An Oifig Buiséid Pharlaiminteach
Parliamentary Budget Office

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Mid-Year Expenditure Report 2018

PBO Note 16 of 2018

Introduction

The *Mid-Year Expenditure Report* (MYER) is a part of the budgetary process first introduced in 2016. The report provides the pre-Budget baseline for Departmental expenditure.

The MYER represents the baseline for examination of budgetary priorities and helps to identify any areas where significant expenditure pressures or risks are arising over the course of the year.

The MYER does not address performance budgeting. It relates to financial inputs rather than the outputs achieved. For example, it provides information on how much has been spent against profile under the Housing, Planning and Local Government Vote without indicating the level of housing output achieved for that period.

Chapter 1 of the MYER:

- sets out an update on in-year expenditure at the mid-point of the year; and,
- provides multi-annual ceilings for expenditure.

Chapter 2 of the MYER:

- examines the trends that are driving the overall volume of public expenditure.

Chapter 3 summarises the findings of the Spending Review 2018 and will be addressed in more detail in a separate PBO publication.

The Pre-Budget Position

The MYER sets out ceilings for expenditure for 2019-2021. Between 2018 and 2021 overall expenditure is expected to rise by €7.1 billion. This increase is split between current and capital at a ratio of 60:40.

Table 1: Multiannual Expenditure Ceilings, 2019-2021

€ Billions	2018	2019	2020	2021
Current	55.9	57.3	58.7	60.2
Capital	5.8	7.3	7.9	8.6
Total	**61.7**	**64.6**	**66.6**	**68.8**

Source: MYER 2018

Comparing the ceilings from the same point in 2017 shows that these ceilings have been subject to significant upwards revision.

Key Messages

- The mid-year expenditure position focussed only on inputs (monies) and not outputs (services provided, etc.);
- The MYER also addresses the Spending Review 2018 although there is no direct link between them;
- Between 2018 and 2021, overall expenditure is expected to rise by €7.1 billion (60:40, Current/ Capital);
- At the end of June 2018, current expenditure is above profile. The overall positive position is a result of underspending in capital. This compares unfavourably with the position at the same point in 2017;
- Should current expenditure pressures in H2 2018 result in Supplementary Estimates in November 2018, this may restrict potential for increased allocations to Vote Groups in 2019;
- Following on from the Summer Economic Statement, the MYER confirms that the intention of Budget 2019 is to pivot away from the EU fiscal rules as the primary limiter of growth in public expenditure.

Table 2: Revision in ceilings from MYER 2017.

€ Billions	2018	2019	2020	Total
Current	1.1	1.2	1.1	3.4
Capital	0.5	0.7	0.7	1.9
Total	**1.6**	**1.9**	**1.9**	**5.4**

Source: MYER 2017 and MYER 2018.

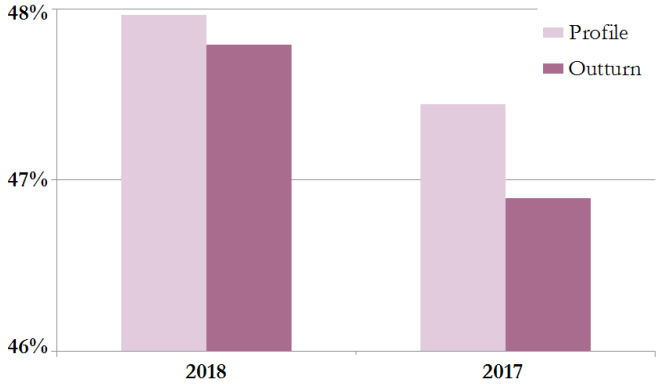
The changes in the MYER show pre-allocated increases for current expenditure in the three largest Vote Groups, with a small unallocated resource remaining.

2018 Expenditure Update

The MYER states that "Gross voted current expenditure for the first half of the year amounts to 47.8% of the overall gross current expenditure."[1] It then compares this to the level at the same point in 2017, 48.2%. This may give the impression that the level of voted expenditure at the mid-point of 2018 is broadly similar to the same point in 2017.

However, Gross Current Expenditure of €27.5 billion makes up 49.2% of the €55.9 billion current expenditure allocation in the June 2018 Fiscal Monitor. At the same point in 2017, current expenditure was 48% of that year's current allocation. Figure 1 shows how overall voted expenditure at this point in 2018 is closer to profile than it was at the same point in 2017.

