	2019 €m
Gross Voted Current Expenditure	837	837	837	837
Gross Voted Capital Expenditure	68	67	67	78
Total Gross Voted Expenditure	905	904	904	915

2016 Expenditure Allocation (€m)

Chart 1(a): Pay, Pensions[28] and Non-Pay Breakdown

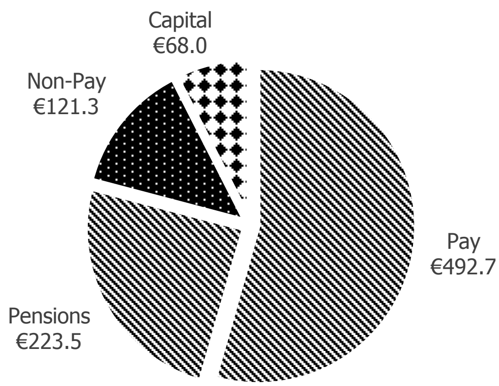
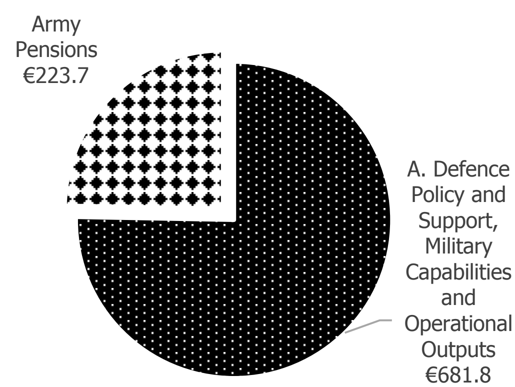


Chart 1(b): Programme Breakdown



[28] Retired Civil Servants paid from Superannuation Vote

B. Reconciliation of 2017 Expenditure Ceiling

Department of Defence	2016	2017	2018	2019
Current Expenditure	€million	€million	€million	€million
Opening Position - Based on Expenditure Report 2016 Ceilings	**837**	**837**	**837**	**837**
Technical Adjustments to the Ceiling				
Adjusted Ceilings	**837**	**837**	**837**	**837**
Capital Expenditure	€million	€million	€million	€million
Capital Envelope as set out in the Public Capital Plan	**68**	**67**	**67**	**78**
Technical Adjustments				
Adjusted Capital Ceiling	**68**	**67**	**67**	**78**
Ministerial Expenditure Ceiling	**905**	**904**	**904**	**915**

Rounding affects totals

C. Expenditure Options

As with a number of Departments, costs in relation to pensions can be difficult to estimate. Over the last number of years, additional expenditure on Army Pensions has been funded by savings on the Defence Vote.

Disposals of Defence properties in 2016 will generate receipts of c €9m. The Department will seek to utilise such funds for capital investment.

Education and Skills

A. Resource Allocation 2016-2019

The current and capital expenditure ceilings for 2016, consistent with the 2016 Estimates, and the technical pre-budget ceilings for the period to 2017-2019 are presented in the table below.

Education and Skills	2016 €m	2017 €m	2018 €m	2019 €m
Gross Voted Current Expenditure[29]	8,477	8,580	8,637	8,686
Gross Voted Capital Expenditure	595	650	675	706
Total Gross Voted Expenditure	9,072	9,230	9,312	9,392

2016 Expenditure Allocation (€m)

Chart 1(a): Pay, Pensions[30] and Non-Pay Breakdown

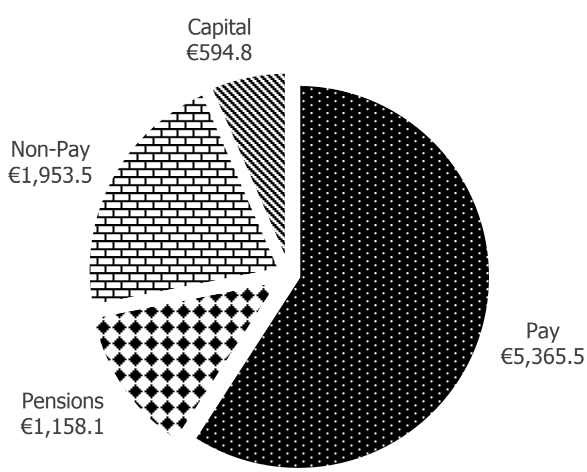
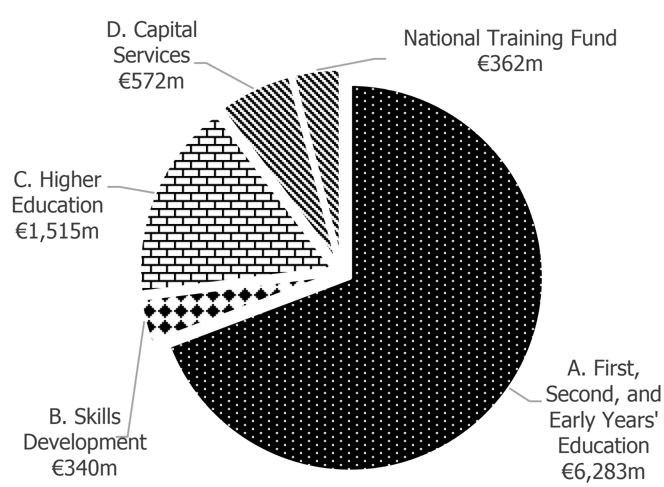


Chart 1(b): Programme Breakdown



[29] Includes allocation of €362m for National Training Fund
[30] Retired Civil Servants paid from Superannuation Vote

B. Reconciliation of 2017 Expenditure Ceiling

Department of Education and Skills	2016	2017	2018	2019
Current Expenditure	€million	€million	€million	€million
Opening Position - Based on Expenditure Report 2016 Ceilings	**8,524**	**8,627**	**8,685**	**8,734**
Technical Adjustments to the Ceiling				
REV 2016 Adjustment	4	4	4	4
PPP reclassification	-51	-51	-52	-52
Adjusted Ceilings	**8,477**	**8,580**	**8,637**	**8,686**
Capital Expenditure	€million	€million	€million	€million
Capital Envelope as set out in the Public Capital Plan	**545**	**599**	**623**	**654**
Technical Adjustments				
PPP reclassification	51	51	52	52
Adjusted Capital Ceiling	**595**	**650**	**675**	**706**
Ministerial Expenditure Ceiling	**9,072**	**9,230**	**9,312**	**9,392**

Rounding affects totals

The reclassification of certain unitary payments, payable under existing PPP contracts, from current expenditure to capital expenditure results in a consistent treatment for all unitary payments to enhance transparency.

