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An Oifig Buiséid Pharlaiminteach
Parliamentary Budget Office
**Post-Budget 2018 Commentary for the
Committee on Budgetary Oversight**

24 October 2017

Séanadh

Is í an Oifig Buiséid Pharlaiminteach (OBP) a d'ullmhaigh an doiciméad seo mar áis do Chomhaltaí Thithe an Oireachtais ina gcuid dualgas parlaiminteach. Sa doiciméad seo pléitear saincheistanna a bhaineann le beartas buiséadach, tugtar míniú ar théamaí ábhartha agus cuirtear raon ceisteanna ina gcomhthéacsanna cuí. Ní bheartaítear é a bheith uileghabhálach ná críochnúil. Féadfaidh an OBP aon fhaisnéis atá ann a bhaint as nó a leasú aon tráth gan fógra roimh ré. Níl an OBP freagrach as aon tagairtí d'aon fhaisnéis atá á cothabháil ag tríú páirtithe nó naisc chuig aon fhaisnéis den sórt sin ná as ábhar aon fhaisnéise den sórt sin. Tá baill foirne an OBP ar fáil chun ábhar na bpáipéar seo a phlé le Comhaltaí agus lena gcuid foirne ach ní féidir leo dul i mbun plé leis an mórfhobal nó le heagraíochtaí seachtracha.

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Introduction

This is the third publication produced by the new Parliamentary Budget Office (PBO) of the Houses of the Oireachtas. The first two publications were:

1. Pre-Budget 2018 Commentary for the Committee on Budgetary Oversight;
2. Quarterly Economic and Fiscal Commentary (Q3 2017).

The Parliamentary Budget Office was set up to assist Members of the Houses of the Oireachtas and the Committee on Budgetary Oversight in particular in their engagement with scrutiny of budgetary proposals both pre- and post-Budget.

The PBO is in the process of being established and the initial focus is primarily on the recruitment of a team of economists and other professionals and the establishment of processes which will ensure that we provide quality information, research and analysis for Members.

However, even in this initial set up phase I believe it is important that the PBO continue to:

- inform and advise the Committee on Budgetary Oversight on the current economic and fiscal position;
- draw Members' attention to various revenue and expenditure issues that flow from the decisions made in Budget 2018.

This publication briefly focuses on a range of issues that were identified in our Pre-Budget Commentary as well as other issues that the Budget brings to the fore.

Once the PBO is fully established forthcoming publications will be provided which will be more detailed and provide more in-depth analysis.

Looking forward to Budget 2019, the PBO expects to have a full team in place and should therefore be in a position to respond quickly, and in more depth, to the Budget. For subsequent Budgets, it is hoped the PBO will also provide analysis on the economic impact of the Budget.

Annette Connolly

Director of the Parliamentary Budget Office

24th October 2017

Summary and Key issues

Overall economic and fiscal position

The macro-economic forecasts published with Budget 2018 estimate real GDP growth of 4.3% in 2017 and 3.5% in 2018. The Budget 2018 forecasts expect employment growth of 2.8% in 2017 (or 56,000 additional jobs) with 2.3% growth in 2018 (48,000 jobs).

Overall General Government Revenue will be €78.7 billion in 2018 – an increase of 4.4% from 2017. Overall General Government Expenditure is expected to be €79.3 billion – a 3.8% increase over 2017.

The overall General Government Balance is expected to be a deficit of €1 billion in 2017, falling to €540 million in 2018. This represents a deficit of -0.3% of GDP in 2017 and -0.2% in 2018. The Structural Budget Balance (which tries to account for the point in the business cycle a country is at) is expected to be -1.1% of GDP in 2017, falling to -0.5% of GDP in 2018. Budget 2018 increases the deficit by €445 million from the pre-Budget White Paper estimate. However, as revenue is growing in line with economic growth and expenditure is growing slightly less than economic growth Budget 2018 is broadly neutral from an economic viewpoint.

On the information provided, Budget 2018 seems broadly compliant with the fiscal rules. However, formal evaluation of compliance is a matter for the Irish Fiscal Advisory Council (IFAC) and the European Commission. The IFAC will publish its Fiscal Assessment Report which will discuss its view of Budget 2018 at end-November and the European Commission will set out its views of Budget 2018 in mid-November.

However, as detailed below there are some issues worth noting in relation to the quality of the revenue-raising measures in Budget 2018. If the amount of revenue raised is not as projected then the fiscal stance will be negatively affected and the MTO may not be reached.

Revenue and taxation changes

The Government announced revenue increasing measures of €828.5 million for 2018 with revenue reducing measures of €334.5 million to fund the Budget package.

The Income Tax changes were not enough to index against expected wage growth and thus could be seen to be contractionary.

The main tax increase was the four percentage point increase in Stamp Duty on non-residential property transactions. The Government expects that this will raise €376 million in 2018. However, this is a static estimate and there are variables beyond the control of Government that will affect the eventual yield including behavioural change in response to the tax increase. Any exemptions introduced will also reduce the expected yield.

Mortgage Interest Relief was due to end on the 31 December 2017 and is now to be extended, through a tapered reduction, until end 2020. However, due to already being incorporated in the tax base, this tax reduction oddly is presented as a tax raising measure. This illustrates a lack of transparency regarding the Department of Finances' tax forecasts and what is meant by a no policy change scenario. There are also equity issues with extending the relief as it is not targeted at those with lower income or those in financial difficulty.

The introduction of a sugar tax (€30 million in 2018 and €40 million in a full year), along with the increase in tobacco excise duty (€64 million), are expected to raise €94 million (or 11.3%) of the revenue increasing measures. However, the estimate of €64 million to be generated from the tobacco excise duty increase suggests that the most muted consumer behavioural response to the price rise was chosen by the Government. The Revenue Commissioners' had, pre-budget, estimated that such an increase could actually reduce revenue by up to €40 million due to behavioural change. Similarly, the estimate of the revenue to be raised by the new sugar-sweetened drinks tax is difficult to assess as it is a new tax, its base is uncertain and there will likely be a behavioural response from both manufacturers and consumers.

Approximately €100 million of the Revenue measures in Budget 2018 are ascribed to compliance measures. While projects to combat tax evasion are welcome it may be challenging to posit that they amount to *additional* discretionary revenue raising measures, i.e. the tax that they raise is due in any event. It is also difficult to assess whether they will, or have, achieved their targets.

Budget 2018 introduces a limit of 80% in an accounting period to the amount of capital allowances for intangible assets allowed to be claimed against relevant income in order to calculate taxable profits. This is estimated to generate €150 million per annum. This change will make Irish corporation tax slightly less volatile but does not necessarily increase the overall income that will be generated, just its timing.

A major change in how Local Property Tax and Motor Tax will be accounted for in the Exchequer accounts from 2018 will be introduced as part of the *Water Service Bill 2017*. This has an impact on Exchequer comparisons year on year though not on the overall General Government balance. In the long term this should improve transparency and accountability, but will make both revenue and expenditure comparisons involving certain timelines more difficult.

Public Expenditure

Public expenditure on a General Government basis is expected to be €79.3 billion in 2018. Of this, approximately €72 billion is Exchequer expenditure with approximately €61 billion in Voted expenditure i.e. expenditure (both current and capital) voted by Dáil Éireann through the annual Estimates process. Gross Voted Expenditure is expected to increase by €2,430 million or 4.2% in 2018 from 2017. Six Vote Groups account for approximately €52.5 billion or 87% of total Government Gross Voted expenditure of €61 billion.

The additional current expenditure measures from Budget 2018 come to €683 million. In simple cash terms, the bulk of the additional current expenditure measures went to Health, Education and Skills, and Housing, Planning and Local Government. Table 6 attempts to illustrate what *priority* has been attached, in terms of *overall* current expenditure increases, to each Vote in Budget 2018 – it would appear that a high priority has been placed on Housing, Planning & Local Government Group, Rural & Community Development, Education & Skills, and Children and Youth Affairs. However, all Government departments received increases in Budget 2018.

The Expenditure Report 2018 (p.38) states that, “The carryover impact of Budget 2018 measures...will be reassessed later in the year...these costs have not been allocated on a Departmental basis”. There is currently €506 million in unallocated resources in the 2019 Current Expenditure Ceilings from which the current estimate of €192 million for the carry-over effect of Budget 2018 expenditure measures may be met.

The Public Service Stability Agreement (PSSA) has been ratified since the *Mid-Year Expenditure Report 2017* was published and is now included within the overall Government Expenditure ceilings. However, carry-over impact has not been allocated on a Departmental basis for 2019 or 2020. The total additional cost of the PSSA pay increases is €889 million over the period 2018 to 2020.

The capital expenditure ceilings (for 2018-2020) had been updated in the *Mid-Year Expenditure Report 2017* and, at that stage, reflected the allocations set out in the *Building on Recovery: Infrastructure and Capital Investment 2016-2021* (the 2015 ‘Capital Plan’) taking account of additional resources allocated in Budget 2017 in respect of 2018 and 2019. A relatively small amount of additional capital expenditure was announced as part of Budget 2018. Of the total proposed increase of €790m in capital expenditure in 2018 (inclusive of already announced increases), a total of €633 million is allocated to Housing (€436 million) and Transport (€197 million).

Commentary on overall expenditure issues

Based on Budget 2018 documentation alone, simple comparisons between the proposed expenditure allocations in 2018 and expected 2017 expenditure outruns are difficult as a result of the transfer of functions effected in July this year (including the establishment of a new Department). This affects six Departments.

In respect of the response to Brexit, the additional expenditure allocation amounts to €76 million on specific Brexit related initiatives.

As in previous years, all of the additional expenditure resources available to the Government by way of fiscal space and extra discretionary revenue measures are fully allocated. This means that there is no room for manoeuvre during the year in the event of a shortfall in revenue or to meet unforeseen expenditure requirements. In the interests of proper planning and management, consideration could be given to having some contingency built into the budgetary numbers.

The proposed Contingency Reserve/Rainy Day Fund, when established in 2019, could fill this gap. However, the exact nature of the Reserve/Fund needs to be articulated. A paper has been prepared for the purpose of consultation with the Houses of the Oireachtas regarding the establishment of the Reserve/Fund. It was published with the Budget and has been laid before the Houses.

As set out in the PBO’s *Pre-Budget 2018 Commentary*, if the rate of increase in staff numbers continues to be in the region of 2% per annum (or 3% plus as set out in the *Expenditure Report 2018*) over the medium term and pay increases are implemented then the sustainability of this increase is questionable without additional revenue. Budget 2018 has set out proposed increases in staff numbers in specific sectors on the basis of both policy changes and demographics. The Gross Exchequer Pay Bill is expected to rise by 5.6% in 2018. The total increase in associated staff numbers is expected to be approximately 7,500.

As also set out in the PBO's *Pre-Budget 2018 Commentary*, on Budget Day 2017 the Minister announced a Spending Review of Current Expenditure which was intended to assist in preparations for Budget 2018 both in the consideration of existing expenditure policy and the consideration of new policy proposals. In relation to policy changes it is unclear from the Budget 2018 documentation as to the basis of most the policy changes, i.e. what evidence base is there to support the value for money (i.e. efficiency and effectiveness) of these changes (such as increases in staff numbers or new spending measures).

The *Expenditure Report 2018* predicts that, "[i]n the absence of achieving greater efficiency in Government expenditure being sought, the increasing annual costs of demographics [i.e. a larger population in the post-retirement cohorts] will diminish the available fiscal space and adversely impact on the deficit position."

Commentary on selected Department's Voted expenditure

The proposed allocation for expenditure in relation to Employment and Social Protection (including the Social Insurance Fund (SIF)) in respect of 2018 is €20,012 million. Due to the ongoing decrease in the numbers on the Live Register, the net additional expenditure required for this Vote is considerably lower than would otherwise be the case. However, issues based on demographics (number of pension recipients) and other challenges such as low labour market participation rates and a significant increase in the growth of Disability income support expenditure continue to pose significant challenges.

The proposed allocation for expenditure in the Housing, Planning and Local Government Vote in respect of 2018 is €2,457 million. Housing constitutes three-quarters of total Vote allocation and the total Exchequer Vote allocation in respect of Housing in 2018 (€1,831 million) will exceed peak expenditure in that area for the first time since 2008 (€1,710 million in that year). However, the composition of the expenditure has changed with current supports increasing both due to policy changes (such as the Housing Assistance Payment) and demand for services.

The proposed allocation for expenditure in respect of the Health Vote in respect of 2018 is €15,291 million, most of which is current expenditure. The *Expenditure Report 2018* (pp.34-35) states that, "the proposed increase [of current expenditure] in the Health allocation is €646 million, or 4.6%...and satisfies the commitment set out in the Programme for a Partnership Government to increase health expenditure more than by 3% per year." Additional spending measures costing €235 million are proposed in Budget 2018. The carryover costs from Budget 2017 are projected to be €97 million. An allocation of €165 million is made in respect of recent pay agreements. This would suggest that €152 million in increased resources has been allocated to meet existing service levels in 2018. However, this is not explicitly stated.

The proposed allocation for expenditure in respect of the Transport, Tourism and Sport Vote in respect of 2018 is €2,026 million, divided 35:65 between current (€699 million) and capital (€1,327 million) expenditure. Budget 2018 proposes an increase in capital expenditure allocation of €46 million as a result of the *Mid-term Review of the Capital Plan*. This is an increase to the capital ceiling for 2018 (€1,281 million) as set out in the *Mid-Year Expenditure Report 2017*.