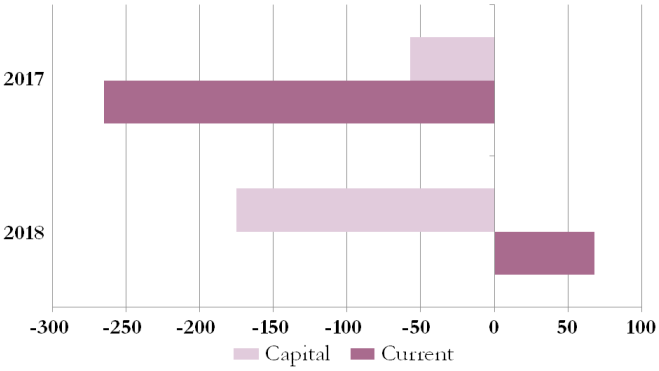
Figure 1: Voted Expenditure, outturn vs. profile as a percentage of total allocation, to end June 2017 and 2018.



Source: June Fiscal Monitors, 2017 and 2018.

However, this does not provide a full overview. As Figure 2 shows, at this point in 2017, both current and capital were below profile. Current expenditure was significantly below profile, despite the decision to bring forward a pay increase under the Lansdowne Road Agreement from September to April 2017. This brought an additional cost of €120 million, with three months of this additional cost (which was not profiled for) reflected in Exchequer returns for end-June 2017. However, in 2018 current expenditure is above profile, and the entire positive position of end-June expenditure is a result of underspending in capital.

Figure 2: Capital and current expenditure vs. profile in 2017 and 2018, € millions.



Source: June Fiscal Monitors, 2017 and 2018.

With only €231 million remaining to be allocated in 2019 (see Table 3), any pressure upon current expenditure (esp. those that result in Supplementary Estimates) in 2018 may constrain the ability for further increases to be distributed among Vote Groups in Budget 2019. The difficulty inherent in this budgetary position is illustrated by the fact that while the position at end-June 2017 was €322 million **below** profile, by December 2017 expenditure was €480 million **above** profile. This marked a deterioration of the budgetary position versus profile by over €800 million between June and December 2017. A similar movement in 2018 would place serious pressures upon the fiscal space available for 2019.

In *Summer Economic Statement 2018*, the Department calculated a €900 million margin of compliance with the Expenditure Benchmark.[2] Given the expenditure pressure already occurring under current expenditure, there may be significant pressure on the Government to absorb some of this margin for the already promised increased expenditure in 2019, see Table 3.

Table 3: Increases in current expenditure ceiling 2019-2021

€ Millions	2019	2020	2021
Education & Skills	49	38	38
Employment Affairs and Social Protection	241	260	260
Health Group	123	137	137
Public Service Stability Agreement	370	340	230
Carryover of Budget 2018 Measures, of which:	340		
Social Protection	*110*		
Education & Skills	*42*		
Justice	*40*		
Other	*148*		
Unallocated Resources	231		
Total	**1354**	**1450**	**1440**

Source: MYER 2017 and MYER 2018.

[1] *Mid-Year Expenditure Report 2018*, p. 8.

[2] *Summer Economic Statement 2018*, p. 18.

Public Expenditure Trends

The MYER identifies three key policy areas driving public expenditure:

1. Social Protection;
2. Health; and
3. Education.

Together these three areas account for almost 80% of all Voted Expenditure.[3]

Social Protection

Social Protection expenditure has consistently made up over 30% of gross current expenditure for twenty years.[4] During the economic downturn it peaked at a 40% share. This is due to the fact the unemployment costs are sensitive to changes in the economic cycle. The MYER shows that payment rates for the State Pension and Jobseeker's Benefit rose faster than prices (CPI) after 2000 and State Pensions were not subject to rate reductions during the recession.

The MYER notes that pensions are "a key issue, as demographic pressures will continue to drive up recipient numbers." In addition, the "low level of unemployment drives down Live Register related costs and demand for employment supports, resulting in savings."[5]

These savings were identified during Spending Review 2017 and that the savings could be "reprioritised towards increasing the social welfare rates."[6] However, considering that these savings are cyclical in nature, it may not be fiscally prudent to use those savings to increase rates, some of which historical experience has shown might not be reduced during a recession, when the programmes these savings are tied to will experience a rise in demand.

Health

The key issue raised in this section of the report is stated most succinctly as: "Ireland's older population (those aged over 65) is significantly lower than the EU average *[17.5%]* at 12.7 per cent of the population ... This disparity should enable Ireland to spend a lower proportion of resources on Health compared to other European States but ... expenditure in Ireland remains comparatively high."[7]

The report argues that Ireland's health expenditure as a proportion of GNI* is relatively high, especially when the age profile of the country is taken into account. However, there is no consensus about the link between age itself and health expenditure. Some argue that the key measure is proximity to death, and the relationship between health expenditure and age may be neutral, negative, or unequally distributed throughout the health system.[8] The priorities identified in the MYER focus on ensuring patient outcomes continue to improve in the future, in anticipation of the projected growth in Ireland's over 65 demographic cohort.

Education

The education sector is similar to the health sector insofar as it is driven by demographic forces. However, the MYER states "Ireland spends less on education than most of its EU peers and achieves relatively efficient outcomes."[9] The efficient outcomes identified relate, primarily, to relatively (by OECD standards) high earnings for third-level graduates.