C. Expenditure Options

The pre-Budget position for Education and Skills includes an increase of €103 million in respect of demographics and the carryover impact of Budget 2016 measures. Approximately €130m of the central LRA adjustment is to be allocated to the Education Sector. Before any Budget 2017 measures this will give a year on year increase in 2017 of 2¾ per cent in current expenditure.

The recent announcement in relation to Special Needs Assistants supports the growing participation of children with special needs and will support their full participation and progression within the educational system. This measure will have an impact on 2017 resources.

For reference, the tables below set out the potential impact of possible policy measures that could be considered in the Education sector.

Current

Education and Skills	2017 cost	Full year
Reduce PTR at primary level to 26:1 (including Junior & Senior Infants)	€7m	€21m
Reduce PTR at post primary level to 17.7:1	€1.9m	€5.7m
1% increase in primary & secondary capitation rates	€3.6m	€3.6m
1% increase in block grant to Higher Education Institutes	€9.6m	€9.6m
Additional 100 Guidance Counsellors	€2m	€6m
Additional 100 Resource Teachers	€2m	€6m
Additional 100 Special Needs Assistants	€1m	€3m
Additional 100 National Educational Psychologists	€2.4m	€7.2m
Fully restore grants for post graduate students	€17.7m	€53.1m
Additional 1,000 apprenticeships	€5m	€5m

Capital

Education and Skills	2017 cost
Construction of a new 16 classroom (with ASD unit) primary school	€6.4m
Construction of a new 1,000 pupil secondary school	€22.9m

Finance

A. Resource Allocation 2016-2019

The current and capital expenditure ceilings for 2016, consistent with the 2016 Estimates, and the technical pre-budget ceilings for the period to 2017-2019 are presented in the table below.

Finance	2016 €m	2017 €m	2018 €m	2019 €m
Gross Voted Current Expenditure	430	433	433	433
Gross Voted Capital Expenditure	25	22	22	22
Total Gross Voted Expenditure	455	455	455	455

2016 Expenditure Allocation (€m)

Chart 1(a): Pay, Pensions[31] and Non-Pay Breakdown

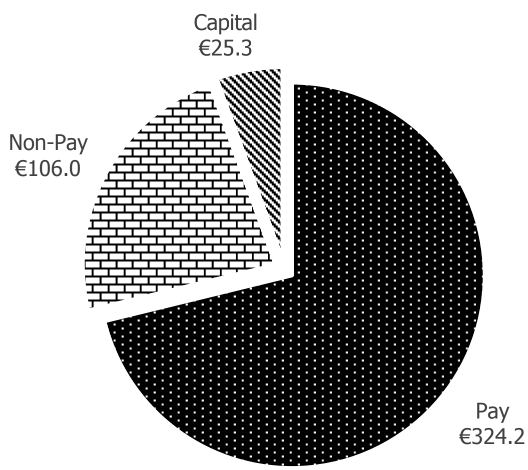
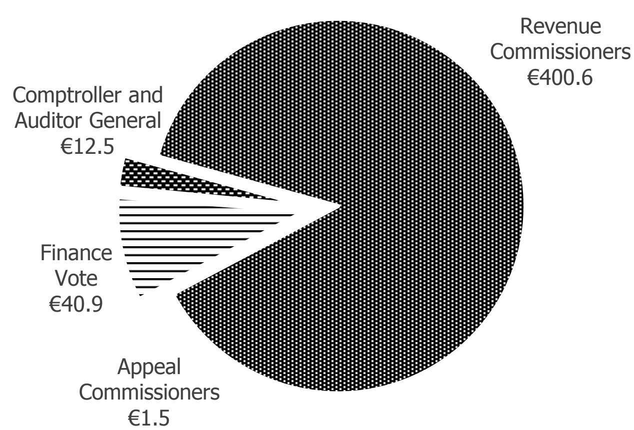


Chart 1(b): Programme Breakdown



[31] Retired Civil Servants paid from Superannuation Vote

B. Reconciliation of 2017 Expenditure Ceiling

Department of Finance	2016	2017	2018	2019
Current Expenditure	€million	€million	€million	€million
Opening Position - Based on Expenditure Report 2016 Ceilings	**430**	**430**	**430**	**430**
Technical Adjustments to the Ceiling				
Reclassification		3	3	3
Adjusted Ceilings	**430**	**433**	**433**	**433**
Capital Expenditure	€million	€million	€million	€million
Capital Envelope as set out in the Public Capital Plan	**25**	**25**	**25**	**25**
Technical Adjustments				
Reclassification		(3)	(3)	(3)
Adjusted Capital Ceiling	**25**	**22**	**22**	**22**
Ministerial Expenditure Ceiling	**455**	**455**	**455**	**455**

Rounding affects totals

Foreign Affairs and Trade

A. Resource Allocation 2016-2019

The current and capital expenditure ceilings for 2016, consistent with the 2016 Estimates, and the technical pre-budget ceilings for the period to 2017-2019 are presented in the table below.

