An Oifig Buiséid Pharlaiminteach
Parliamentary Budget Office

Tithe an Oireachtais
Houses of the Oireachtas

Budget 2019 - Analysis of Voted Expenditure Allocations

Key Messages

- The inclusion of the indicative Supplementary Estimates in respect of 2018 in the aggregate tables provided in the Expenditure Report 2019 gives a flattering estimation of the ratio between Voted expenditure growth and economic growth.
  - It reduces the rate of current expenditure growth between 2018 and 2019 from 5.8% to 4.1% thereby approximating it to GDP and GNP growth of 4.2% and 3.9%.
  - Current Expenditure growth of 5.8% (significantly higher than GDP growth) calls into question the sustainability of the increased Voted expenditure allocations proposed for 2019.
- The number of public sector staff will pass its pre-crisis peak during 2018, and will increase by a further ca. 13,000 in 2019. However, due to fiscal consolidation measures taken during the economic and fiscal crisis, the Exchequer pay bill, at €18.7 billion, will remain below the pre-crisis peak of €20.3 billion.
- A change made to the recording of pension costs under the Health Vote impact the year-on-year change in expenditure under Pensions, the Health Vote and overall gross expenditure. This change should be clarified as part of the Revised Estimates for Public Services, to facilitate scrutiny of the proposed year-on-year change in expenditure.
- Brexit related measures are not clearly set out or distinguished from other expenditure measures in the *Expenditure Report*. There is little clarity around the possible cost in 2019 of different contingency plans being made by Departments. The cost of any Brexit scenario is highly dependent upon the content of the agreement, if any, reached between the EU and the UK.
- The financial implications of demographics are lacking in clarity and detail in *Expenditure Report 2019*. The Expenditure Report appears to derive its demographic costs from the *Mid-Year Expenditure Report 2018* and the IGEES paper, *Budgetary Impact of Changing Demographics 2017-2027*. However, the demographic cost for 2021 is inconsistent with this IGEES paper, and the reasons for this are not clear.

Executive Summary

This publication presents the Parliamentary Budget Office's analysis of the changes to expenditure presented in Budget 2019, and the overall presentation of expenditure information in the budget documentation. It builds upon the analysis and key issues set out in the PBO's Budget night 2019 Preliminary Review and its subsequent high level analysis of the key issues arising from the Budget, Budget 2019 – Issues for Members of the Houses of the Oireachtas.

The first section of this publication, 'Overall Expenditure Position', sets out the headline position in respect of expenditure in Budget 2019. In particular, Voted expenditure is currently forecast to be €66.6 billion in 2019, an increase of €4.8 billion over 2018 (when comparing the 2018 allocation set out in the *Revised Estimates for Public Services 2018* (December 2017) to the 2019 allocation set out in the *Estimates for Public Services 2019* (October 2018) – i.e. excluding in-year overspending in respect of 2018 which is yet to be addressed by way of proposing Supplementary Estimates to Dáil Éireann). Non-voted expenditure is forecast to be €9.5 billion, a fall of €0.5 billion from 2018 due mostly to a reduction in the cost of servicing the national debt.

This section also notes that *Expenditure Report 2019* deviates from previous practice by including the anticipated Supplementary Estimates when calculating the overall year-on-year figures for expenditure. **Including the indicative Supplementary Estimates in the 2018 totals reduces the current Voted expenditure growth rate, between 2018 and 2019, from 5.8% to 4.1%. Crucially, this reduced rate of expenditure growth approximates to the rate of economic growth (which is estimated for GDP and GNP at 4.2% and 3.9% respectively). This reduction flatters the opening position for 2019 and obscures the fact that the rate of current expenditure growth outstrips economic growth in 2019.**

In the following section, 'Public Sector Pay and Numbers', the PBO notes that the number of public servants has passed its pre-crisis peak during 2018, and in 2019 is projected to reach a new peak of 307,500.[1] Changes in employee numbers are not reflected 1:1 in changes in pay expenditure. **In the Education and Skills and Garda Síochána Votes, the growth in expenditure is greater than the growth in the number of employees. This suggests the cost per employee is growing faster in these sectors than in the wider public service.**

In the 'Pensions' section, the area of most concern for the PBO relates to accounting for pensions income in the health sector. A year-on-year analysis of pensions expenditure in the health sector is not possible based on the data presented in Expenditure Report 2019, as income netted from gross pension costs in 2019 was not netted in previous years' estimates. The overall year-on-year change in pensions expenditure is largely offset by the change in the Health Vote for 2019, which is equal to 70% of the increase in all other Votes. **The PBO considers that, in the interest of facilitating scrutiny by the Houses of the Oireachtas, consideration should be given to clearly detailing the pensions income involved in establishing the net figure for pensions in Vote 38 by clearly setting out this information in the Revised Estimates for Public Services 2019 which is due to be published before year-end.**