The proposed ceiling for expenditure (including the National Training Fund) in the area of Education & Skills in respect of 2018 is €10,085 million, divided 93:7 between current (€9,339 million) and capital (€745 million) expenditure. This is the highest expenditure ceiling that this area has had – it reached a previous peak of €9.7 billion in 2010. Pay and pensions accounts for two thirds, or €6,739 million, of the total ceiling for 2018 and is therefore the single largest component of expenditure in this area. In terms of programme expenditure, Programme A constitutes 69% of the entire

expenditure ceiling and composes all levels of education prior to third level. In that context, special education needs (part of Programme A) gross allocation in 2017 (€1.68 Billion) exceeded that of Programme C Higher Education (€1.58 Billion) and has increased by 38% from 2011 to 2017 (€465 million). The combination of first, second and early years' education in one programme obscures the relative importance of each level and of important components/policy priorities within those levels, at least before the publication of the Revised Estimates. Setting aside additional pay costs and existing level of service (ELS), the additional current expenditure measures proposed in Budget 2018 will cost €104 million. The additional 2018 allocation will have long-term staffing and pension costs for this Vote – increasing the number of primary school teachers in 2018, given the anticipated reduction in overall primary school pupils over much of the next decade, poses the question; will they all be required and how will they be employed as pupil numbers decline?

The proposed allocation for expenditure in respect of the Justice Group Vote in respect of 2018 is €2,634 million, almost all of which is current expenditure. Compared to the pre-Budget position, an extra €63 million in current expenditure (€20 million on existing services and €43 million in additional measures) and an extra €5 million in capital expenditure is proposed in Budget 2018. An allocation of €37 million has also been made for the Central Pay Agreement Provision in respect of the Public Service Stability Agreement (PSSA). Budget 2018 proposes to increase current expenditure allocations in respect of Garda Reform – an allocation of €28.6 million in 2018, and refers to the recruitment of up to a further 500 civilian staff and 800 trainee Gardaí. The recruitment of civilian staff can clearly be linked to Garda reform; it is less transparent that the recruitment of the 800 Gardaí is directly linked to reform *per se*.

Other issues

Budget Transparency: One element in the process of Dáil reform and of improving parliamentary engagement with the budget process, i.e. improving budgetary scrutiny and accountability, is the simplification of complex budget information. In the context of achieving a more effective level of parliamentary engagement, Budget documentation (the core part of which currently consists of three separate reports totalling over 300 pages) presented on Budget day is unduly lengthy and complex.

The information presented within those 300 pages is not always set out in a transparent manner and greater emphasis could be placed on presenting the most relevant information in a way which is easier to navigate when the time available for analysis by both Members and the PBO is limited.

Equality and Gender Budgeting: As set out in Budget 2018 a pilot project on gender budgeting is being introduced in the Revised Estimates Volumes (REV). The objectives and indicators will be published in the REV and progress will be published in the Annual Performance Report. The PBO will review this when the material is available.

Economic context

Economic growth

The macro-economic forecasts published with Budget 2018 estimate real GDP growth of 4.3% in 2017 and 3.5% in 2018. GDP growth is gradually expected to fall to 2.6% in 2021. These forecasts have not materially changed since the last Department of Finance forecasts published in the *Stability Programme Update* (March 2017). However, real GNP growth in 2017 is expected to be 0%, down from the estimate of 4.2% in the *Stability Programme Update*. This is a large change and reflects the fall in GNP in the first half of 2017. However, due to the volatility of Ireland's economic statistics and the dramatic rise in GNP in 2016 (9.6%) it is difficult to interpret what flat GNP for 2017 implies.

In terms of the main components of GDP, personal consumption is expected to grow 2.3% in 2018, government consumption by 2%, with investment growth of 6.1%. This leads to domestic demand contributing 2.8 percentage points of the 3.5% growth rate. Net exports contribute 0.6 percentage points with exports growing slightly less than imports.¹

Labour market

The Budget 2018 forecasts expect employment growth of 2.8% in 2017 (or 56,000 additional jobs) with 2.3% growth in 2018 (48,000 jobs). Employment growth is expected to slow to 1.6% in 2021. The unemployment rate is expected to be 6.3% in 2017, falling to 5.7% in 2018 and 5.5% in 2019 and remaining steady at 5.5% in both 2020 and 2021.

Compensation per employee in the non-agricultural sector (i.e. wage growth) is expected to rise by 3.1% in 2018. Wage growth is expected to be 3.2% in 2019 and rise to 3.4% in 2020 and 2021.

International assumptions

As mentioned in the Parliamentary Budget Office's *Economic and Fiscal Commentary Q3 2017*, economic growth in the Euro area is expected to accelerate in 2017. This is reflected in the revised external assumptions in the Department of Finance's economic forecasts. In terms of changes to the external assumptions, the growth rate in the United States (US) is slightly lower in 2017 but projected to be higher in 2018-2021 – with the United Kingdom's growth rate slightly higher in 2017 and projected to be lower in 2018 and 2019.

In terms of currency movements the assumptions regarding the euro-pound exchange rate are based on a slightly weaker pound €1 = £0.90 in 2018 to 2021 (compared to €1: £0.87 in the SPU 2017) with a substantially weaker dollar €1:\$1:20 in 2018 to 2021 (compared to \$1:\$1:06 assumption in the SPU). This would suggest that exports to the US could be affected by the movement of the exchange rate. The expected oil price is \$53 per barrel in 2017 and 2018 rising to \$54 from 2019 onwards. This is a slight decrease from \$55 over the whole period 2017 to 2021.

¹ Stock changes account for the other 0.1 percentage points of growth.

Fiscal position

Overall fiscal position 2018

Overall balance

Table 1 shows that overall General Government Revenue will be €78.7 billion in 2018 – an increase of 4.4% from 2017. Overall General Government Expenditure is expected to be €79.3 billion – a 3.8% increase over 2017.

The overall General Government Balance is expected to be a deficit of €1 billion in 2017, falling to €540 million in 2018. This represents a deficit of -0.3% of GDP in 2017 and -0.2% in 2018. The Structural Budget Balance (which tries to account for the point in the business cycle a country is at) is expected to be -1.1% of GDP in 2017 and -0.5% of GDP in 2018.

Table 1: General Government revenue and expenditure, total and growth, 2017 and 2018

| | 2017 | 2018 | % Change |
|--|---------|---------|----------|
| General Government revenue (€ million) | 75,395 | 78,730 | 4.4% |
| General Government expenditure (€ million) | 76,385 | 79,265 | 3.8% |
| General Government balance (€ million) | -995 | -540 | -45.7% |
| General government balance per cent GDP | -0.3 | -0.2 | -48.0% |
| Structural Budget balance per cent GDP | -1.1 | -0.5 | -54.5% |
| General Government Debt (€ million) | 202,600 | 208,200 | 2.8% |
| General Government Debt per cent of GDP | 70.1 | 69.0 | -1.6% |

Source: Department of Finance (2017) Economic and Fiscal Outlook 2018 p23 and p25.

Compliance with the fiscal rules

Ireland's Medium Term Budgetary Objective (MTO), as part of the European and domestic fiscal rules, is a structural budget balance of -0.5% of GDP. Budget 2018 is based on achieving this objective in 2018. In addition, Ireland (if not at its MTO) must be moving towards its MTO at a rate greater than 0.5 percentage points of GDP per annum. On the figures presented in the Budget documentation, Budget 2018 meets this requirement.

In addition, the Expenditure Benchmark (EB) (as set out under the fiscal rules) also applies to Budget 2018 as Ireland is not at its MTO. The information supplied in the Budget details the application of the Expenditure Benchmark from 2016 to 2021.² For 2017 it shows a deviation of -0.6% (i.e. real expenditure growth³ is 0.6 percentage points higher than the Expenditure Benchmark allows). For 2018 it shows that real expenditure growth will be 0.1 percentage points lower than the EB allows.

Breaches of the EB are calculated on a 2-year basis and as a share of GDP. A negative 2-year average deviation equates to a breach of the EB. The 2-year average deviation in 2017 is 0.0% of GDP and in 2018 is -0.1% of GDP. In 2019, the 2-year average deviation is 0.3% of GDP. This means that, based on the Budget 2018 presentation, Ireland would comply with the EB in 2017, breach the EB in 2018 and comply again in 2019. The breach in 2018 at -0.1% of GDP is likely not to be deemed a significant breach. A breach could result in a monetary sanction from the European Council (interest-bearing deposit of 0.2% of GDP). If Ireland achieves its MTO in 2018 then the EB will not apply from 2019 onwards – as long as the MTO continues to be achieved.

The debt rule is the other fiscal rule that needs to be met. This states that, if a country has a General Government Debt above 60% of GDP, it must reduce its debt to GDP ratio by 1/20th of the gap between its level and the 60% target. In 2017, the General Government Debt to GDP ratio for Ireland is expected to be 70.1%. This is expected to fall to 69.0% by end 2018. This is a fall of 1.1 percentage points. The Debt rule should be satisfied with a fall of 0.5 percentage points in the ratio.

Thus, on the information provided, Budget 2018 seems broadly compliant with the fiscal rules. However, formal evaluation of compliance is a matter for the Irish Fiscal Advisory Council (IFAC) and the European Commission. The IFAC will publish its *Fiscal Assessment Report* which will discuss its view of Budget 2018 at end-November and the European Commission will set out its views of Budget 2018 in mid-November.

Fiscal stance

In 2018 Government expenditure will increase by 3.8%. Nominal economic growth is projected to be 4.4% in 2018, thus General Government Expenditure as a share of GDP will fall slightly (by 0.1 percentage points) between 2017 and 2018. On the same basis revenue as a share of GDP is constant between 2017 and 2018 (both grow by 4.4%). In addition, the net revenue package was a €495 million increase (revenue increasing measures of €828.5 million offset by revenue decreasing measures of €334.5 million). This excludes the effect of the non-indexation of most of the income tax credits and bands. Full non-indexation would cost in the region of €500 million and not doing so could also be seen as contractionary. Thus, while Budget 2018 increases the deficit by €445 million from the pre-Budget White Paper estimate, it is broadly neutral from an economic viewpoint.

However, as detailed below there are *some issues worth noting in relation to the quality of the revenue-raising measures* in Budget 2018. If the amount of revenue raised is not as projected, then the fiscal stance will be negatively affected and the MTO may not be reached or, for example, expenditure may have to be cut to ensure that it is met.

² Table A8, p48 of the *Economic and Fiscal Outlook 2018*.

³ This is expenditure growth, as calculated under the Expenditure Benchmark, which adjusts for interest expenditure, expenditure co-financed by the EU, the smoothing of capital expenditure, one-off measures and cyclical unemployment expenditure.

Medium term fiscal position

The *Economic and Fiscal Outlook* estimates and projects the fiscal position out to 2021. Table 2 shows the main exchequer aggregates.

Table 2: Exchequer position, € million (excluding transactions with no general Government impact)

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---------------|---------------|---------------|---------------|---------------|
| Revenue | 64,679 | 67,381 | 69,854 | 72,357 | 75,313 |
| : tax revenue | 50,620 | 53,660 | 56,381 | 59,095 | 61,962 |
| • Income tax | 20,245 | 21,444 | 22,487 | 23,742 | 25,092 |
| • VAT | 13,425 | 14,090 | 15,006 | 15,780 | 16,595 |
| • Corporation tax | 7,965 | 8,504 | 8,867 | 9,240 | 9,637 |
| • Excise duties | 5,735 | 5,820 | 6,026 | 6,161 | 6,287 |
| • Stamp duties | 1,200 | 1,673 | 1,801 | 1,913 | 2,021 |
| • LPT | 470 | 470 | 470 | 470 | 470 |
| • Customs | 335 | 343 | 350 | 360 | 372 |
| • Capital gains tax | 795 | 843 | 881 | 917 | 954 |
| • Capital acquisitions tax | 450 | 472 | 493 | 513 | 534 |
| : A-in-As (inc. PRSI, NTF and balances) | 12,223 | 12,473 | 12,594 | 12,719 | 12,844 |
| : non-tax revenue | 1,724 | 1,175 | 818 | 492 | 456 |
| • Central bank surplus income | 992 | 559 | 258 | 25 | 33 |
| • Dividends | 320 | 246 | 278 | 330 | 294 |
| • other | 413 | 371 | 282 | 137 | 128 |
| : capital resources | 111 | 73 | 61 | 51 | 52 |
| Expenditure | 67,292 | 70,144 | 72,518 | 74,406 | 75,797 |
| : gross voted current expenditure | 53,953 | 55,593 | 56,946 | 58,396 | 59,836 |
| : non-voted current expenditure | 8,798 | 9,222 | 9,002 | 8,835 | 8,176 |
| • national debt interest | 6,147 | 6,104 | 5,882 | 5,677 | 4,993 |
| • debt management expenses | 143 | 188 | 169 | 160 | 147 |
| • EU budget contribution | 2,300 | 2,650 | 2,675 | 2,750 | 2,775 |
| • other | 208 | 280 | 276 | 248 | 261 |
| : gross voted capital expenditure | 4,541 | 5,329 | 6,570 | 7,175 | 7,785 |
| Balance excluding transactions with no GG impact | -2,613 | -2,763 | -2,665 | -2,049 | -483 |

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|--|---------------|---------------|---------------|---------------|--------------|
| Net transactions with GG impact | 4,068 | 487 | 191 | -14 | -96 |
| Exchequer Balance | 1,455 | -2,276 | -2,473 | -2,063 | -579 |
| Walk to GG balance* | -2,450 | 1,735 | 2,145 | 2,885 | 3,445 |
| General Government balance* | -995 | -540 | -330 | 820 | 2,865 |
| Memo item: Total Government Expenditure Ceiling | 58,495 | 60,923 | 63,516 | 65,571 | |

Note: * Figures rounded to nearest €5 million. The Government Expenditure Ceiling is the sum of gross voted current and gross voted capital expenditure.

Table 2 shows the medium-term exchequer position excluding transactions with no general Government impact (i.e. transactions where revenue or expenditure is, in effect, a transfer within the General Government and does not affect the General Government Balance).

There are a number of interesting points to note in the post-2018 period. These include:

- The Exchequer position is projected to be consistently in deficit.
- However, strong positions elsewhere in the General Government sector including the Social Insurance Fund (SIF), the Irish Strategic Investment Fund (ISIF), and non-commercial semi-state bodies (NCSSBs) along with the impact of accruals and the Rainy Day Fund mean that the Exchequer deficit becomes a General Government surplus in 2020.
- Central bank surplus income i.e. income deriving from various extraordinary measures arising from the financial crisis (as opposed to normal Central bank operations) is expected to fall substantially. It was €992 million in 2017 and is expected to reduce to €33 million by 2021 (a difference of €959 million).
- National debt interest will fall by over €1.1 billion over the same period.
- The EU budget contribution is expected to increase by over 15% in 2018 and a further 5% by 2021.
- Gross voted expenditure in the above table includes unallocated expenditure of €505 million in 2019, €1,185 million in 2020 and €1,935 million in 2021.
- Capital expenditure is expected to increase by 46% by 2021 (over 2018 levels).
- Total Gross Voted Government expenditure peaked at €63,051 million in 2009 and will be at a similar level in 2019 and exceed it in 2020.