Foreign Affairs and Trade	2016 €m	2017 €m	2018 €m	2019 €m
Gross Voted Current Expenditure	692	694	694	694
Gross Voted Capital Expenditure	6	4	4	4
Total Gross Voted Expenditure	698	698	698	698

2016 Expenditure Allocation (€m)

Chart 1(a): Pay, Pensions[32] and Non-Pay Breakdown

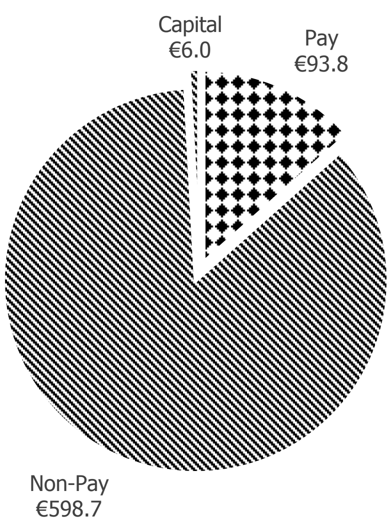
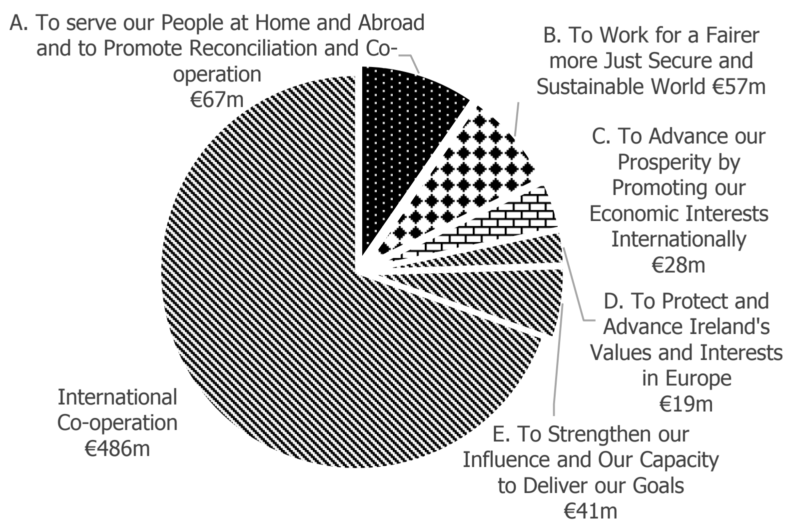


Chart 1(b): Programme Breakdown



[32] Retired Civil Servants paid from Superannuation Vote

B. Reconciliation of 2017 Expenditure Ceiling

Department of Foreign Affairs and Trade	2016	2017	2018	2019
Current Expenditure	€million	€million	€million	€million
Opening Position - Based on Expenditure Report 2016 Ceilings	**692**	**694**	**694**	**694**
Technical Adjustments to the Ceiling				
Adjusted Ceilings	**692**	**694**	**694**	**694**
Capital Expenditure	€million	€million	€million	€million
Capital Envelope as set out in the Public Capital Plan	**6**	**4**	**4**	**4**
Technical Adjustments				
Adjusted Capital Ceiling	**6**	**4**	**4**	**4**
Ministerial Expenditure Ceiling	**698**	**698**	**698**	**698**

Rounding affects totals

Health

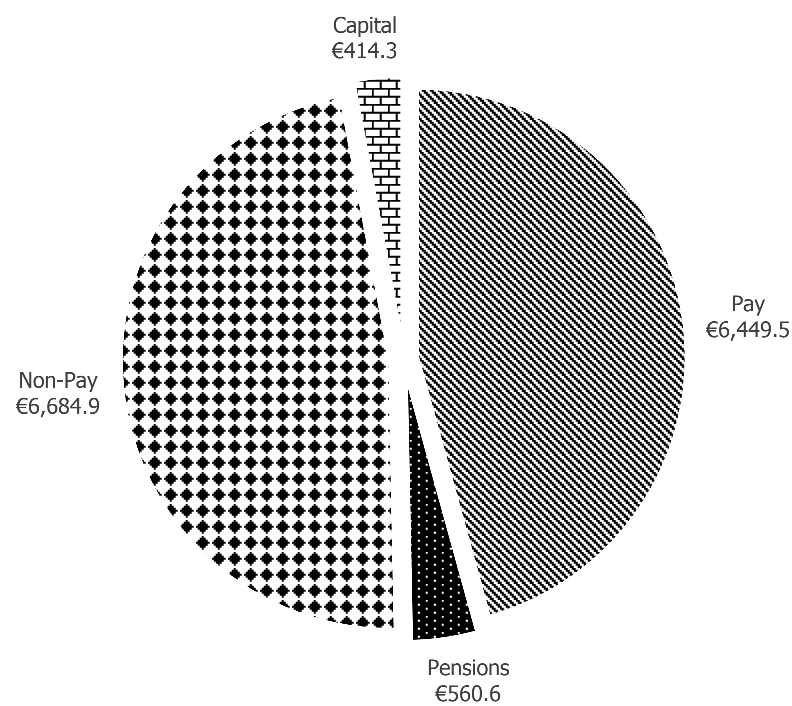
A. Resource Allocation 2016-2019

The current and capital expenditure ceilings for 2016, consistent with the 2016 Estimates, and the technical pre-budget ceilings for the period to 2017-2019 are presented in the table below.

Health	2016 €m	2017 €m	2018 €m	2019 €m
Gross Voted Current Expenditure	13,695	13,768	13,886	14,009
Gross Voted Capital Expenditure	414	454	473	550
Total Gross Voted Expenditure	14,109	14,242	14,379	14,579

2016 Expenditure Allocation (€m)

Chart 1: Pay, Pensions and Non-Pay Breakdown



B. Reconciliation of 2017 Expenditure Ceiling

Department of Health	2016	2017	2018	2019
Current Expenditure	€million	€million	€million	€million
Opening Position - Based on Expenditure Report 2016 Ceilings[1]	**13,195**	**13,268**	**13,386**	**13,509**
Technical Adjustments to the Ceiling				
2016 Estimates Adjustments (June 2016)	500	500	500	500
Adjusted Ceilings	**13,695**	**13,768**	**13,886**	**14,009**
Capital Expenditure	€million	€million	€million	€million
Capital Envelope as set out in the Public Capital Plan	**414**	**454**	**473**	**550**
Technical Adjustments				
Adjusted Capital Ceiling	**414**	**454**	**473**	**550**
Ministerial Expenditure Ceiling	**14,109**	**14,242**	**14,379**	**14,579**
1 Opening position based on December 2015 REV and Expenditure Report 2016.				