With the United Kingdom scheduled to exit the European Union on 29th March 2019, the PBO considered it important to analyse which Brexit-related measures are set out in Budget 2019. The relevant section of this publication therefore sets out that Budget 2019 includes €92 million under new measures described as having a Brexit dimension; however, the direct link between all of these policies and Brexit is not clear. An **announcement made by the Tánaiste the night before the Budget details a number of other Brexit-related measures that are not highlighted in the Budget documentation**. Further, statements by the Tánaiste's spokesperson indicate that more contingency planning has been undertaken by government departments than is evidenced in the budget documentation. **The PBO considers that any cost implications of these contingency plans should be published as early as possible to provide a more complete picture of the possible implications of Brexit for public finances in the short-term** (i.e. those that may occur in 2019).

Regardless of any policy changes or new measures announced in the annual Budget, demographic changes consistently affect the cost of funding existing public services; the final section of this publication is therefore devoted to an analysis of what Budget 2019 allocations reveal as to how this issue is to be addressed in 2019 and out to 2022. Budget 2019 is based upon the *Mid-Year Expenditure Report 2018* (MYER 2018) in respect of the opening position for 2019, including demographic effects. In turn, the MYER 2018 relies upon the IGEES paper, *Budgetary Impact of Changing Demographics 2017-2027*. However, both Budget 2019 and the MYER 2018 set out demographic impacts for 2021 far in excess of those estimated by the IGEES paper. **The PBO considers that more detailed information should be included as part of the forthcoming Revised Estimates for Public Services 2019 in relation to the specific implications of demographic changes for at least the three key demographically driven Votes: Health, Education and Skills, and Employment Affairs and Social Protection**. The PBO also intends to publish a paper on the specific issue of demographics as an expenditure driver in the coming weeks.

The analysis of Budget 2019 cannot be completed until (1) the Supplementary Estimates in respect of 2018 are presented to Dáil Éireann and the relevant select committees (late November/early December) and (2) the Revised Estimates for Public Services 2019 are published shortly before year-end. Finally, the PBO notes the importance of the Spending Review process and the valuable analytical resource it represents. **The PBO also welcomes that the *Expenditure Report 2019* (pp.27-29) also provided greater detail in respect of how specific Spending Review papers informed budgetary discussions in three Votes/sectors. However, as previously noted[2] the potential to fully leverage the Spending Review process to assist in the scrutiny of Voted expenditure will not be realised so long as their relationship with Value for Money Reviews remains unclear and until an ex post review of their impact on the Budget is published, for example what re-prioritisation of expenditure stemmed from the papers.**

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1 Excluding staff in Local Authorities, the Houses of the Oireachtas Service, and other bodies funded from the Central Fund, the Department of Public Expenditure and Reform's databank shows that by end Q2 2018 a total of 322,867 Whole Time Equivalents (WTEs) were employed. If there was no change in staff numbers in centrally funded bodies (Houses of the Oireacthas Service and Local Authorities), this would result in about 335,500 public sector employees, 4.7% above the pre-crisis peak.

2 *PBO Briefing Paper 11 of 2018*: *Analysis of the Spending Review*, 2018, p. 3.

The Overall Expenditure Position

The *Budget 2019 Economic & Fiscal Outlook* forecasts €59.3 billion and €8.4 billion in gross voted and non-voted current expenditure, respectively. In addition, there is €7.3 billion and €1.1 billion in gross voted and non-voted capital expenditure.[3] This means that in total, €76.1 billion in voted and non-voted Exchequer expenditure is projected for 2019. 96% of the non-Voted current expenditure is made up of interest on the national debt and Ireland's contribution to the EU budget.[4]

The majority of non-Voted capital expenditure does not impact on the General Government Balance, as it principally consists of FEOGA loans and advances from the Exchequer to the supply account – to meet temporary spending needs of departments. Thus, for post-budget scrutiny, the key focus is upon the €59.3 and €7.3 billion in voted current and capital expenditure. This €66.6 of public expenditure is referred to select Committees for scrutiny and to Dáil Eireann for approval during the annual Estimates process. It is also the expenditure the Government has the most direct control over.