Revenue and taxation changes

Table 3 summarises the cost, or yield, from the main revenue and taxation measures announced in Budget 2018. In terms of tax reductions, the main changes were to income tax and USC with some other minor changes. The change to non-residential property stamp duty along with changes in certain excise duties, the restriction of certain capital allowances for corporation tax purposes, the extension of mortgage interest relief, compliance measures and the increase in the National Training Fund levy are the main revenue raising measures in Budget 2018. The revenue raising measures are used along with the existing fiscal space to fund the revenue decreasing measures and the various expenditure measures announced in Budget 2018.

Table 3: Taxation and revenue measures summary (€ millions)

| | 2018 yield (+)/ cost (-) | Full year yield (+)/ cost (-) |
|---------------------------------|-----------------------------|----------------------------------|
| USC | -177 | -206 |
| Income tax | -156 | -191 |
| Excise Duties | +93.5 | +94 |
| Stamp duty | +376 | +376 |
| Corporation tax | +150 | +150 |
| Mortgage interest relief | +51 | +175 |
| Compliance | +100 | +100 |
| National Training Fund | +58 | +63 |
| Other | -1.5 | -15 |
| Total reductions | -334.5 | -382 |
| Total Increases | +828.5 | +958 |
| Net revenue | +494 | +546 |

Note: The full year yield from mortgage interest relief will not be achieved until 2021.

USC/Income tax

Income tax remains the largest single tax head. Various taxes on income, including the Universal Social Contribution (USC) and Deposit Interest Retention Tax (D.I.R.T.), are also included under this heading. In Budget 2018, as with other recent Budgets, the decision was made not to fully index tax credits or bands. The Budget 2018 income tax and USC package is estimated to reduce revenue by €333 million in 2018 and €397 million in a full year. The ESRI has pointed out that the (almost complete) non-indexation of the tax credits and bands means that the Budget is (on average) contractionary on individuals, i.e. as income rises the share of income on which the higher rate of tax is payable, rises.

The reduction of the tax rates for USC and the increase in the 2% band ceiling narrows the tax base slightly.⁴ Including PRSI, the marginal rate of tax for a single person on incomes between €34,550 and €70,044 will be 48.75% in 2018 compared to 52% for employees with incomes above €70,044 and 55% for the self-employed with incomes above €100,000.

Stamp duty

The major revenue change in Budget 2018 was the increase to Stamp Duty on non-residential property transactions from 2% to 6%. This was passed by the Dáil by Financial Resolution No. 2 on 10 October and came into effect on 11 October. The change will be set out in the Finance Bill as will a refund scheme for land purchases for the development of housing.

This change is expected to raise an additional €376 million in revenue both in 2018 and in a full year. An increase of four percentage points implies that, the Department of Finance based its calculation on transactions of relevant non-residential property of €9.4 billion.

Annex C of the Tax Policy Changes document that accompanying the Budget (prepared by the Department of Finance) suggests that, “policy measures that would incentivise a re-balancing of activity away from non-residential, commercial construction activity in favour of residential activity are needed”. Other rationales given for the increase in Stamp Duty include that it should act as a disincentive to speculative property investment.

A number of issues arise with this change.

- Is the assumption of a tax base of €9.4 billion of relevant transactions justified? In 2015, there was €178 million raised in non-residential property stamp duty from 27,493 relevant transactions.⁵ The tax was 2% for the bulk of transactions at the time and a crude calculation would suggest that, in 2015, there were at least €8.9 billion in relevant transactions. Thus, the estimated base does not seem to be unduly optimistic.
- However, even if the level of transactions is justified in 2018 the increase in revenue seems to be a static estimate. The increase in the Stamp Duty may change behaviour and lead to a fall in transactions in the future. Indeed, this forms part of the basis of the economic rationale for the change. Thus, it would be expected that, other things been equal, once behaviour adjusts the number of transactions and perhaps the price paid will be less than they would otherwise have been. However, there are no estimates of the future evolution of this tax change or the behavioural change envisioned.
- The Revenue Commissioner’s Ready Reckoner suggested each 0.5 percentage point increase in stamp duty would generate €47 million. Thus the calculation of €376 million for a four percentage point increase is eight times €47 million. However, this does *not* account for any exemptions that will be built into the legislation (e.g. for land for residential development or farm land etc.) which would decrease revenue from the change.
- While Stamp Duty is paid by the purchaser, it does not necessarily follow that the purchaser ultimately bears the full cost of the tax⁶ as changing the tax will likely change the price purchasers are willing to pay for a

⁴ The ceiling increased by 3.1% which is the same as projected average income growth so in effect amounts to the indexation of this band.

⁵ Parliamentary Question Reply No. 101 of 16 June 2016 available at <http://oireachtasdebates.oireachtas.ie/debates%20authoring/debateswebpack.nsf/takes/dail2016061600057>.

⁶ This is known as the incidence of taxation.

property. It would be expected that this change may decrease demand for commercial property and thus its price thereby sharing the burden of the tax between buyer and seller. However, any price changes will be dependant on supply conditions. Given that commercial property values have been increasing rapidly in recent years it would appear supply is relatively static. This may change (a large amount of commercial office space is due to come on stream in Dublin in the next few years) but, in effect, market conditions would suggest that increasing the Stamp Duty will allow the state to capture some of the price rises evident in the market at present.

Mortgage Interest Relief (MIR)

Mortgage Interest Relief was due to end on the 31 December 2017⁷ and is now to be extended, with a tapered reduction, until end 2020. In 2015, there were 473,890 claimants and the cost to the State was €266.4 million. In 2016, this fell to 419,100 claimants (292,448 mortgages) at a cost of €184 million.⁸ The average benefit per claimant in 2015 was €750 per annum, or €62 per month.

Issues that arise with the extension of the MIR include that:

- It generates a *positive* exchequer yield as the policy change in Budget 2018 to retain MIR, albeit at a lower rate, means that there are savings in 2018. However, this seems to go against a no policy change (NPC) scenario and the concept of discretionary revenues, i.e. the MIR had a legislative cut-off date and the policy change is to extend it. Therefore, it should be categorised as *costing* the Exchequer money (in the context that it amounts to revenue foregone) rather than be regarded as a saving. This makes it difficult to access the Department of Finances' tax forecasts and NPC scenario. The cost or income forgone from the extension of MIR in 2018 is €124 million.
- The extension of MIR raises equity issues in a number of ways. The benefit is to a select number of mortgage holders – all of whom took out mortgages when there was a seven year (or less) limit on the relief. Many have already enjoyed an unexpected extension to their relief and this will be a second unexpected extension. However, those who took out mortgages before 2004 (in effect an arbitrary date) or after 2012 (another arbitrary date) who may be in similar circumstances to those in receipt of MIR do not benefit from the extension. There are no income restrictions on the relief and therefore it is not explicitly targeted at those on low incomes or in financial or mortgage payment difficulties. In addition, when the limitation and ending of MIR was announced, a parallel policy introduced was for the limitation, gradual reduction and ending of the Rent Tax Credit (it will end on 31 December 2017) and this has *not* been extended.

Excise duties

The introduction of a sugar tax (€30 million in 2018 and €40 million in a full year), along with the increase in tobacco excise duty (€64 million), are expected to raise €94 million (or 11.3%) of the €830 million increase in revenue measures.

⁷ For those with qualifying mortgages taken out between 1 January 2004 and the end of 2012.

⁸ Parliamentary Question Reply No. 123 of 13 July 2017 available at <http://oireachtasdebates.oireachtas.ie/debates%20authoring/debateswebpack.nsf/takes/dail2017071300085>.

Pre-Budget, the Revenue Commissioners' Ready Reckoner⁹ shows that increasing tobacco excise duty by 50 cent would generate between -€40 million and +€61 million. This wide range relates to varying estimates of behavioural change in response to the tobacco price increase, based on previous Revenue Commissioner research. It is not known what the exact behavioural response will be. However, the estimate of €64 million to be generated suggests that the most muted consumer behavioural response to the price rise was chosen by the Government to get the highest yield.

The Department of Finance admits that it is difficult to assess the exact yield from the new Sugar-Sweetened Drinks tax. This is because the behavioural response from both consumers and the soft drinks manufacturers is difficult to quantify. In addition, the tax is being introduced to instigate such a behavioural response and thus it is likely that, over time, the revenue generated will reduce (unless the tax rate changes).

Compliance savings

A total of €100 million of the revenue raising measures in Budget 2018 are ascribed to compliance measures. While projects to combat tax evasion are welcome, it may be challenging to posit that they amount to additional discretionary revenue raising measures, i.e. the tax that they raise is due in any event. There is insufficient information to make an *ex ante* evaluation as to whether they will meet their target.

Similar initiatives were introduced in Budget 2016 and one of the background papers accompanying Budget 2018 sets out to evaluate the effect of the compliance measures. It finds that “[c]onservative estimates show the measures in total yielded between €120 million and €150 million in the year.” This is against an original target of €75 million for 2016.

However, the paper also states that “for all...measures it is not possible to conclusively separate their impacts from other actions taken by Revenue, behavioural changes by taxpayers and general economic activity. The analysis attempts to assess potential impact and indicate a range of outcomes that it is reasonable to attribute at least in part to the measures.”

The analysis in the paper is in many cases relatively simplistic and cannot directly attribute the increase in revenue to the intervention. It is suggested that better evaluation of the measures could include an evaluation scheme setting out how an intervention is to be evaluated before an initiative has begun, i.e. how the initiative is expected to increase revenue, what data is to be collected, how the effect is to be measured, etc.

National Training Fund

The 0.7% levy on salaries of employees paid by employers was increased to 0.8% in Budget 2018. In the Budget speech, this was linked to an increase in funding to the third level sector with further 0.1 percentage point increases flagged for 2019 and 2020 based on giving employers a role in the National Training Fund (NTF) and its expenditure. The change is expected to increase revenue by €58 million in 2018 and €63 million in a full year. The Minister, in his budget speech, announced €47.5m of additional investment in the Higher and Further Education sectors in 2018.

While the NTF levy is paid directly by employers, the incidence of taxation i.e. who ultimately pays the tax may be different. In this case it should be a combination of the employer, the employee, companies' (in the private sector) customers and/or companies' suppliers.

Capital Allowances for intangible assets

The change proposed in Budget 2018 is to limit the amount of capital allowances, on intangible assets and related interest-related expenses, to 80% of the relevant income from the intangible asset in the accounting period.

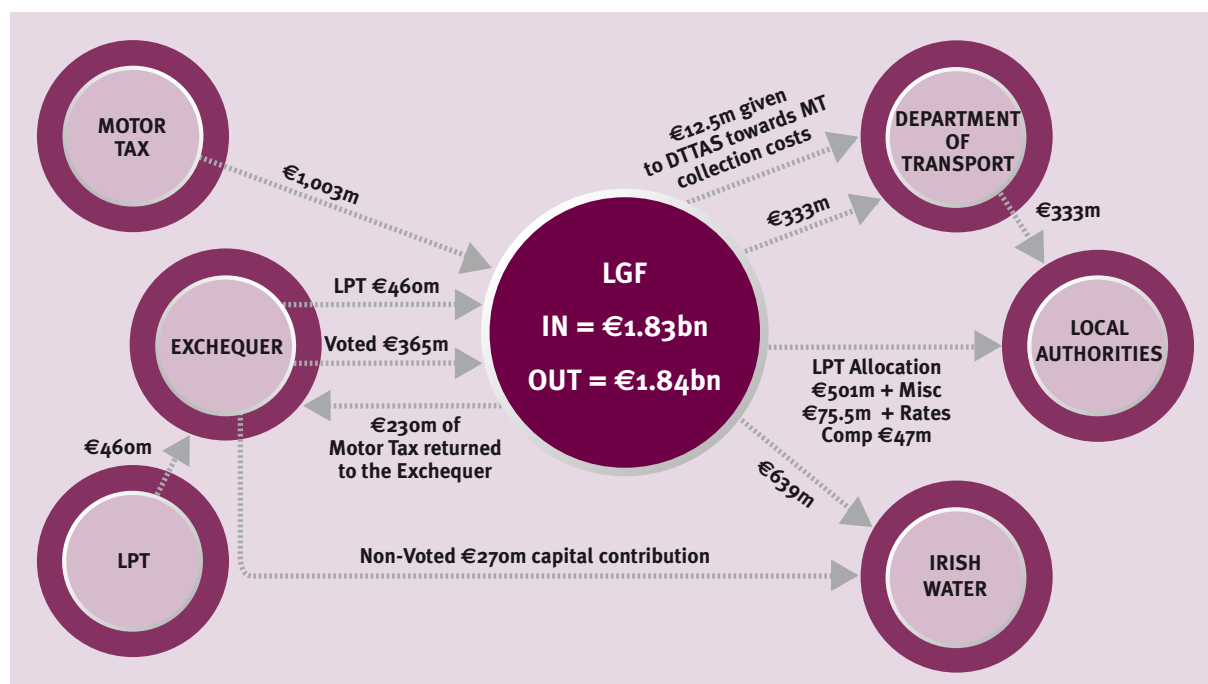
This was recommended in the *Review of Ireland's Corporation Tax Code*¹⁰ and is estimated to generate €150 million per annum. It should be noted that this does not reduce the overall capital allowances which can be claimed on intangible assets, but the amount that can be claimed in any one year. Therefore, it is a change that will make Irish corporation tax slightly less volatile but does not necessarily increase the overall income that will be generated, just its timing.