Rounding affects totals

C. Expenditure Options

The provision of quality healthcare is a key Government priority with a commitment to annual increases of 3%+ in the health budget. The increase provided in 2016 amounts to 6% following an increase of 4½% in 2015. An increase of 3% in the Health allocation for 2017, after taking account of the increase already built into the base for demographics and the Lansdowne Road Agreement, would utilise over ⅓ or c. €0.2 billion of the fiscal space available for current expenditure increases. Such an increase would need to accommodate specific proposals in the PfG such as those relating to the National Treatment Purchase Fund or extension of the entitlement to a medical card for all children in receipt of the Domiciliary Care Allowance.

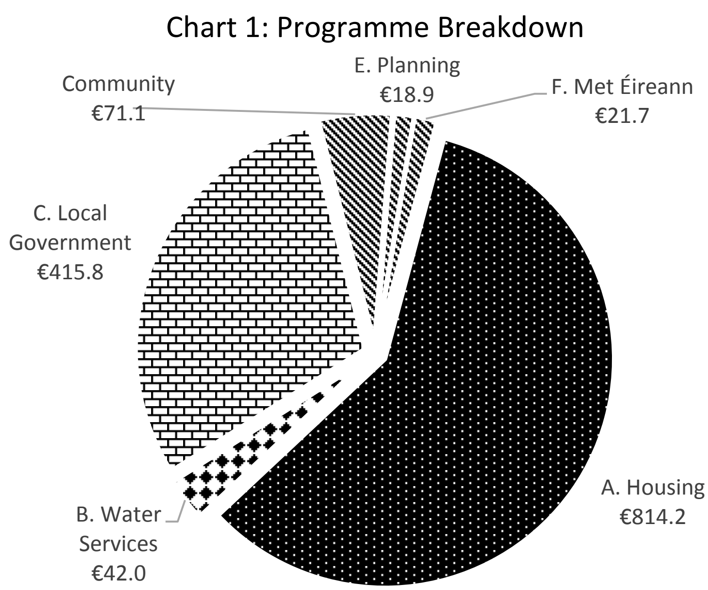
Housing, Planning and Local Government

A. Resource Allocation 2016-2019

The current and capital expenditure ceilings for 2016, consistent with the 2016 Estimates, and the technical pre-budget ceilings for the period to 2017-2019 are presented in the table below.

Housing, Planning and Local Government	2016 €m	2017 €m	2018 €m	2019 €m
Gross Voted Current Expenditure	911	911	911	911
Gross Voted Capital Expenditure	473	552	638	614
Total Gross Voted Expenditure	1,384	1,463	1,549	1,525

2016 Expenditure Allocation (€m)



B. Reconciliation of 2017 Expenditure Ceiling

Department of Housing, Planning and Local Government	2016	2017	2018	2019
Current Expenditure	€million	€million	€million	€million
Opening Position - Based on Expenditure Report 2016 Ceilings	**957**	**957**	**957**	**957**
Technical Adjustments to the Ceiling				
REV 2016 Adjustments	(3)	(3)	(3)	(3)
Transfer to Capital - Pier	(6)	(6)	(6)	(6)
Transfer to Dept of Rural Affairs	(11)	(11)	(11)	(11)
Transfer to Dept of Climate Change	(27)	(27)	(27)	(27)
Adjusted Ceiling	**911**	**911**	**911**	**911**
Capital Expenditure	€million	€million	€million	€million
Capital Envelope as set out in the Public Capital Plan	**539**	**623**	**709**	**685**
Transfer from Current - Pier	6	2	0	0
Transfer to Dept of Rural Affairs	-57	-53	-51	-51
Transfer to Dept of Climate Change	-15	-20	-20	-20
Adjusted Ceiling	**473**	**552**	**638**	**614**
Ministerial Pre-Budget Expenditure Ceiling	**1,384**	**1,463**	**1,549**	**1,525**

Transfer to the Department of Communications, Climate Change and Environment to be finalised.
Rounding affects totals

C. Expenditure Options

The Minister for Housing, Planning and Local Government is currently preparing an Action Plan on Housing to set out how the state will tackle issues relating to the housing supply and increasing social housing provision.

Jobs, Enterprise and Innovation

A. Resource Allocation 2016-2019

The current and capital expenditure ceilings for 2016, consistent with the 2016 Estimates, and the technical pre-budget ceilings for the period to 2017-2019 are presented in the table below.

Jobs, Enterprise and Innovation	2016 €m	2017 €m	2018 €m	2019 €m
Gross Voted Current Expenditure	297	297	297	297
Gross Voted Capital Expenditure	503	525	490	500
Total Gross Voted Expenditure	800	822	787	797