Table 1 compares the allocations in *Expenditure Report 2019* to those presented in *Revised Estimates for Public Services 2018.* By setting out the data in this way, the PBO more transparently illustrates the change in the opening positions between 2018 and 2019. Table 1 accordingly highlights that the indicative Supplementary Estimates for 2018 are included in the baseline figures used by the Department of Finance in its Budget 2019 summary tables[5] in respect of 2018. In addition, the quantum of these indicative Supplementary Estimates for 2018 is not fixed as they have not yet been proposed to Dáil Éireann for its approval. However, **even when the Supplementary Estimates 2018 are approved, comparing the final outturn of expenditure in 2018 with the initial estimate proposed for 2019 is very unlikely to give an accurate representation of what the final increase between those two years will ultimately prove to be**.[6] This is because many of these Supplementary Estimates have proven to be of a recurring nature (e.g. Health, Garda Síochána, and Education and Skills) which means that their final allocation for 2019 is, ultimately, likely to be higher than set out in the *Expenditure Report 2019*.

Table 1: Voted and Non-Voted Expenditure in 2018 and 2019, € billions.

	2018	2019	Change	%
Current Expenditure				
Voted Current Expenditure	55.9	59.3	3.3	5.8%
Non-Voted Current Expenditure	8.9	8.4	-0.5	-5.6%
Capital Expenditure				
Voted Capital Expenditure	5.8	7.3	1.5	25.9%
Non-Voted Capital Expenditure	1.1	1.1	0.0	0.0%
Total Expenditure, of which...	**71.7**	**76.1**	**4.3**	**6.0%**
Voted Expenditure	*61.7*	*66.6*	*4.8*	*7.8%*
Non-Voted Expenditure	*10*	*9.5*	*-0.5*	*-5.0%*

Source: *Revised Estimates for Public Services 2018*, *Economic and Fiscal Outlook 2019* and *Expenditure Report 2019.*

3 *Budget 2019 Economic & Fiscal Outlook*, p. 21.

4 *Estimates of receipts and expenditure for the year ending 31 December 2019*, p. 6.

5 But not in the individual Vote tables in Part III of the *Expenditure Report 2019*, i.e. the Abridged Estimates.

6 This issue of in-year budgetary management of Voted expenditure was succinctly illustrated by the PBO in respect of 2017 in Infographic 4 of 2018.

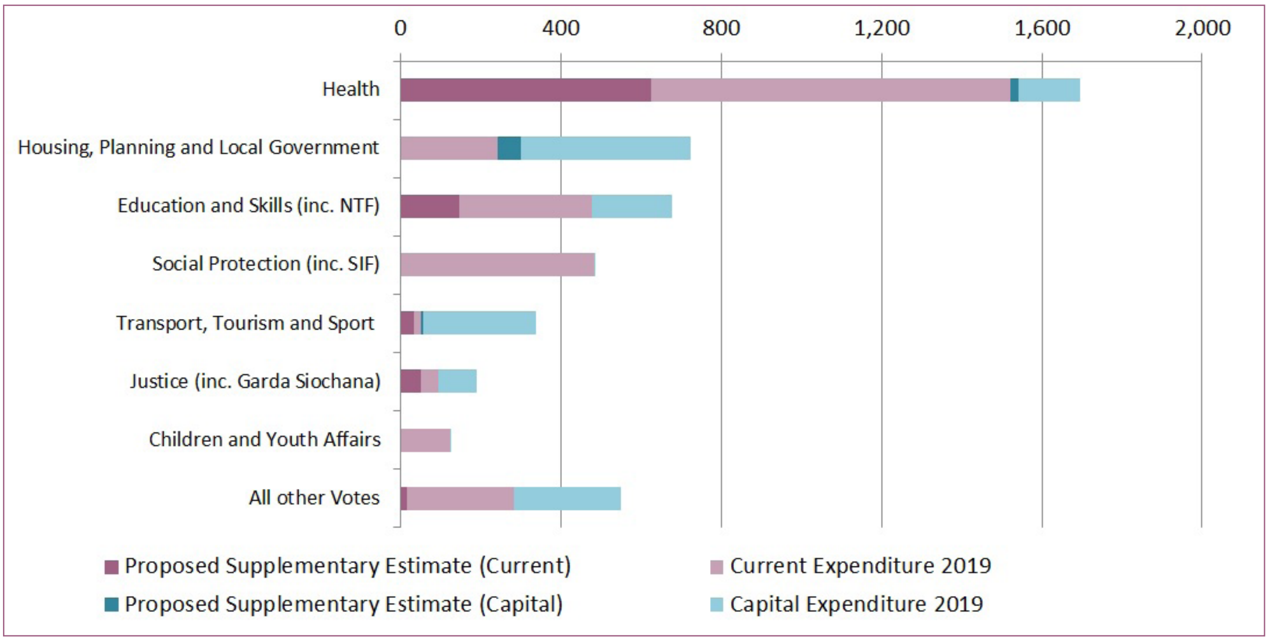
Figure 1 shows how the starting position for total Voted expenditure in 2019 has evolved over 2018, including the in-year increases in expenditure. A number of Votes are recording a forecast overspend and substantive supplementary estimates will be introduced in respect of them to the Dáil, most likely, before the end of November. The relevant Votes are:

- Health;
- Housing, Planning and Local Government;
- Education and Skills;
- Transport, Tourism and Sport;
- Garda Síochána; and,
- International Cooperation.