Local Property Tax, Motor Taxation and the Local Government Fund

A major change on how Local Property Tax and Motor Tax will be accounted for in Exchequer terms will be introduced as part of the *Water Service Bill 2017*. This has an impact on Exchequer comparisons year on year though not on the overall balance.

Figure 1 shows the current position with regards to the funding of and the expenditure from the Local Government Fund. As can be seen it is complex with money flowing in and out from the Exchequer, the Local Government Fund and to various agencies, Departments and the Local Authorities.

Figure 1: Local Government Fund Current Position (2017 figures)

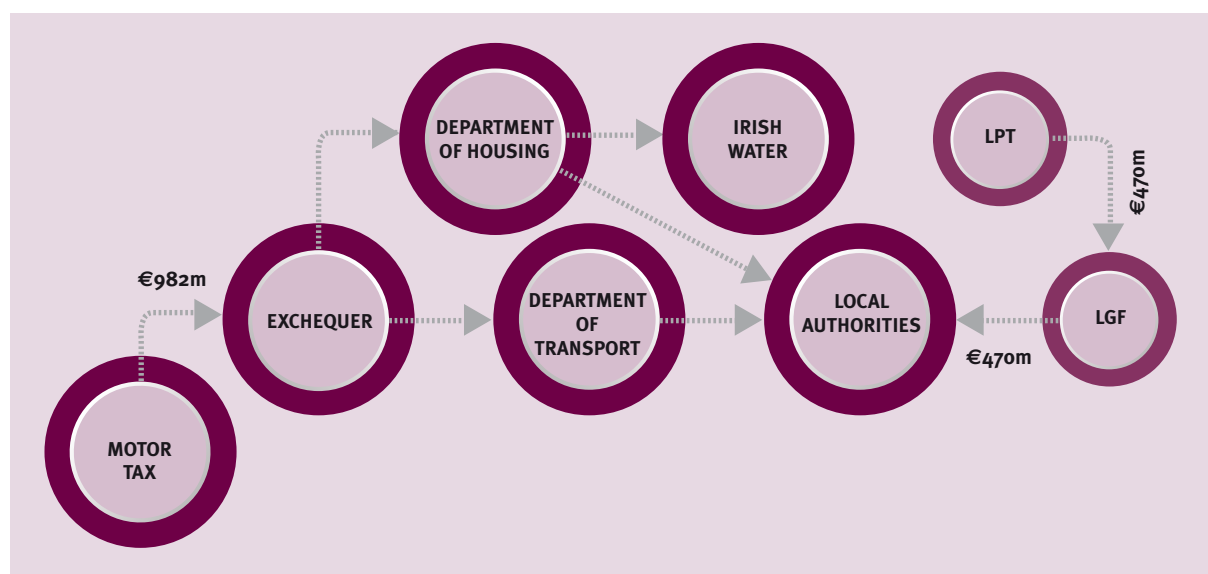


Source: Based on Revised Estimates for Public Services 2017. Note: LPT: Local Property Tax.

¹⁰ This was undertaken by Mr Seamus Coffey and published on 12 September 2017 by the Minister for Finance.

From 1 January 2018, Local Property Tax, though collected by the Revenue Commissioners, will go directly to the Local Government Fund (LGF) rather than firstly into the Exchequer account and then transferred to the LGF. Similarly, motor taxation which currently goes directly to the LGF and will now go directly to the Exchequer. The LGF will no longer fund Irish Water or expenditure in the transport Vote. The exact amounts that will be expended by the various Departments for these functions will not be known until the Revised Estimates are published.

Figure 2: Local Government Fund – Alternative Structure for 2018



Overall, this change has no budgetary implications in General Government terms but highlights some issues with budget transparency. These include:

- Year on year overall Exchequer comparisons will be less meaningful and will need more context and analysis.
- When published, the Revised Estimates will show that net Voted expenditure for both the Department of Housing, Planning and Local Government and the Department of Transport, Tourism and Sport will increase (perhaps dramatically). However, the actual increase in expenditure will be much less as the expenditure is simply transferring from Local Government to Central Government. In the long term this should improve transparency and accountability, but will make expenditure comparisons involving certain timelines more difficult.
- Similarly, the total tax revenue (on an Exchequer basis) will increase due to the inclusion of Motor tax (which will outweigh the fall which will arise as the Local Property Tax (LPT) will no longer be an Exchequer tax). Again comparisons across the years will need to be adjusted for or transparency is lost.
- One consequence of the change is that the LGF will only have two sources of income; the LPT and any Exchequer top-up funding.

Public expenditure

Public expenditure on a General Government basis is expected to be €79.3 billion in 2018. Of this, approximately €72 billion is Exchequer expenditure with approximately €61 billion in Voted expenditure i.e. expenditure (both current and capital) voted by Dáil Éireann through the annual Estimates process.

As regards the breakdown in other expenditure, Non-Voted Exchequer expenditure comprises of national debt interest, Ireland's EU Budget contribution, the Oireachtas Commission, and a small amount of other expenditure under specific legislation. Non-Exchequer General Government expenditure comprises of; the local Government sector; Irish Water and other non-commercial state bodies which generate some of their own income; plus adjustments in respect of accruals accounting (the Exchequer operates on a cash basis whereas the General Government is based on accruals accounting).

This section concentrates on Voted expenditure as presented in the *Expenditure Report 2018* presented with Budget 2018.

Total government Gross Voted expenditure 2017 v 2018

Gross Voted Expenditure is expected to rise by €2,430 million or 4.2% in 2018 from 2017. Table 4 reconciles the pre and post budget voted expenditure position.

Table 4: Reconciliation of Gross Voted Expenditure pre and post Budget for 2017 and 2018
(€ million)

| | 2017 | 2018 | Change | % Change |
|---|---------------|---------------|--------------|--------------|
| Gross Current Voted Expenditure as per Mid-Year Expenditure Report | 53,531 | 54,617 | 1,086 | 2.0% |
| Irish Water | 114 | 114 | — | |
| Refund of water charges | 179 | | -179 | |
| Christmas Bonus | 230 | | -230 | |
| Unallocated underspend | (100) | | 100 | |
| Gross new expenditure | | 986 | 986 | |
| Public Services Stability Agreement | | 180 | 180 | |
| Reallocation | | (301) | -301 | |
| Gross Current Voted Expenditure as per Budget 2018 | 53,955 | 55,593 | 1,637 | 3.0% |
| Gross Capital Voted Expenditure per Mid-Year Expenditure Report | 4,540 | 5,295 | 756 | 16.7% |
| Net additional measures Budget 2018 | | 35 | | |

| | 2017 | 2018 | Change | % Change |
|--|---------------|---------------|--------------|--------------|
| Gross Capital Voted Expenditure as per Budget 2018 | 4,540 | 5,330 | 790 | 17.4% |
| Gross Voted Expenditure as per Budget 2018 | 58,493 | 60,923 | 2,430 | 4.2% |
| Memo item: Comparison between original 2017 Gross Current Voted Expenditure Ceiling and Post-Budget 2018 Gross Current Voted Expenditure Ceiling 2018 | 53,531 | 55,593 | 2,060 | 3.8% |

Source: PBO based on Expenditure Report 2018. Rounding may affect totals.

The Medium-Term Expenditure Framework (MTEF) provides for three year expenditure ceilings to be published and these provide a useful starting point for comparison purposes. It also facilitates a ‘top down’ approach to budget planning. The annual Estimates process facilitates a ‘bottom up’ approach to recalibrate the allocations, based on emerging priorities each year. However, these ceilings are subject to several changes which can make the actual comparisons difficult to work through as set out above.

The pre-Budget position for 2018 reflected a total additional provision of €1,086 million in respect of current expenditure including certain demographic related costs in Health and Education, the impact of the Lansdowne Road Agreement in 2018 and the carryover impact of Budget 2017 measures. Allocations made in respect of capital expenditure pre-Budget 2018 amounted to €756 million.

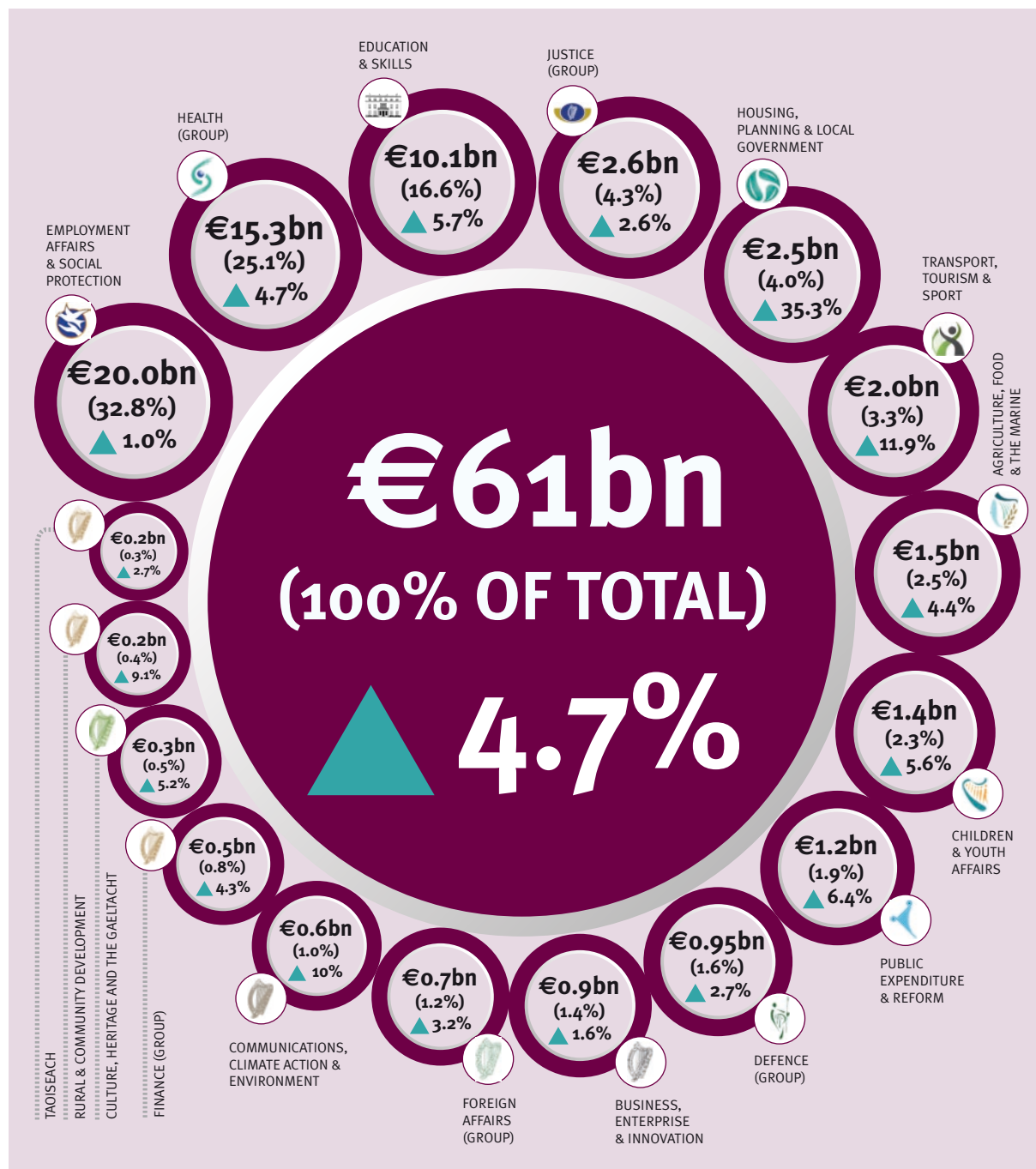
The *Expenditure Report 2018* states that an additional gross amount of €1,116 million has been allocated for new measures in Budget 2018 in terms of Voted *Current* Expenditure. This includes an allocation of €180 million in respect of the pay costs arising from the Public Services Stability Agreement. An additional €114 million has also been provided to Irish Water to address the financial issues arising from the cessation of water charges. However, within the Employment Affairs and Social Protection Vote, there is some reallocation of resources and an overestimation of the Budget 2017 measures carry-over costs totalling €301 million – this reduces the net cost of the expenditure measures.

In terms of comparing 2017 and 2018, the *Mid-Year Expenditure Report 2017* provided for an increase of 2% for Gross Voted Current Expenditure. However, the expected increase post-budget 2018 is 3.0%. If the original expenditure plans of 2017 had been adhered to, expenditure growth between 2017 and 2018 would have been 3.8%. Finally, it should be noted that 2018 expenditure figures do not include provision for a Christmas Bonus.

Distribution of Voted Expenditure

The following infographic illustrates the relative size of the total Vote allocations by Departmental Vote group in 2018 with the increase from 2017.

Figure 3: Gross Voted allocations 2018 by size comparison with 2017



Source: Based on Expenditure Report 2018, October 2017.

Voted expenditure is expenditure voted on annually in the Dáil. Non-voted expenditure is non-discretionary spend taken from the central fund.

The following six Vote Groups account for approximately €52,500 million or 86.8% of total Government Gross Voted expenditure of €60,923 million.