2016 Expenditure Allocation (€m)

Chart 1(a): Pay, Pensions[33] and Non-Pay Breakdown

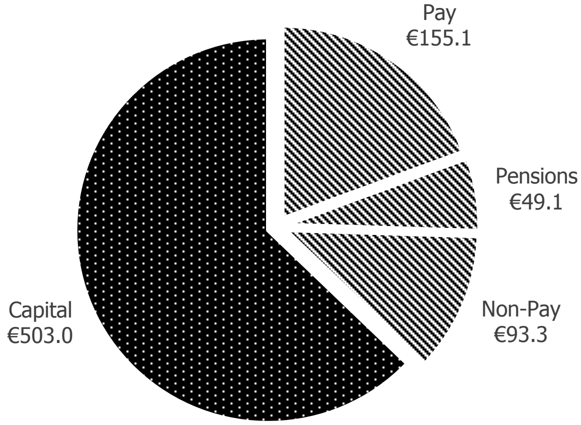
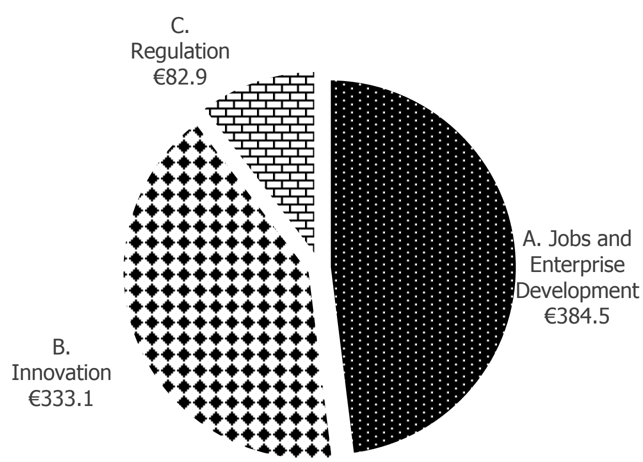


Chart 1(b): Programme Breakdown



[33] Retired Civil Servants paid from Superannuation Vote

B. Reconciliation of 2017 Expenditure Ceiling

Department of Jobs, Enterprise and Innovation	2016	2017	2018	2019
Current Expenditure	€million	€million	€million	€million
Opening Position - Based on Expenditure Report 2016 Ceilings	**297**	**297**	**297**	**297**
Technical Adjustments to the Ceiling				
Adjusted Ceilings	**297**	**297**	**297**	**297**
Capital Expenditure	€million	€million	€million	€million
Capital Envelope as set out in the Public Capital Plan	**503**	**525**	**490**	**500**
Technical Adjustments				
Adjusted Capital Ceiling	**503**	**525**	**490**	**500**
Ministerial Expenditure Ceiling	**800**	**822**	**787**	**797**

Rounding affects totals

C. Expenditure Options

The PfG proposes €500 million in capital funding to accelerate export led jobs growth across Ireland's regions in the period 2017 to 2021. The phasing of this funding will need to take account of other job creation and innovation related priorities of the Department, as well as the wider capital priorities.

Issues around such phasing will also need consideration in the context of the 2017 mid-term Capital Review.

Justice and Equality

A. Resource Allocation 2016-2019

The current and capital expenditure ceilings for 2016, consistent with the 2016 Estimates, and the technical pre-budget ceilings for the period to 2017-2019 are presented in the table below.

Justice and Equality	**2016 €m**	**2017 €m**	**2018 €m**	**2019 €m**
Gross Voted Current Expenditure	2,301	2,280	2,280	2,280
Gross Voted Capital Expenditure	157	181	142	174
Total Gross Voted Expenditure	2,458	2,461	2,422	2,454

2016 Expenditure Allocation (€m)

Chart 1(a): Pay, Pensions[34] and Non-Pay Breakdown

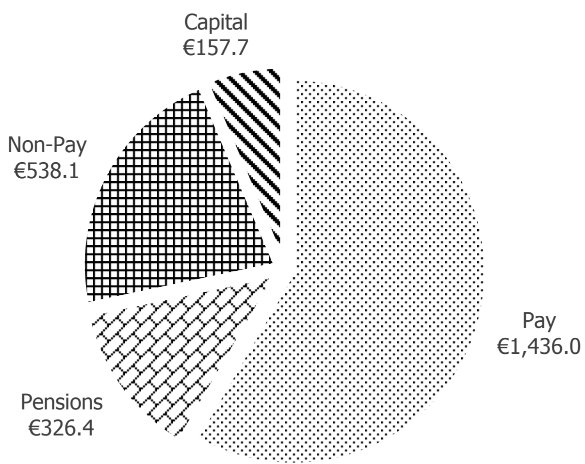
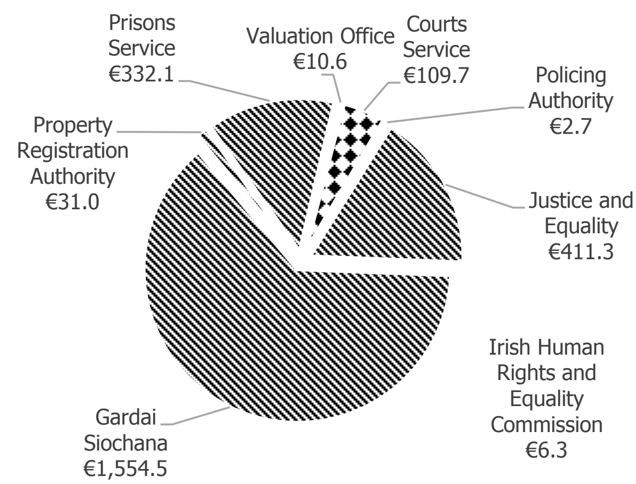


Chart 1(b): Programme Breakdown



[34] Retired Civil Servants paid from Superannuation Vote

B. Reconciliation of 2017 Expenditure Ceiling

Department of Justice and Equality	2016	2017	2018	2019
Current Expenditure	€million	€million	€million	€million
Opening Position - Based on Expenditure Report 2016 Ceilings	**2,264**	**2,284**	**2,284**	**2,284**
Technical Adjustments to the Ceiling				
Additional allocation 2016 Estimates	40	-	-	-
Transfer of OSI	6	6	6	6
PPP reclassification	-22	-23	-23	-23
Transfer of Valuation Office	10	10	10	10
Transfer from Environment	3	3	3	3
Adjusted Ceilings	**2,301**	**2,280**	**2,280**	**2,280**
Capital Expenditure	€million	€million	€million	€million
Capital Envelope as set out in the Public Capital Plan	**130**	**157**	**118**	**150**
Technical Adjustments				
REV 2016 Adjustment	4	-	-	-
Transfer of OSI	1	1	1	1
PPP Reclassification	22	23	23	23
Adjusted Capital Ceiling	**157**	**181**	**142**	**174**
Ministerial Expenditure Ceiling	**2,458**	**2,461**	**2,422**	**2,454**

Rounding affects totals

The reclassification of certain unitary payments, payable under existing PPP contracts, from current expenditure to capital expenditure results in a consistent treatment for all unitary payments to enhance transparency.