The report also notes the demographic shift towards primary education that occurred during the recession. Primary staff increased by 16% between 2008 and 2017 at the same time third level staffing decreased by 13%.[10] The report notes that the key challenge for the education sector in the short term will be managing the demographic shift from primary to second level. In due time, this demographic force will move again to third level. The projections predict a long period of declining numbers, with primary pupil numbers growing again at some point in the mid-2030s (the exact year varies depending upon the assumptions used).[11]

Expenditure in both the education and health sectors are driven to a large extent by staffing responses to demographic changes. As the cohorts that drive demand in these sectors change in absolute and relative terms, demand for current expenditure in particular will vary but is likely to rise overall.

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[3] *Mid-Year Expenditure Report 2018*, p. 17.

[4] *Ibid*, p. 20.

[5] *Ibid*, p. 23.

[6] *Ibid*, p. 42.

[7] *Ibid*, p. 25.

[8] See, for example, *CESifo Group Report 2013*, p. 3-6.

[9] *Ibid*, p. 30.

[10] *Ibid*

[11] *Projections of Full-time Enrolment 2018-2036.*

Future Expenditure Policy

The focus for future expenditure policy in the MYER is upon "steady increases in public expenditure ... underpinned by stable and predictable tax revenues."[12]

Continuing from the *Summer Economic Statement*, this section of the MYER explains the rationale for departing from simply meeting the EU fiscal rules. In 2019, the Expenditure Benchmark would allow a rate of growth in public expenditure significantly higher than the Department of Public Expenditure and Reform plans to make. PBO Briefing Paper 6 of 2018 analyses the main economic concepts that underpin the calculation of the Structural Budget Balance (SB) and the Expenditure Benchmark (EB); namely, Potential Output and the Output Gap. On the back of this analysis, this work also addresses key issues for fiscal policy in Ireland.

The MYER notes that "the evidence is that it *[the Expenditure Benchmark]* can produce pro-cyclical outcomes."[13] The MYER presents the argument that a measure to manage expenditure based on GDP was not ideal, as tax revenue does not grow at the same rate as GDP.

Figure 3 shows how GNI* tracks Tax Revenue much more closely than GDP, especially after the large increase GDP experienced in 2015.

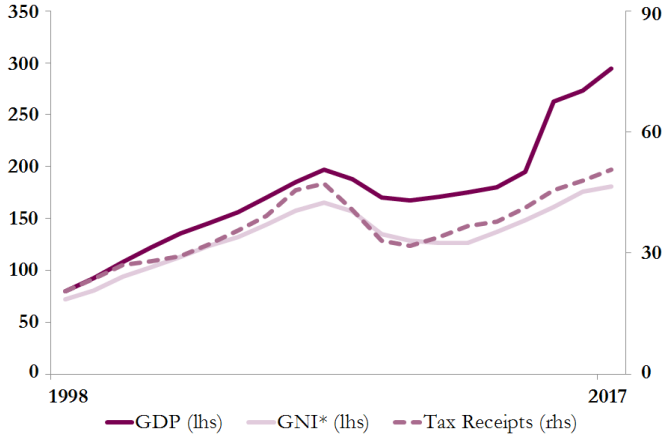
Now that both the *Summer Economic Statement* and the *Mid-Year Expenditure Report* are available, it is clear that the Department of Public Expenditure and Reform wants to pivot away from the EU fiscal rules as the primary limiter of growth in public expenditure. This is a prudent decision, given the reliance of the EU fiscal rules on GDP and potential GDP, and the growing disparity between headline GDP figures and the underlying domestic economy.

Finally, the future expenditure policy environment outlined in the MYER does not mention the Sustainable Development Goals (SDGs). Action 5 of the Sustainable Development Goals National Implementation Plan includes a commitment for Departments to identify items of expenditure that support the targets of the SDGs. The MYER does not address how these goals will be identified in the budgetary framework in the future.

[12] *Mid-Year Expenditure Report 2018*, p. 32.

[13] *Ibid*, p. 34.

Figure 3: GDP, GNI* and Taxation, 1998-2017.



Source: June Fiscal Monitors, 2017 and 2018.

Spending Review 2018

Chapter 3 of the Mid-Year Expenditure Report provides an overview of the objectives, conduct, outcomes and key findings of the Spending Review. A total of 27 Spending Review papers, covering a range of sectors of government expenditure, were also published in conjunction with the MYER, and further papers may be published in conjunction with Budget 2019.

The Parliamentary Budget Office will be conducting a review of Chapter 3 of the MYER and the Spending Review 2018 papers, identifying the context to the review itself as well as its analysis of the issues addressed by the papers and whether there are any outstanding issues of relevance to Budget 2019.

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Go to our webpage: www.Oireachtas.ie/PBO
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