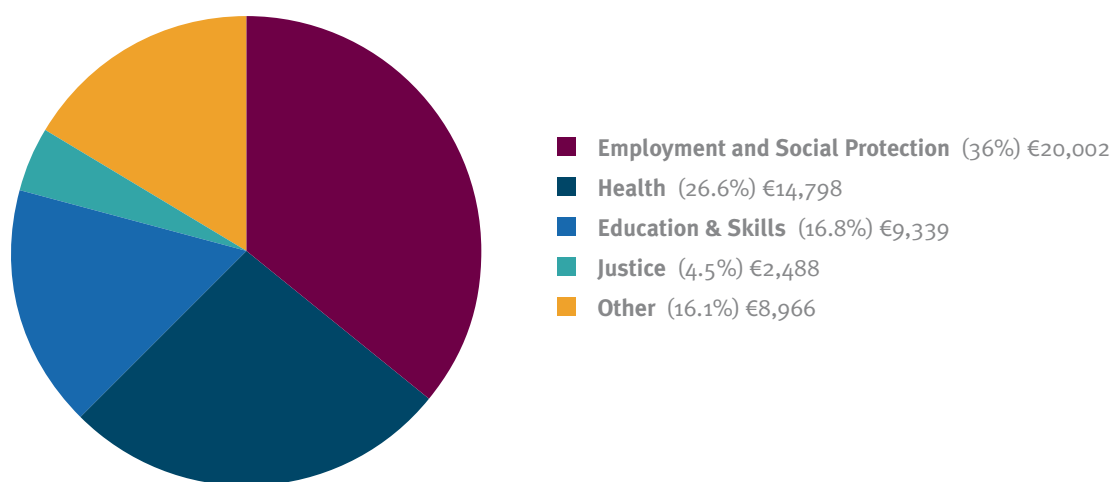
- Employment and Social Protection; €20,012 million or 32.8% of gross voted expenditure – an increase of 1% on the 2017 allocation;
- Health; €15,291 million or 25.1% – an increase of 4.7%;
- Education & Skills; €10,084 million or 16.6% – an increase of 5.7%;
- Justice; €2,634 million or 4.3% – an increase of 2.6%;
- Housing, Planning & Local Government; €2,457 million or 4% – an increase of 4%;
- Transport, Tourism & Sport; €2,026 million or 3.3% – an increase of 11.9%.

These Vote Groups are discussed in more detail in a later section of this document. Firstly, some more detail on the allocation of current and capital expenditure is provided and discussed below as well as some cross-cutting issues that affect several Government Departments.

Current Expenditure

The following chart provides a breakdown of Gross Current Voted Expenditure allocations by the most financially significant Votes.

Chart 1: Gross voted current expenditure 2018 by Departmental Vote Group (€ million)



Source: PBO, adapted from Expenditure Report 2018, p.35.

In the context of the proposed *additional* current expenditure in respect of *programme measures* within each Vote for 2018, the following table shows the net additional resources being made available. It differentiates between programme expenditure and additional costs arising from the Public Service Stability Agreement (PSSA) pay increases in 2018. It also shows the carryover impact in 2019 of certain Budget 2018 measures.

Table 5: Additional Current Expenditure Allocations Budget 2018 (€ million)

| Vote/Vote Group | Reallocations within Vote | Net Additional programme expenditure 2018 | % of cell (a) | Carryover impact of certain 2018 increases in 2019 |
|---|---------------------------|---|---------------|--|
| Gross Employment Affairs and Social Protection – new measures | 343 | | | |
| Reallocation to Fund New Measures | (273) | | | |
| Carryover lower than forecast in respect of Social Protection | (30) | | | |
| Net Employment Affairs and Social Protection | | 40 | 6% | |
| Health | | 235 | 34% | 110 |
| Housing, Planning and Local Government – selected measures | | 102 ¹¹ | 15% | |
| Education and Skills | | 104 | 15% | 42 |
| Justice and Equality | | 43 | 6% | 40 |
| Children and Youth Affairs | | 52 | 8% | |
| Agriculture, Food and the Marine | | 30 | 4% | |
| Business, Enterprise and Innovation | | 3 | | |
| Culture, Heritage and the Gaeltacht | | 13 | 2% | |
| Foreign Affairs and Trade | | 18 | 3% | |
| Rural and Community Development ¹² | | 8 | 1% | |
| Others ¹³ | | 35 | 5% | |
| Additional Allocation for programme measures | | 683 (a) | 100% | 192 |
| Public Service Stability Agreement | | 180 | | 370 |
| Total Net Additional Allocation | | 863 | | 562 |

Sources: PBO, adapted from Budget 2018 Expenditure Report (pp.42-43, p.83) – rounding affects totals.

¹¹ It is unclear whether this figure should be 91 million as per the Vote reconciliation on p.111 of the Expenditure Report 2018.

¹² The Department of Rural and Community Development was established on 19th July 2017.

¹³ Including Revenue Compliance, Transport – PSO, Tourism – Digital Infrastructure as part of Brexit.

Overall, the net current additional allocations were €863 million (Table 10 of the *Expenditure Report 2018* p42-43). If the effect of the Public Service Stability Agreement is removed and the net effect of the Department of Employment and Social Protection measures is accounted for (see below), the additional current expenditure measures from Budget 2018 come to €683 million. Almost two thirds of the additional current expenditure in respect of programme measures went to Health, Education and Skills, and Housing, Planning and Local Government.

Employment Affairs and Social Protection

The *Expenditure Report 2018* states that a total of €343 million has been allocated for additional measures in the Department of Employment and Social Protection (DEASP) in 2018. However, much of this will be offset by savings (mainly from the Live Register) of €273 million. The unemployment rate in 2017 is estimated at 6.3% but was originally estimated at 7.7%. The *Expenditure Report* (p.41) forecasts additional Live Register savings of €50 million in both 2019 and 2020. In addition, a carryover cost of €170 million for Budget 2017 measures had been forecast for 2018 – this was revised downwards to €140 million in Budget 2018. This provides a further saving of €30m to be offset against the €343m in additional programme measures costs. The *Expenditure Report 2018* further elaborates on how Live Register savings are to be used (p.34) when it states that, “these additional resources have been utilised to meet demographic costs and other expenditure measures”.

Carry-Over costs

There is a cost of €192 million that needs to be met from unallocated resources in 2019. The *Expenditure Report 2018* (p.38) states that, “The carryover impact of Budget 2018 measures...will be reassessed later in the year...these costs have not been allocated on a Departmental basis”. There is currently €506 million in unallocated resources in the 2019 Current Expenditure Ceilings from which this €192 million may be met

The carry-over impact of the Public Service Stability Agreement (PSSA) has been ratified since the Mid-Year Expenditure Report 2017 was published and is now included within the overall Government Expenditure ceilings. However, it has not been allocated on a Departmental basis for 2019 or 2020. The carry-over cost in 2020 of the PSSA is estimated to be €340m. The total additional cost of the PSSA pay increases is therefore €889 million over the period 2018 to 2020.

Budget 2018 current expenditure – identification of Government priorities

All Departmental Vote Groups received an increase in expenditure though there were a number of areas that were prioritised. There is a need to question whether it is appropriate for all Vote groups to receive an increase or should a smaller number of core areas be prioritised.

Table 6 attempts to determine what priority has been attached, in terms of *overall* current expenditure increases, to each Vote in Budget 2018. It does this by deriving a ratio for each Vote in respect of the individual increased allocations versus the share of the total Gross Voted allocation they enjoyed in 2017.

Table 6: Current Expenditure Priorities ratio

| Vote/Group Title | Priority ratio |
|--|----------------|
| Housing, Planning & Local Government Group | 5.03 |
| Rural & Community Development | 1.67 |
| Education & Skills Group | 1.54 |
| Children and Youth Affairs Group | 1.52 |
| Culture, Heritage & the Gaeltacht Group | 1.39 |
| Public Expenditure and Reform Group | 1.34 |
| Health Group | 1.26 |
| Agriculture, Food and the Marine Group | 1.21 |
| Finance Group | 1.19 |
| Communications, Climate Action & Environment Group | 1.16 |
| Justice Group | 1.15 |
| Business, Enterprise & Innovation Group | 0.82 |
| Foreign Affairs Group | 0.82 |
| Transport, Tourism and Sport | 0.77 |
| Taoiseach | 0.76 |
| Defence Group | 0.71 |
| Employment Affairs & Social Protection | 0.28 |

Source: PBO calculation based on Expenditure Report 2018 table 4, p35.

As illustrated, most Votes have been prioritised, i.e. their ratio is greater than 1:1. Housing, Planning and Local Government with a ratio of 5:1 has been greatly prioritised.

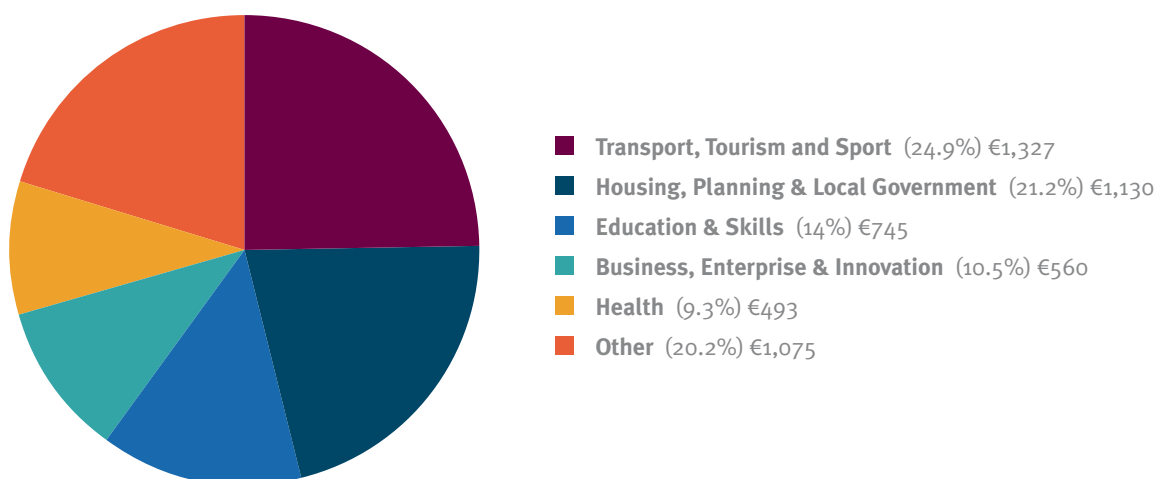
It should be noted that this is a crude measure as inter-vote transfers can distort the picture somewhat. In addition, reallocations or savings within votes also can distort the picture. This has naturally affected the Employment Affairs & Social Protection Vote's ratio which is also influenced by the lower Live Register (i.e. less expenditure in relation to Jobseeker's Benefit and Allowance). In the case of Transport, while a lower priority has been afforded in relation to current expenditure, that Vote's Capital expenditure has increased by almost €200 million in 2018.

Capital Expenditure allocation

The Capital Plan, *Building on Recovery: Infrastructure and Capital Investment 2016-2021* (published in 2015) set out the Government's framework for investment in infrastructure. A mid-term review of the plan was carried out in 2017. Over €4 billion in additional capital expenditure has been allocated over the period 2018 to 2021 (since the original plan was drafted). Table 8 of the *Expenditure Report 2018*, sets out the Ministerial Vote Group Capital Ceilings for 2018-2020. Further details on the allocation of additional funding available for public investment over the period 2018-2021 is available in *Outcome of the Mid-Term Review of the Capital Plan: Exchequer Envelopes 2018-2021*.

Of the total proposed increase of €790 million in 2018, a total of €633 million is allocated to Housing (€436 million) and Transport (€197 million). The Capital ceilings (for 2018-2020) had been updated as per the *Mid-Year Expenditure Report 2017* and, at that stage, reflected the allocations set out in the Capital Plan (2015) taking account of additional resources allocated in Budget 2017 in respect of 2018 and 2019. A relatively small amount of additional Capital expenditure (€35 million) was allocated as part of Budget 2018.

Chart 2: Gross voted capital expenditure 2018 (€ million)



Source: PBO, adapted from Expenditure Report 2018, p.36.

Expenditure – general issues

Transfer of functions between Votes (July 2017)

Table 3 in the *Expenditure Report 2018* (p.33) sets out the transfer of functions and the net adjusted allocations which are reflected in Further Revised Estimates presented to the Dáil on 17th October. However, there is no clear breakdown between the Votes and transfer of functions allocation amounts. Thus, simple comparisons between proposed expenditure allocation in 2018 and expected 2017 expenditure outturns are difficult as a result of the transfer of functions effected in July this year (including the establishment of a new Department). This affects six Departments.

Withdrawal of the UK from the EU ('Brexit')

The *Expenditure Report 2018* states that, “[p]reparing for Brexit has also been a significant priority in Estimates 2018 and this is reflected in allocations across a number of Departments”.

The following table sets out the Votes, area and allocation amounts concerned.

Table 7: Brexit-related funding in Budget 2018

| | Area | Current expenditure – € millions | Capital expenditure – € millions |
|-------------------------------------|---|--|--|
| Foreign Affairs and Trade | Staffing | 3.5 ¹⁴ | |
| Business, Enterprise and Innovation | Staffing | Unclear ¹⁵ | 40 |
| Agriculture, Food and the Marine | Brexit-response loan scheme etc. ¹⁶ | 30 (of which €25 million relates to the loan scheme and €4.5 million to Bord Bia's response to Brexit) ¹⁷ | |
| Transport, Tourism and Sport | Tourism marketing for digital infrastructure as part of Brexit. | 2.5 | |
| Totals | | 36 | 40 |

Source: *Expenditure Report 2018*, p.35, p.43, p.48, p.53, p.97, p.137.

¹⁴ This expenditure is listed as being both capital and current – in the absence of clarity, it is treated as current expenditure only in this publication.

¹⁵ It is unclear as to what amount of the €3 million referenced in relation to this staffing initiative is Brexit-related. The *Expenditure Report 2018* states that the increase to the Department's Current Expenditure baseline will allow for the provision of an additional 40 to 50 staff across the Department and some of the Enterprise Agencies. This will allow for additional staffing resources which will be deployed to address particular priorities including, but not limited to, Brexit.

¹⁶ Development of further loan schemes for the agri-food sector and funding for Bord Bia promotion and development work in the context of Brexit.

¹⁷ It is unclear as to what the remaining €0.5m has been allocated to.

In respect of the response to Brexit therefore, the total additional expenditure allocation amounts to €76 million.

Management of the Public Finances

As in previous years, all of the additional expenditure resources available to the Government by way of fiscal space and extra discretionary revenue measures is fully allocated. This means that there is no room for manoeuvre during the year in the event of a shortfall in revenue. Should this arise, then expenditure would have to be reduced or additional revenue raised in order for overall fiscal targets to be met. Equally, there is no scope to meet genuinely unforeseen expenditure requirements or to allow for some flexibility to take a short-term policy initiative. Examples might include the acceleration of a roll-out of capital projects if they were advancing faster than expected or providing for emergencies such as storm damage or an influenza epidemic.