C. Expenditure Options

An additional €40 million was allocated to the Garda Vote in 2016 as an emergency response to the break out of serious crime related violence in Dublin and to support upgraded security measures in the immediate aftermath of the terrorist attacks in Belgium and France. Detailed consideration of a package of measures around medium term Garda resources, including accelerated recruitment and reform, will be required as part of the Budget Estimates process. The Table below outlines the illustrative cost of implementing certain measures in relation to Garda resourcing.

Justice and Equality	**First Year cost**	**Full year**
Costs[a] for Garda Recruitment per 1,000	€11m	€33m
Civilianisation cost per 2,000 (i.e. clerical recruitment)	€22m	€60m
Double Garda Reserve (PfG)	€1m	€2m

(a) Assumes staggered quarterly recruitment for first year cost. This may vary depending on commencement. In addition, costs in future years will increase due to increments and there may be additional non pay costs.

Public Expenditure and Reform

A. Resource Allocation 2016-2019

The current and capital expenditure ceilings for 2016, consistent with the 2016 Estimates, and the technical pre-budget ceilings for the period to 2017-2019 are presented in the table below.

Public Expenditure and Reform	2016 €m	2017 €m	2018 €m	2019 €m
Gross Voted Current Expenditure	910	924	924	924
Gross Voted Capital Expenditure	140	136	160	162
Total Gross Voted Expenditure	1,050	1,060	1,084	1,086

2016 Expenditure Allocation (€m)

Chart 1(a): Pay, Pensions[35] and Non-Pay Breakdown

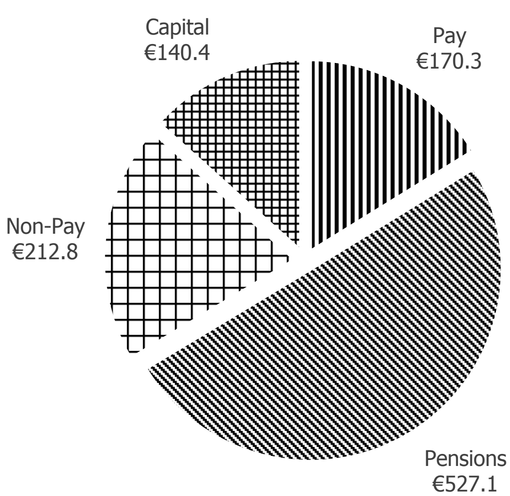
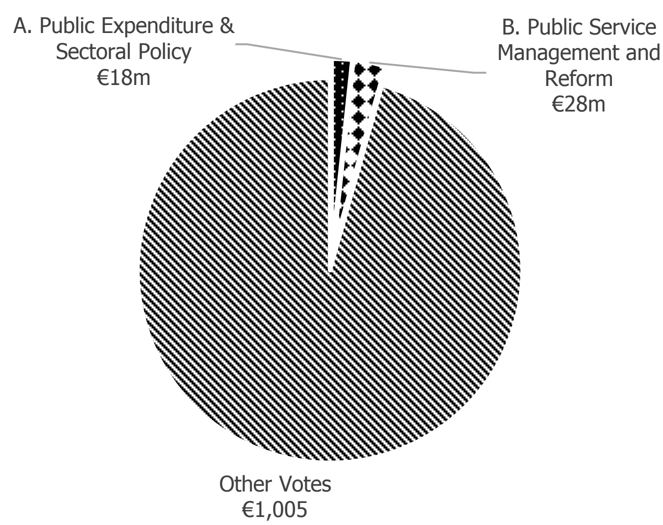


Chart 1(b): Programme Breakdown



[35] Retired Civil Servants paid from Superannuation Vote

B. Reconciliation of 2017 Expenditure Ceiling

Department of Public Expenditure and Reform	2016	2017	2018	2019
Current Expenditure	€million	€million	€million	€million
Opening Position - Based on Expenditure Report 2016 Ceilings	**940**	**955**	**955**	**955**
Technical Adjustments to the Ceiling				
Transfer of Valuation Office	-10	-10	-10	-10
PPP reclassification	-25	-25	-25	-25
Transfer to OPW from Social Protection	4	4	4	4
REV 2016 Adjustment	1	-	-	-
Adjusted Ceilings	**910**	**924**	**924**	**924**
Capital Expenditure	€million	€million	€million	€million
Capital Envelope as set out in the Public Capital Plan	**111**	**111**	**135**	**137**
Technical Adjustments				
PPP Reclassification	25	25	25	25
REV 2016 Adjustment	4	-	-	-
Adjusted Capital Ceiling	**140**	**136**	**160**	**162**
Ministerial Expenditure Ceiling	**1,050**	**1,060**	**1,084**	**1,086**

Rounding affects totals

The reclassification of certain unitary payments, payable under existing PPP contracts, from current expenditure to capital expenditure results in a consistent treatment for all unitary payments to enhance transparency.

C. Expenditure Options

The Public Service Reform programme was a key part of the Government's response to dealing with the fiscal crisis. As there is a requirement for continued focus on efficiencies additional expenditure in areas such as shared services can help deliver such efficiencies.

Social Protection

A. Resource Allocation 2016-2019

The current and capital expenditure ceilings for 2016, consistent with the 2016 Estimates, and the technical pre-budget ceilings for the period to 2017-2019 are presented in the table below.

Social Protection	2016 €m	2017 €m	2018 €m	2019 €m
Gross Voted Current Expenditure	19,614	19,708	19,791	19,924
Gross Voted Capital Expenditure	11	9	8	8
Total Gross Voted Expenditure	19,625	19,717	19,799	19,932

2016 Expenditure Allocation (€m)

Chart 1(a): Pay, Pensions[36] and Non-Pay Breakdown

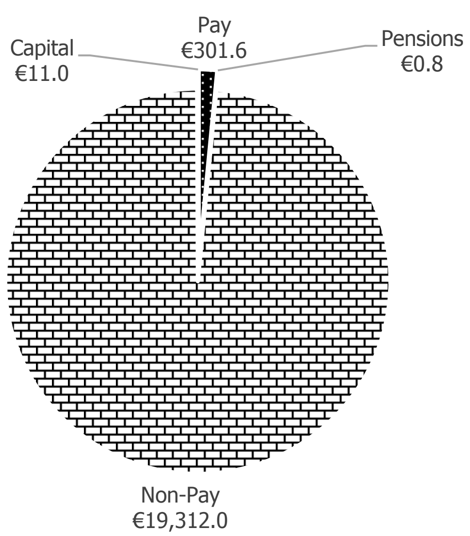
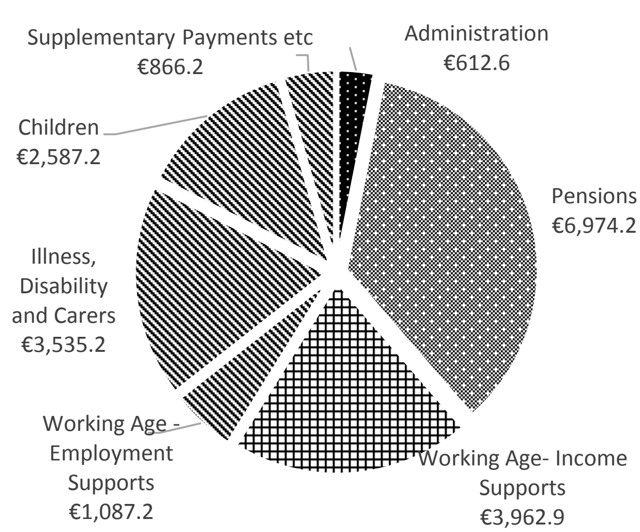


Chart 1(b): Programme Breakdown



[36] Retired Civil Servants paid from Superannuation Vote

B. Reconciliation of 2017 Expenditure Ceiling

Department of Social Protection	2016	2017	2018	2019
Current Expenditure	€million	€million	€million	€million
Opening Position - Based on Expenditure Report 2016 Ceilings	**19,627**	**19,721**	**19,804**	**19,937**
Technical Adjustments to the Ceiling				
Transfer to OPW	-4	-4	-4	-4
REV 2016 Adjustments	-9	-9	-9	-9
Adjusted Ceilings	**19,614**	**19,708**	**19,791**	**19,924**
Capital Expenditure	€million	€million	€million	€million
Capital Envelope as set out in the Public Capital Plan	**11**	**9**	**8**	**8**
Technical Adjustments				
Adjusted Capital Ceiling	**11**	**9**	**8**	**8**
Ministerial Expenditure Ceiling	**19,625**	**19,717**	**19,799**	**19,932**

Rounding affects totals

C. Expenditure Options

The pre-Budget expenditure ceilings reflect demographic pressures primarily relating to the State Pension and anticipated savings arising from reductions in expenditure on the Live Register. Expenditure in the Department of Social Protection is largely demand driven and influenced by developments in the labour market and the economy generally. The recent decision in relation to an increase in rent supplement will impact on the resources available for 2017 by €55 million.

For reference, the ready reckoner below sets out the potential impact of certain Social Protection policy measures that could be considered. Where the measure relates to a rate change, a €1 change is used for illustrative purposes.

Social Protection	**Cost**
€1 increase in State Pension (Current rate €233.30 per week)	€32m
€1 increase in Child Benefit (Current rate €140 per month)	€14m
€1 Disability payments + carers payments (DA currently €188 per week and Carer's Allowance currently €204 per week)	€12m
Additional week of parental leave (E.g. additional week of paid maternity leave from 26 weeks to 27 weeks and an additional week of paternity leave from 2 weeks to 3 weeks) The PfG contains a commitment to "increase paid parental leave". The period is not specified. An additional week is included as an indicative period of time.	€20m
€1 increase living alone allowance (from €9 to €10 per week, increase of 11%)	€10m

Taoiseach

A. Resource Allocation 2016-2019

The current and capital expenditure ceilings for 2016, consistent with the 2016 Estimates, and the technical pre-budget ceilings for the period to 2017-2019 are presented in the table below.

Taoiseach	2016 €m	2017 €m	2018 €m	2019 €m
Gross Voted Current Expenditure	204	171	171	171
Total Gross Voted Expenditure	204	171	171	171

2016 Expenditure Allocation (€m)

Chart 1(a): Pay, Pensions[37] and Non-Pay Breakdown

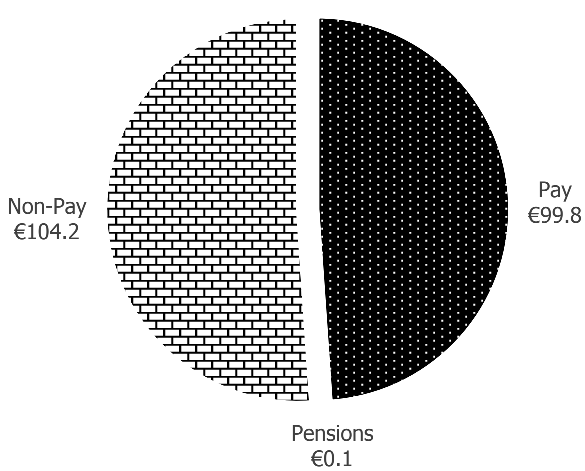
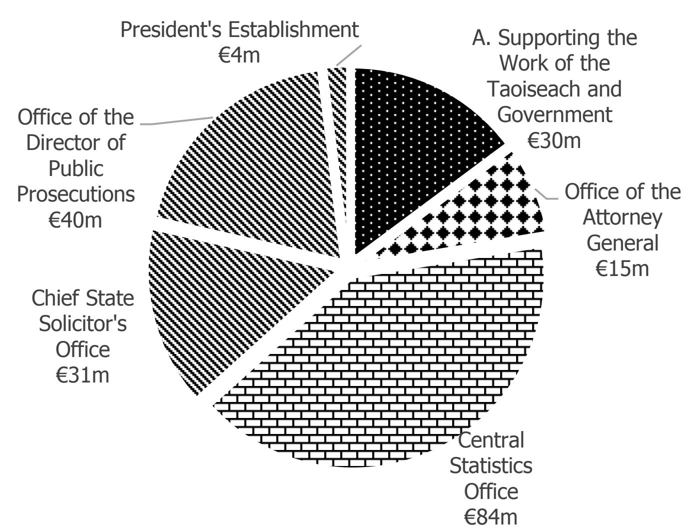