Therefore, in the interests of proper planning and management, consideration could be given to having some contingency built in to the budgetary numbers.

Contingency Reserve/Rainy Day Fund

The proposed Contingency Reserve/Rainy Day Fund, when established in 2019, could fill the gap identified in the preceding section. However, the exact nature of the Reserve/Fund needs to be articulated. A paper has been prepared by the Department of Finance for the purpose of consultation with the Houses of the Oireachtas regarding the establishment of the Reserve/Fund. It was published with the Budget and has been laid before the Houses.

Public sector numbers and pay

As set out in the PBO's *Pre-Budget 2018 Commentary for the Committee on Budgetary Oversight*,¹⁸ the number of public sector employees increased at about a rate of 2.7% a year from 2000 to 2008, then decreased by 10% from 2008-2013. It has steadily increased since then in most public sector areas (by 1.9% per annum over the period 2014-2016). The gross public service pay bill net of Pension Related Deductions had decreased by 9% from €16.6 billion in 2007 to €15.6 billion in 2016. Budget 2018 acknowledges that,¹⁹

“Since the end of the moratorium, public service numbers have grown by more than 3% per year on average, equating to an additional 8,000 FTEs per year and an additional €1.8 billion in pay bill expenditure between 2014 and 2017. This...means that at the end of 2017 overall numbers will be approaching peak levels.”

As also explained in the PBO's *Pre-Budget 2018 Commentary*, if the rate of increase in staff numbers continues to be in the region of 2% per annum (or 3% plus as set out above) over the medium term and pay increases are implemented then the sustainability of this increase is questionable without raising additional revenue. The Gross Exchequer pay bill is expected to rise by 5.6% in 2018. The total increase in associated staff numbers set out is expected to be approximately 7,500.

¹⁸ PBO (2018, p.11).

¹⁹ Expenditure Report 018, p.25.

Budget 2018 has proposed increases in staff numbers in specific sectors on the basis of both policy changes (for example, additional teachers to reduce the primary level staffing schedule to 26:1) and demographics (additional teachers at both primary and secondary level).

While allocations may implicitly require or foresee additional staffing commitments in 2018 this is often very unclear – the following table lists the explicit commitments to additional staffing in 2018 as set out in the *Expenditure Report 2018*. This is approximately 37% of the total increase in staff as set out in the Abridged Estimates.

Table 8: Additional staffing commitments Budget 2018

| Vote/Vote Group | Staff numbers |
|-------------------------------------|--|
| Business, Enterprise and Innovation | 40-50 ²⁰ |
| Children and Youth Affairs | Staff to be recruited in Tusla but specific numbers not quantified |
| Education | 1,290 |
| Finance | Ongoing provision of additional 100 Compliance staff |
| Justice Group – An Garda Síochána | 1,300 |
| Justice Group – Courts Service | Not quantified |
| Finance | National Shared Service Office – 140 ²¹ |

Source: Expenditure Report 2018.

Spending Review 2017

As set out in the PBO's *Pre-Budget 2018 Commentary*, on Budget Day 2017 the Minister announced a Spending Review of Current Expenditure which was intended to assist in preparations for Budget 2018 both in the consideration of existing expenditure policy and the consideration of new policy proposals. There are two main elements to the outputs of the first year of the three-year cycle of reviews; key sectoral trend analyses and individual topic papers.

In relation to policy changes it is unclear from the Budget 2018 documentation as to the basis of most the policy changes, i.e. what evidence base is there to support the value for money (i.e. efficiency and effectiveness) of these changes (such as increases in staff numbers in particular the change in the staffing schedule in primary schools or new spending measures).

Demographics

Reference is made in the *Expenditure Report 2018* to an IGEE paper²² forecasting the likely additional costs over the next decade due to increased demands for expenditure in relation to health, education and social protection. The annual increased costs forecast are €440m, €428m and €435m in 2018, 2019 and 2020 respectively, i.e. a cumulative increase of €1.3 billion over the next three years. This forecast, it is stated, set the baseline for the additional funding required to

²⁰ Across the Department and its Agencies.

²¹ Staffing – The Financial Management Shared Services Project is nearing completion of the design phase. The recruitment programme has begun. In 2018 it is proposed that 140 staff (of the final 255 complement) will be serving Defence, DPER, DFIN and clients and the C&AG and preparing for a second transition in early 2019.

²² Budgetary Impact of Changing Demographics 2017-2027, IGEE Staff Paper 2016.

provide for these sectors on a No Policy Change basis. The *Expenditure Report 2018* (p.41) forecasts additional costs of €500m and €480m in 2019 and 2020 respectively.²³

The *Expenditure Report 2018* notes that, “[i]n the absence of achieving greater efficiency in Government expenditure being sought, the increasing annual costs of demographics [i.e. a larger population in the post-retirement cohorts] will diminish the available fiscal space and adversely impact on the deficit position.” This underlines the importance of the Spending Review. In a more general but directly related context it also highlights the relevance of the Public Spending Code and the need to achieve value for money in respect of existing expenditure. It will also make it difficult to create space to deal with other challenges including climate change and Brexit.

Specific mention is made of provision having been made in the 2018 expenditure ceilings for additional staff in the health and education sectors to deal with demographics (€120 million). In addition, the additional expenditure required as a result of demographic trends can change as a result of other (non-demographic) factors,²⁴ for example

“...while the estimated cost pressures for the acute [hospital] sector has increased due to the higher population level, pressure on General Medical Services (GMS) has reduced due to a reduction in medical card numbers from 2013 to 2014. This reduction in cards provides a lower utilisation rate going forward.”

Similarly, some additional expenditure could be more accurately described as policy-driven rather than relating to demographics *per se*. In this context, the Early Childhood Care and Education scheme (ECCE) estimations, “now reflect the extension of the scheme to include two years free pre-school for children aged between 3 years to 5.5 years [effective September 2016]”.²⁵ Budget 2018 also proposes an extension in the ECCE from September 2018.

Expenditure pressures in relation to the Department of Employment Affairs and Social Protection are, presumably, more accurate and less prone to change as they are based on population estimates for the affected cohorts and take account of the increase in the pension qualification age from 66+ in the period 2016 to 2020 to 67+ in the period 2021 to 2027.

In its conclusion, the IGEES paper also identifies increased demographic pressures in Health and Social Protection being offset by a reduction in the pressure on schemes for children and acknowledges that the estimates figures do not, “reflect actual increases in budgetary allocations as there are a variety of other factors influencing the actual level of expenditure.”²⁶

Process subsequent to the presentation of Budget 2018

Proposed increases in Voted expenditure are set out at programme level in the abridged estimates which are contained in the Expenditure Report published by the Government (prepared by Department of Public Expenditure and Reform) on Budget Day. Further detail will be available (i.e. at subhead level) when the *Revised Estimates for Public Services* volume is published in December. The Revised Estimates will then be sent to the relevant Dáil sectoral committee for scrutiny (from February 2018) and will then be subject to a vote by Dáil Éireann (normally by May).

Further Revised Estimates in respect of 2017 which include €293 million to finance Irish Water and refund water charges were also laid last week before the Houses and will be referred to the relevant Dáil Select Committee prior to a Vote by Dáil Éireann.

²³ 2019 estimates also include the costs of the RDP.

²⁴ *Budgetary Impact of Changing Demographics 2017-2027, IGEES Staff Paper 2016.*

²⁵ *Ibid.*

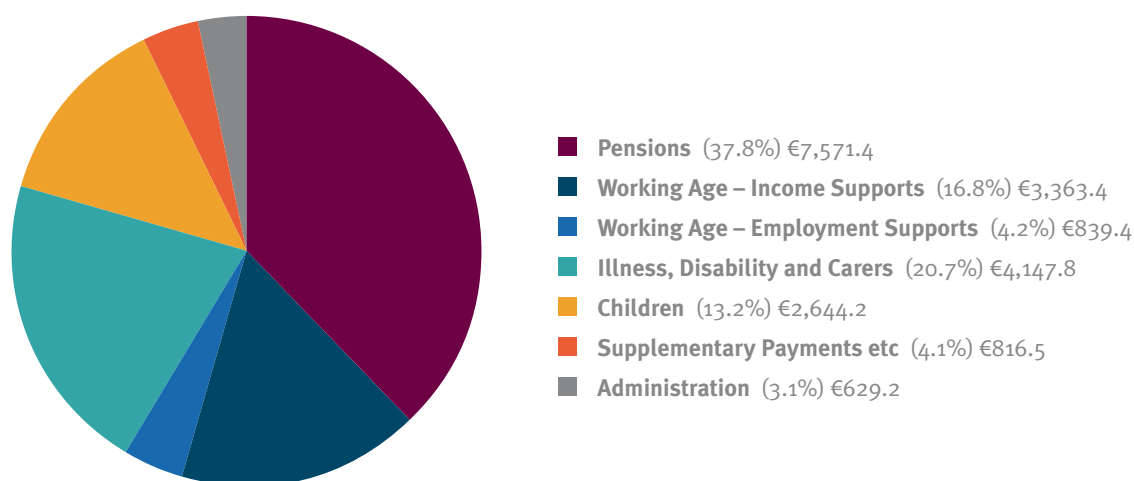
²⁶ *Ibid*, p.17.

Individual Departmental Sector

Employment Affairs and Social Protection

The proposed allocation for expenditure in this area, including expenditure from the Social Insurance Fund (SIF) in respect of 2018 is €20,012 million. Almost all of this consists of current expenditure. The following chart provides a breakdown of that expenditure by programme. Social protection expenditure peaked at €20.9 billion in 2011 and dropped to slightly below €20 billion in the period 2014 to 2016. As unemployment has reduced since 2012, savings have been made in this Vote in respect of the Live Register. However, this has been offset by the increase in pension expenditure along with the overall increase in the number of social protection support recipients. Challenges have also been identified in the Spending Review 2017 including the labour market participation rate (which is now below the European average) and the growth in Disability income support expenditure which has seen annual growth of 6% in the number of recipients since 2012.²⁷

Chart 3: Employment Affairs and Social Protection – Breakdown of Programme Expenditure (2018)
€ million



Source: Expenditure Report 2018, p.79.

As is customary, no allocation has been made in respect of the Christmas Bonus for long-term Social Welfare recipients which is funded from both the Exchequer and the SIF – any supplementary estimate required will not be disclosed until November 2018. In 2017, an allocation of €230m was made in respect of an 85% Christmas Bonus. This has yet to be approved by Dáil Éireann.

²⁷ Spending Review 2017, Tracking Trends in Public Spending, Department of Public Expenditure and Reform (2017, pp.17-18).

As set out in Table 5 above additional current expenditure measures costing €343m are proposed in Budget 2018. However, the net increase is €70m due to savings of €273m, including from the Live Register. It should also be noted that the carryover costs from Budget 2017 are projected to be €30m lower than originally projected (€140m rather than €170m).²⁸

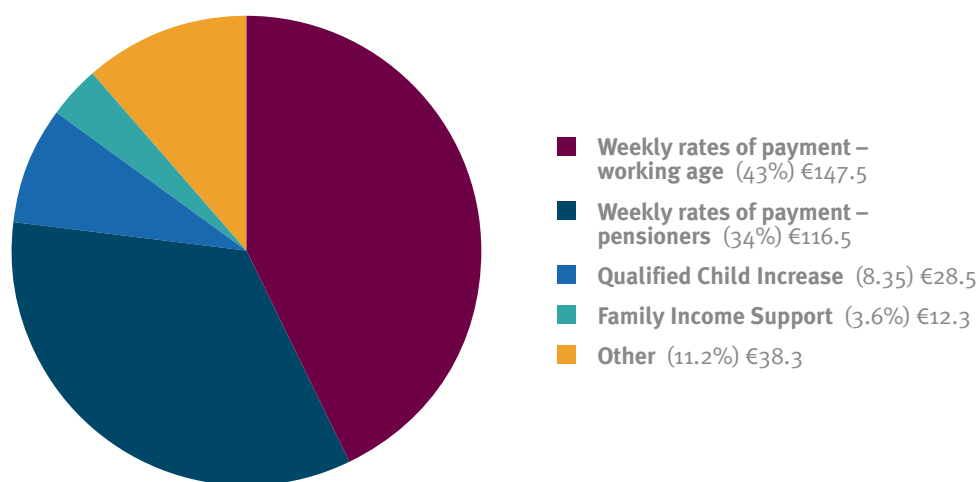
Additional payments from current expenditure proposed in Budget 2018

Budget 2018 proposes to increase:

- By €5 the weekly rate of payment to pensioners aged 66 years and over with proportional increases for qualified adults and those on reduced rates of payment;
- by €5 the maximum weekly rate of payment in respect of all social welfare recipients (approximately 1.3 million recipients weekly) with proportional increases for qualified adults and those on reduced rates of payment;
- by €2 the weekly qualified child increase payment for low-income social welfare recipient families;
- funding for the Free Travel Scheme;
- Family Income Supplement thresholds by €10 per week for families with up to three children.

Funding will be increased, extended or introduced in respect of six other categories – these range from €1m to €9.4m.

Chart 4: Employment Affairs and Social Protection – Summary of New Measures (2018) € million



Source: PBO based on Expenditure Report 2018, pp.81-82.

Social protection and demographics

No additional allocation has been made in respect of demographic changes for 2018 but provision of €108 million in respect of demographic changes has been made for 2019, and €155 million for 2020. However, Live Register savings are to be used partly to address demographic costs in 2018.

²⁸ Table D. Reconciliation of 2018 Expenditure Ceiling, Expenditure Report 2018, p.83.

Child Benefit and Pension related schemes represent two of the key demographically-driven areas within Social Protection.