Chart 1(b): Programme Breakdown



[37] Retired Civil Servants paid from Superannuation Vote

B. Reconciliation of 2017 Expenditure Ceiling

Department of the Taoiseach	2016	2017	2018	2019
Current Expenditure	€million	€million	€million	€million
Opening Position - Based on Expenditure Report 2016 Ceilings	**201**	**171**	**171**	**171**
Technical Adjustments to the Ceiling				
REV 2016 Adjustment	3	-	-	-
Adjusted Ceilings	**204**	**171**	**171**	**171**
Capital Expenditure	€million	€million	€million	€million
Capital Envelope as set out in the Public Capital Plan	**0**	**0**	**0**	**0**
Technical Adjustments				
Adjusted Capital Ceiling	**0**	**0**	**0**	**0**
Ministerial Expenditure Ceiling	**204**	**171**	**171**	**171**

Rounding affects totals

C. Expenditure Options

There are expected to be continuing costs in 2017 in relation to Commissions.

Transport, Tourism and Sport

A. Resource Allocation 2016-2019

The current and capital expenditure ceilings for 2016, consistent with the 2016 Estimates, and the technical pre-budget ceilings for the period to 2017-2019 are presented in the table below.

Transport, Tourism and Sport	2016 €m	2017 €m	2018 €m	2019 €m
Gross Voted Current Expenditure	663	663	663	687
Gross Voted Capital Expenditure	1,075	1,074	1,226	1,273
Total Gross Voted Expenditure	1,738	1,737	1,889	1,960

2016 Expenditure Allocation (€m)

Chart 1(a): Pay, Pensions[38] and Non-Pay Breakdown

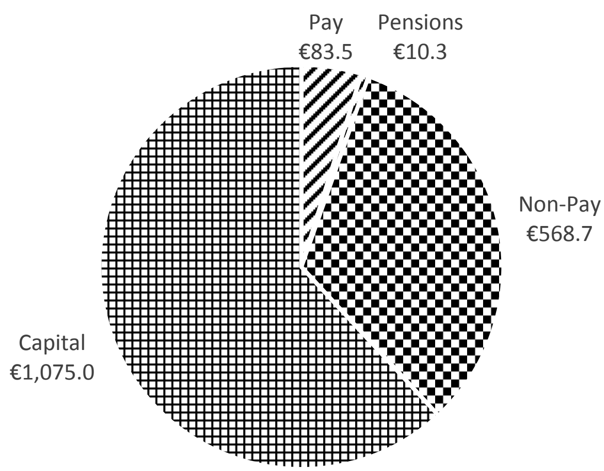
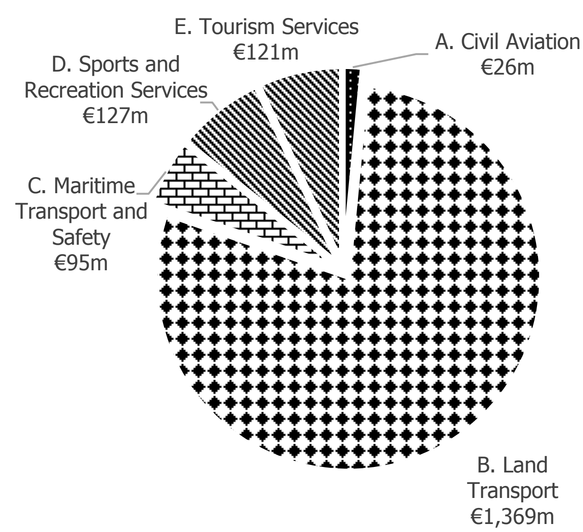


Chart 1(b): Programme Breakdown



[38] Retired Civil Servants paid from Superannuation Vote

B. Reconciliation of 2017 Expenditure Ceiling

Department of Transport, Tourism and Sport	**2016**	**2017**	**2018**	**2019**
Current Expenditure	€million	€million	€million	€million
Opening Position - Based on Expenditure Report 2016 Ceilings	**722**	**722**	**722**	**722**
Technical Adjustments to the Ceiling				
Reclassification of Unitary Payments to capital	-59	-59	-59	-35
Adjusted Ceilings	**663**	**663**	**663**	**687**
Capital Expenditure	€million	€million	€million	€million
Capital Envelope as set out in the Public Capital Plan	**1,016**	**1,015**	**1,167**	**1,238**
Technical Adjustments	59	59	59	35
Adjusted Capital Ceiling	**1,075**	**1,074**	**1,226**	**1,273**
Ministerial Expenditure Ceiling	**1,738**	**1,737**	**1,889**	**1,960**

Rounding affects totals

The reclassification of certain unitary payments, payable under existing PPP contracts, from current expenditure to capital expenditure results in a consistent treatment for all unitary payments to enhance transparency.

C. Expenditure Options

There is an ongoing requirement for investment in the maintenance and improvement of the national, regional and local roads network.

In the area of public transport, replacement and expansion of both Dublin Bus and Bus Éireann fleets could be considered. Approximate costs of replacement buses set out below.

- €50m = approx. 130 new busses
- €50m= approx. 110 new coaches

Issues around phasing would also need consideration in the context of the 2017 mid-term Capital Review.