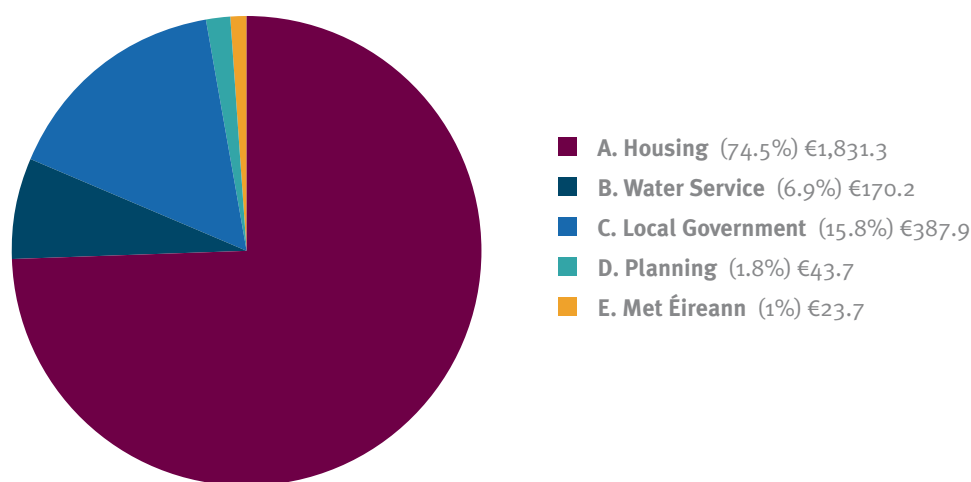
The Irish Government Economic and Evaluation Service (IGEES) has forecast that the average annual change in persons in receipt of Child Benefit between 2017 and 2020 is expected to be positive at c.6,200 per annum but is then expected to turn negative following a fall in fertility rates. This results in a prolonged tapering and reduction in scheme expenditure and participation from 2020 (assuming a no policy change scenario).²⁹

With regard to pensions, there is projected to be an increase of c.21,000 additional recipients per annum between 2017 and 2020. There is a limited decrease of c.1,700 per annum between 2021-2022 due to the increase in the eligible pension age (from 66 to 67) in 2021. From 2022 the increase of pensioners is c.23,000 per annum for the period to 2027.

Housing, Planning and Local Government

The proposed allocation (and ceiling) for expenditure in this area in respect of 2018 is €2,457 million, divided 54:46 between current and capital expenditure. The following chart provides a breakdown of that expenditure by programme.

Chart 5: Housing, Planning and Local Government – Breakdown of Programme Expenditure (2018)
€ million



Source: *Expenditure Report*, p.105.

As can be seen in the chart, programme A (Housing) constitutes three-quarters of total Vote allocation. The total Exchequer Vote allocation in respect of Housing in 2018 (€1,831 million) will exceed peak expenditure in that area for the first time since 2008 (€1,710 million in that year). However, the composition of the expenditure has changed with current supports increasing both due to policy changes (such as the Housing Assistance Payment) and demand for services.

As set out in Table 5 above additional current expenditure measures costing €102 million are proposed in Budget 2018. The carryover costs from 2017 are projected to be €67 million. The impact of Irish Water Funding is €114 million (initial

²⁹ *Budgetary Impact of Changing Demographics 2017-2027 (2016, p3).*

current expenditure provision) – however, it is also noted³⁰ that detailed arrangements for the new funding model for Irish Water will be finalised in the context of the Revised Estimates (discussed earlier).³¹ This Vote is affected by the summer 2017 transfer of functions – a sum of €67 million in current expenditure has been assigned to (outward) Inter Vote Transfers and €46 million in inward transfer in respect of HAP (to be effected by the Further Revised Estimates 2017).

Selected current expenditure proposed in Budget 2018

The Department of Housing, Planning and Local Government present their measures with both new measures and the carry-over effects from the previous year's decisions in the same table. This would not appear to be consistent with other Votes analysed – a consistent approach would assist transparency.

Budget 2018 proposes to increase current expenditure allocations in respect of:

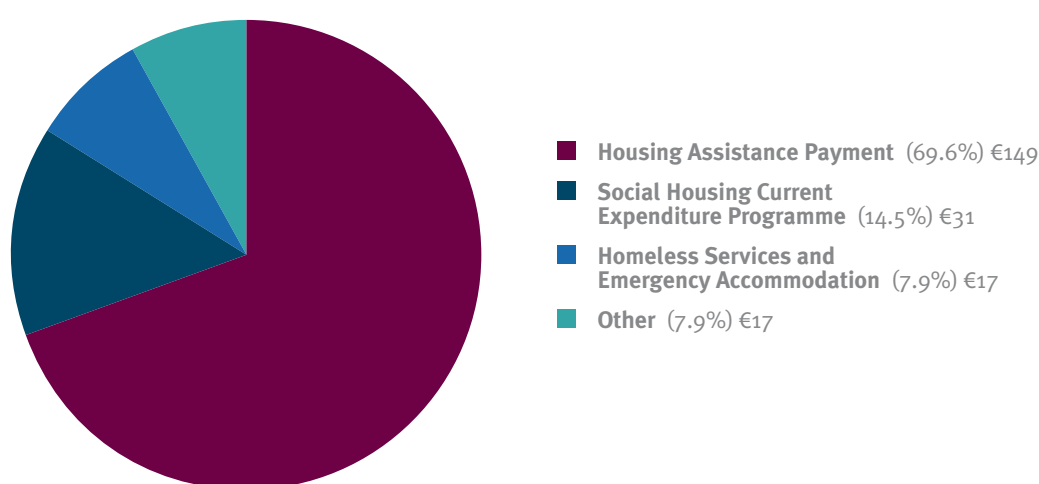
- Housing Assistance Payment (HAP) – €149 million;
- Social Housing Current Expenditure Programme – €31 million;
- Homeless Services and Emergency Accommodation – €17 million.

Additional allocations will also be provided in respect of four other areas with a total cost of €17 million.

The HAP additional allocation includes the amount transferred (€45.5 million) from the Employment Affairs & Social Protection Vote due to the reform of housing supports.

The selected measures presented by the Department amount to €214 million. Of this, €91 million is additional expenditure and €10 million a reallocation from within the Vote. The balance appears to be the inter-Vote transfer for HAP (€45.5 million) and the carry-over of the previous year's measures of €67 million.

Chart 6: Housing, Planning and Local Government – Summary of Selected Measures (2018) € million



Source: Expenditure Report 2018, p.109.

³⁰ Expenditure Report 2018, p.107.

³¹ As provided for in the Water Services Bill 2017, technical adjustments will be made to the Vote for funding Irish Water and consequential reform of the Local Government Fund.

Additional capital expenditure proposed in Budget 2018

Budget 2018 also proposes an increase in capital expenditure allocation of €387 million in respect of:

- Social Housing Construction and Acquisition – €326 million;
- Repair and Leasing Initiative – €26 million;
- Local Infrastructure Housing Activation Fund – €25 million;
- Urban Renewal/Regeneration – €10 million.

Of this amount, €353 million represents additional expenditure in 2018 composed of an allocation of €28 million which includes the *Mid-term Review of the Capital Plan* and €325 million in respect of the Action Plan for Housing and Homelessness.

The additional allocation in respect of Social Housing Construction and Acquisition will be supplemented by €77 million in local authority self-financing.

Up to €750 million of the Irish Strategic Investment Fund (ISIF) will also be made available for commercial investment in housing finance through a new vehicle to be known as Home Building Finance Ireland.

Health

The proposed allocation for expenditure in this area in respect of 2018 is €15,291 million, most of which is Voted current expenditure. The *Expenditure Report 2018* (pp.34-35) states that, “the proposed increase [of current expenditure] in the Health allocation is €646 million, or 4.6%...and satisfies the commitment set out in the Programme for a Partnership Government to increase health expenditure more than by 3% per year.”

Unlike other Votes, a breakdown of Programme expenditure within the Vote is not provided in the Expenditure Report 2018. The background to this omission is that the Department of Health is working towards the development of Programme Budgeting and changing the structure of the Health Vote to reflect this. This is taking some time, however, as the financial systems in the HSE must be adapted to allow for this. A financial reform programme currently underway in the HSE. In the interim, the appendices to the Revised Estimates for the Health Vote (due to be published in December) have been constructed along programme lines – based on the National Service Plan – to provide a high-level programme breakdown of health expenditure in the main divisional areas of the HSE.

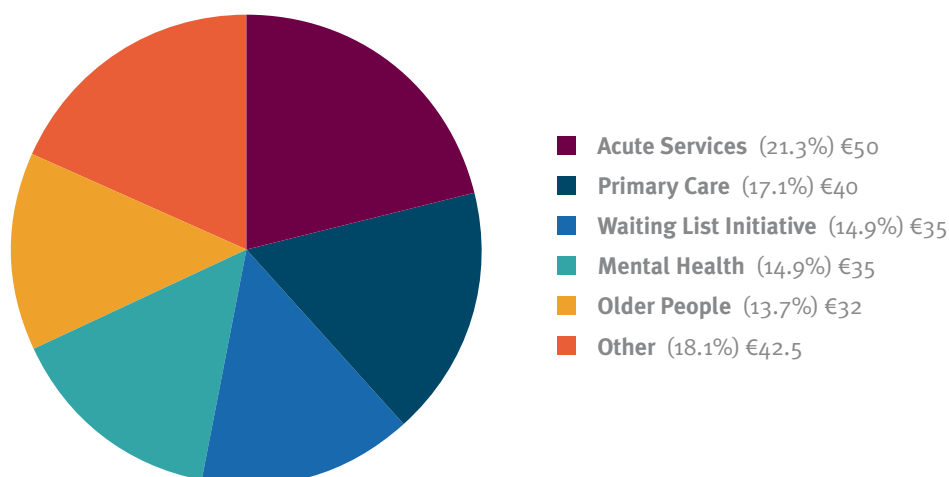
As set out in Table 5 above, additional spending measures costing €235 million are proposed in Budget 2018. The carryover costs from Budget 2017 are projected to be €97 million. An allocation of €165 million is made in respect of recent pay agreements. This would suggest that €152 million in increased resources has been allocated to meet existing service levels in 2018. However, this is not explicated stated.

Additional Health current expenditure proposed in Budget 2018

Budget 2018 proposes to allocate €235m in increased allocations in respect of:

- Waiting list initiative – €35 million;
- Acute Services – €50 million;
- Older People – €32 million;
- Disabilities – €15 million;
- Mental Health – €35 million;
- Primary Care – €40 million;
- Prescription charges & Reduced Threshold for Drug Payment Scheme – €17.5 million.
- Funding will be increased in respect of two other areas totalling €10 million.

Chart 7: Health – Summary of New Measures (2018) € million



Source: *Expenditure Report 2018*, pp.102-103.

It has been estimated that the following services account for 80% of ‘pure’³² demographic cost pressure:³³

- Acute Services;
- Primary Care Reimbursement Services;
- The Nursing Home Support Scheme; and
- Older Persons Services.

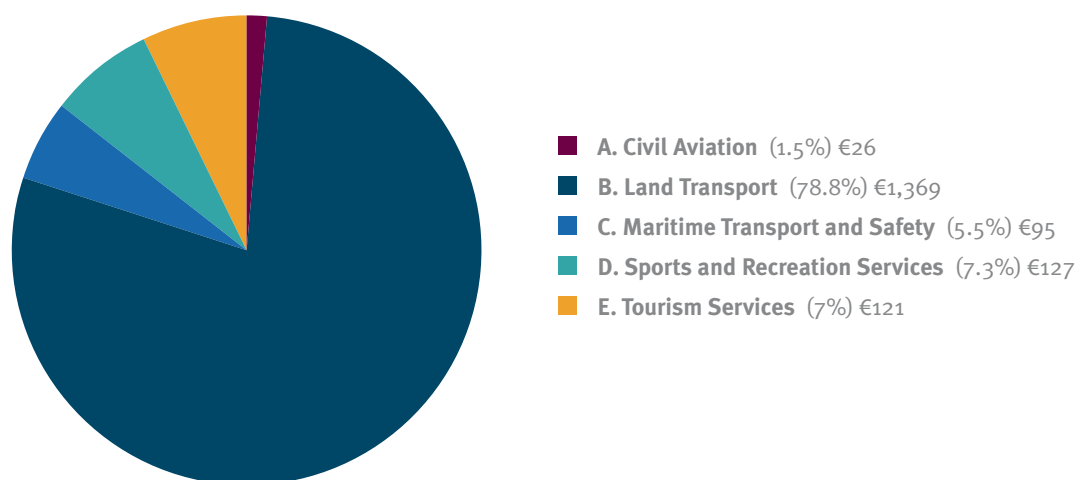
³² Other factors affecting healthcare services include technological advances, healthcare prices and population behaviour. It should also be borne in mind that there is no consensus on the extent to which population ageing necessarily results in proportionally higher healthcare expenditure.

³³ *Budgetary Impact of Changing Demographics 2017-2027*, IGEEES Staff Paper 2016, p.6.

Transport and Tourism

The proposed allocation for expenditure in this area in respect of 2018 is €2,026 million, divided 35:65 between current (€699 million) and capital (€1,327 million) expenditure. The following chart provides a breakdown of that expenditure by programme.

Chart 8: Transport, Tourism and Sport – Breakdown of Programme Expenditure (2018) € million



Source: *Expenditure Report 2018*, p.134.

The *Expenditure Report 2018* (p.138) states that an additional €15 million in current expenditure is being provided (excluding allocation for pay provision) and an additional €46 million in capital expenditure. This Vote is *not* affected by the summer 2017 transfer of functions and no expenditure has been assigned to Inter Vote Transfers.

Additional current expenditure proposed in Budget 2018

Budget 2018 proposes to increase current expenditure allocations by €15 million. Part of this allocation (€9 million) will be used to fund ELS such as an increase in the PSO and a new round of sports capital funding. The balance of €6 million will be allocated to new measures.

Additional capital expenditure proposed in Budget 2018

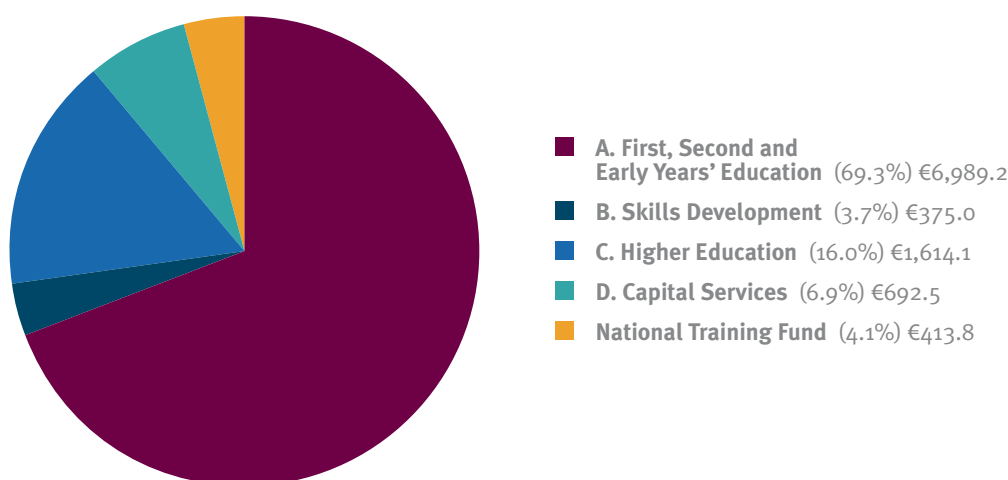
Budget 2018 also proposes an increase in capital expenditure allocation of €46 million as a result of the *Mid-term Review of the Capital Plan*. This is an increase to the capital ceiling for 2018 (€1,281 million) as set out in the *Mid-Year Expenditure Report 2017*.

Education & Skills

The proposed ceiling for expenditure (including the National Training Fund) in this area in respect of 2018 is €10,085 million, divided 93:7 between current (€9,339 million) and capital (€745 million) expenditure. This is the highest expenditure ceiling that this area has had – it reached a previous peak of €9.7 billion in 2010. The following chart provides a breakdown of that expenditure by programme. Pay and pensions accounts for two thirds, or €6,739 million, of the total ceiling for 2018 and is therefore the single largest component of expenditure in this area.

In terms of programme expenditure, Programme A constitutes 69% of the entire expenditure ceiling and composes all levels of education prior to third level. In that context, special education needs (part of Programme A) gross allocation in 2017 (€1.68 Billion) exceeded that of Programme C Higher Education (€1.58 Billion) and has increased by 38% from 2011 to 2017 (€465 million).³⁴ The combination of first, second and early years' education in one programme obscures the relative importance of each level and of important components/policy priorities within those levels, at least before the publication of the Revised Estimates.

Chart 9: Education and Skills – Breakdown of Programme Expenditure (2018) € million



Source: *Expenditure Report 2018*, p.73.

The Expenditure Report 2018 (p.76) states that an additional €438 million in current expenditure is being provided (including allocation from central pay provision) and an additional €28 million in capital expenditure. However, setting aside additional pay costs and existing level of service (ELS) and as set out in Table 5 above the additional current expenditure measures proposed in Budget 2018 will cost €104 million.

An allocation of €236 million has been made in respect of the PSSA cost in 2018. Carryover costs from 2017 are projected to be €98m. This Vote is *not* affected by the summer 2017 transfer of functions and no expenditure has been assigned to Inter Vote Transfers.

³⁴ *Spending Review 2017, Tackling Trends in Public Spending, Department of Public Expenditure and Reform (2017, p.36).*

Additional current expenditure proposed in Budget 2018

Budget 2018 proposes to increase current expenditure allocations by €104m in respect of:

- National Training Fund (€47.5 million) (see below)
- Voted Current Expenditure (€56.5 million) including:
 - Increased Special Needs Allocation – €29 million;
 - Special Education Teaching Posts – €5.5 million;
 - Curriculum reform – €5 million;³⁵
 - Reduction in staffing schedule at primary level (305 additional teachers) – €4.5 million;
 - Foreign languages, STEM School Policy and Digital Learning Programme for Schools – €4.5 million.
 - Additional allocations will also be provided in respect of five other areas with a total cost of €8 million.

Staffing implications

As noted in the previous section extra teaching posts (330 Special Education and 305 primary) will cost an additional €10 million – it is presumed that this is a part year cost (four months) and that the whole year cost would therefore be approximately €30 million.

In addition, it may be noted that the 2018 allocation will have further long-term staffing and pension costs for this Vote as it will also provide resources to the Department to recruit 645 additional teaching posts in schools:

- 545 extra teachers to meet demographic pressures to cater for over 8,000 extra primary and post-primary students;
- 100 additional teaching posts as a result of enhancements in guidance provision.

There are also an estimated 1,000 new SNA posts with c.130 commencing from January 2018 and further posts commencing from September 2018. This additional recruitment will bring the total number of SNAs to approximately 15,000 with a full-year cost of €0.5 billion.

With regard to the reduction of the staffing schedule to 26:1 at primary level it should be noted that there are 3,124 mainstream schools (2015/16) at this level. On that basis, the projected allocation of 305 teachers can benefit fewer than 10% of primary schools.

In relation to the 545 extra teachers listed above and demographic cost pressure projections it should be noted that while an additional 4,092 students are projected to enter the primary level system in 2018, there is a reduction of 458 in 2019 and of 5,516 in 2020. Between the years 2021-2022 and 2023-2027 there is an approximate reduction of between 9,500 and 13,800 pupils per annum. Primary school enrolments are expected to continue to decline up to 2034.

The numbers at secondary level increase over the period to 2025 and decrease year on year to 2035.

It is unclear how many of the 545 additional teachers are primary school teachers. As stated, a further 305 teachers are projected to be needed to meet the new staffing schedule. Increasing the number of primary school teachers (in particular) now given the anticipated reduction in overall primary school pupils over the next decade poses the question, will they all be required?

³⁵ 100 extra teachers to further support the implementation of the new special education teaching model, and 230 extra teachers in special schools and special classes.

National Training Fund

Additional expenditure on Apprenticeship and Traineeship will amount to €38 million of the additional allocation.

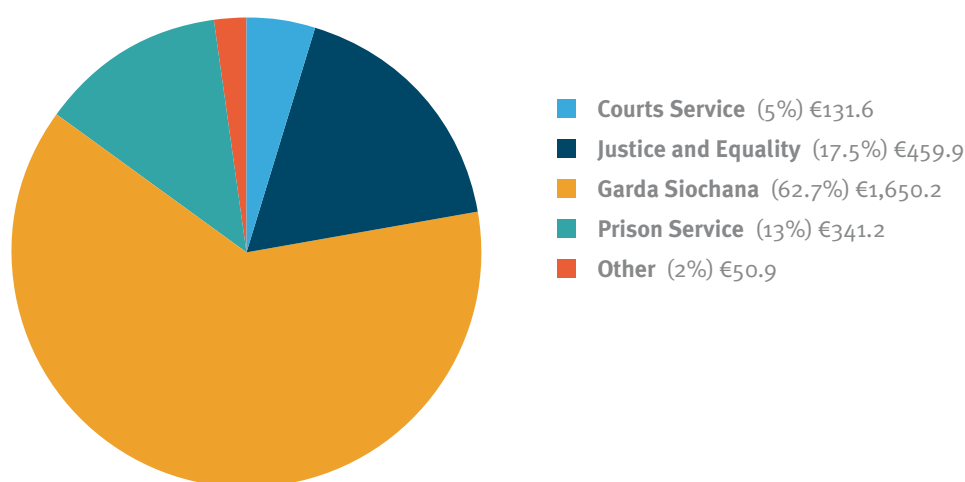
Additional capital expenditure proposed in Budget 2018

Budget 2018 also proposes an increase in capital expenditure allocation of €28 million in respect of the School Building Programme (€20 million) and equipment associated with the expansion of apprenticeship programmes (€8 million).

Justice Group

The proposed allocation for expenditure in this area in respect of 2018 is €2,634 million, divided 94:6 between current and capital expenditure. The following chart provides a breakdown of that expenditure by programme.

Chart 10: Justice and Equality – Breakdown of Programme Expenditure 2018 (€ million)



Source: *Expenditure Report*, p.112.

Compared to the pre-Budget position, an extra €63 million in current expenditure (this appears to consist of €20 million in respect of the Existing Level of Service (ELS) and €43 million in additional measures) and an extra €5 million in capital expenditure is proposed in Budget 2018.

An allocation of €37 million has also been made from the Central Pay Agreement Provision in respect of the Lansdowne Road Agreement and the Public Service Stability Agreement (PSSA). This Vote Group is affected by the July 2017 transfer of functions and a sum of €4 million in current expenditure has been assigned to Inter Vote Transfers (i.e. a transfer of funds out to another Vote).

Additional current expenditure proposed in Budget 2018

Budget 2018 proposes to increase current expenditure allocations in respect of Garda Reform – this amounts to an allocation of €28.6 million in 2018 and refers to “arrangements” proceeding to recruit up to a further 500 civilian staff and 800 trainee Gardaí. The recruitment of civilian staff can clearly be linked to Garda reform; it is less transparent that the recruitment of the 800 Gardaí is so directly linked to reform *per se*.

The full first year cost of recruiting 800 additional Gardaí is €15 million and the full second year cost is €26m.³⁶

The Government has stated that it has in place, “a plan to achieve an overall Garda workforce of 21,000 personnel by 2021 comprising 15,000 Garda members, 2,000 Reserve members and 4,000 civilians.” Garda numbers, taking account of projected retirements, are projected to increase to approximately 13,500 by end-2017.³⁷ The first Garda recruitment process (for 300 places) since May 2009 closed on 9 January 2014.

The number of Garda, student Gardaí, civilian staff and Garda reserve force in the years 2005-2013 are set out in the table below.

Table 9: Staff numbers associated with An Garda Síochána, 2005-2013

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | Sept. 2013 |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|------------|
| Garda | 12,265 | 12,954 | 13,755 | 14,411 | 14,603 | 14,337 | 13,894 | 13,424 | 13,159 |
| Civilian | 1,645 | 1,979 | 1,687 | 2,099 | 2,109 | 2,098 | 2,074 | 2,028 | 2,037 |
| Garda Student | 1,125 | 1,126 | 1,043 | 944 | 232 | 0 | 0 | 0 | 0 |
| Garda Reserve | n/a | 36 | 291 | 445 | 645 | 700 | 875 | 991 | 1,200 |

Source: Oireachtas Library & Research Service Note (Update 27 May 2014), ‘An Garda Síochána: Structure, Strength and Accountability Mechanisms’, p.6.

If the number of Gardaí due to be recruited by year-end is met and an additional 800 are recruited next year, then (excluding retirements) a net additional 700 would have to be recruited at an additional approximate salary cost of at least €23m in a full year to meet the Government’s 2021 target of 15,000 Gardaí.

Additional allocations will also be provided in respect of five other policy areas with a total cost of €14.5 million.

³⁶ Written answer to PQ on 29 June 2017. The exact first year cost estimate is €14, 863, 029 and the second full year cost is €25, 751, 656 (Salary plus Employers PRSI but excluding any additional allowances due).

³⁷ Ibid.

Other issues

Budget documentation and transparency

Ireland has previously been categorised as having the lowest parliamentary engagement with the budget process of any OECD country.

One element in the process of Dáil reform and of improving parliamentary engagement with the budget process, i.e. improving budgetary scrutiny and accountability, is the simplification of complex budget information. Such an approach would promote the transparency of the budget process and (potentially) enhance the credibility of the budget forecasts and may also lead to improvements in the budget process.

At present, it is the view of the PBO that the Budget documentation (three separate reports) presented on Budget day is unduly complex, in the context of achieving a more effective level of parliamentary engagement.

Examples of this complexity and lack of transparency include:

- A simple comparison between the proposed expenditure allocation, as set out in Budget 2018, and expected 2017 expenditure outturns are difficult as a result of the transfer of functions effected in July this year (including the establishment of a new Department). Effectively, this comparison must await the laying of the Further Revised Estimates, which occurred one week after Budget 2018.
- The extension of Mortgage Interest Relief which is treated as a revenue raising measure highlights issues with the Department of Finance's no policy change scenario.
- With regard to the additional allocation of current expenditure as proposed in Budget 2018, at least one Vote has included both new measures and the carry-over effects from the previous year's decisions in the same table. It would aid transparency if detail in relation to carryover costs and new allocations could be consistently and clearly presented.
- The adjustment of the capital expenditure ceiling by Vote group does not distinguish between the newly allocated amounts in Budget 2018 and the distribution of the unallocated expenditure as set out in the *Mid-Year Expenditure Report*.
- A table setting out the number of new staff to be recruited in 2018 (part-year cost) and the full-year cost would be useful.
- Table 6 (which sets out the priority ratios of Votes) is acknowledged to be a crude measure as inter-vote transfers can distort the picture somewhat, in addition to reallocations or savings within Votes. A table which attempts to build upon table 6 in the Budget 2019 documentation would be helpful.
- Similarly, a reconciliation of Gross Voted Expenditure pre and post Budget for 2017 and 2018 as set out in Table 4 would help to clarify the level of expenditure increase/decrease especially in the context of once-off payments, unallocated monies, what monies are included in the base etc.

- In relation to policy changes it is unclear from the Budget 2018 documentation as to the basis of specific policy changes announced in the Budget. The three core Budget documents were published on the Budget.gov.ie website in conjunction with a range of supporting documentation which is of relevance. For example, the IGEE paper on Disability and Special Education Related Expenditure (Spending Review 2017) which gives the context of expenditure in the disability sector is not referred to in regard to the new measures in education (additional special needs teachers and Special Needs Assistants) or health (additional services and supports for young people with disabilities).

Post Budget Review

The PBO believes that it would assist in improving parliamentary engagement if spending proposals/submissions prepared by Departments and tax proposals prepared by the Office of the Revenue Commissioners before each Budget were provided to the Houses of the Oireachtas in good time.

The PBO accepts that this would may need to be implemented on an *ex post* basis initially but that it may be possible to phase in *ex ante* scrutiny of these documents over time.

As set out in Budget 2018 a pilot project on gender budgeting is being introduced in the Revised Estimates Volumes (REV). Departments will assess relevance to and impact of policies on gender equality; identify key data and information needed to assess whether gender equality was achieved; identify how to collect such data. The objectives and indicators will be published in the REV and will be progress published in the Annual Performance Report. The PBO will review this when the material is available.

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