Other Votes may also require a Supplementary Estimate (including technical ones, i.e. those that do not have financial implications for the exchequer, which are represented with a nominal value of €1,000). This possibility is illustrated by the wide range of Votes that required a Supplementary Estimate in 2017 – see Table 1 in PBO Briefing Paper 2 of 2017. In addition to these Votes, a 'Contingency' gross current expenditure allocation of €90 million is included in the Abridged Estimates, but not clearly linked to any particular Vote. It is however likely that this Contingency relates to the Employment Affairs and Social Protection Vote, which may need a Supplementary Estimate to fund the Christmas Bonus for social welfare payments.

In-year expenditure pressures are a particularly noticeable issue in Health, where €645 million in overspending has already been forecast in 2018. An additional shortfall of €55 million in Appropriations-in-Aid (caused by a shortfall in income "from the UK in respect of healthcare provided under EU regulations")[7] suggests that the total supplementary amount needed in 2018 will be €700 million. Between the corresponding point in 2017 and the end of that year, expenditure in Health increased by a further €195 million, i.e. no overspend was flagged in *Expenditure Report 2018* for 2017 but a €195 million Supplementary Estimate was required later that year. It is also possible therefore that expenditure under this Vote may exceed the indicative Supplementary Estimate presented in *Expenditure Report 2019*, i.e. the outturn provisioned for in October 2018 may prove insufficient nearer to year-end.

Figure 1: Increases in Gross Voted Expenditure allocations, 2018 and 2019, € millions.



Source: Expenditure Report 2019, p. 162.

7 Parliamentary Question [43914/18] from Stephen S. Donnelly, T.D., to Minister for Health, Simon Harris, T.D., on 23 October 2018.

As Figure 1 shows, the proposed Supplementary Estimates under Capital and Current Expenditure have a significant impact on expenditure growth year-on-year in both the Health and Education and Skills Vote Groups.

Figure 1 then includes the increase of expenditure in 2019 in addition to the proposed Supplementary Estimate across each Vote. This gives a full picture of the year-on-year expenditure pressures across the public sector.

Expenditure Report 2019 departed from previous practice by including the anticipated substantive Supplementary Estimates for 2018 in the summary tables of the *Estimates for Public Services*.[8] This has the effect of increasing the baseline expenditure for 2018 prior to select committee scrutiny and Dáil approval and reduces visibility of the full extent of the allocation increase in 2019. It is crucial to be aware of this change when assessing whether or not, or to what extent, expenditure measures in Budget 2019 are pro-cyclical.

When the anticipated Supplementary Estimate figures are included in the baseline for 2018, the year-on-year growth of total (gross) Voted expenditure - capital and current - for 2019 over 2018 is 6%, and current expenditure growth alone is 4.1%. In the Financial Statement on Budget Day 2019, the Minister for Finance stated that (emphasis added):

> Next year, I am allocating €59.2 billion to current expenditure, **a 4 per cent increase** … Importantly, the increase in current expenditure I am committing to today is lower than the rate of economic growth forecast for next year. This is consistent with my view that **current expenditure growth should not exceed growth in national income**.[9]

However, the 4% figure quoted by the Minister is only accurate when the expenditure pressures that occurred during 2018 (which will result in Supplementary Estimates which have yet to be scrutinised by select Committees and approved by the Dáil) are included in the baseline. When the current expenditure allocation for 2018 as originally set out in the *Revised Estimates for Public Services 2018* is compared to the estimate for 2019, the growth rate in current expenditure is 5.8%.

Budget 2019 estimates that GDP and GNP will grow by 4.2% and 3.9% respectively in 2019. Therefore, when comparing the allocation for 2019 to the original allocation for 2018 (i.e. not including the proposed Supplementary Estimates) it would appear that current expenditure growth will exceed growth in both GNP and GDP.[10] This calls the sustainability of the spending increases over 2018 and 2019 into question.

Topical Issues

Public Sector Pay and Numbers

The *Expenditure Report 2019* (Part III – the Abridged Estimates) includes the number of employees in respect of each Vote. This covers the majority of public servants with two significant exceptions: the Houses of the Oireachtas Service and the Local Authorities. Oireachtas Service and Local Authority staff numbered 561 and 27,449 in 2017, respectively.

The *Abridged Estimates 2019* estimates that the number of public servants related to the Votes will increase by 12,897 to 307,458 in 2019 (from 294,561 in 2018), an increase of 4.2%. The staff employed by the Houses of the Oireachtas Service and Local Authorities are additional to this figure.

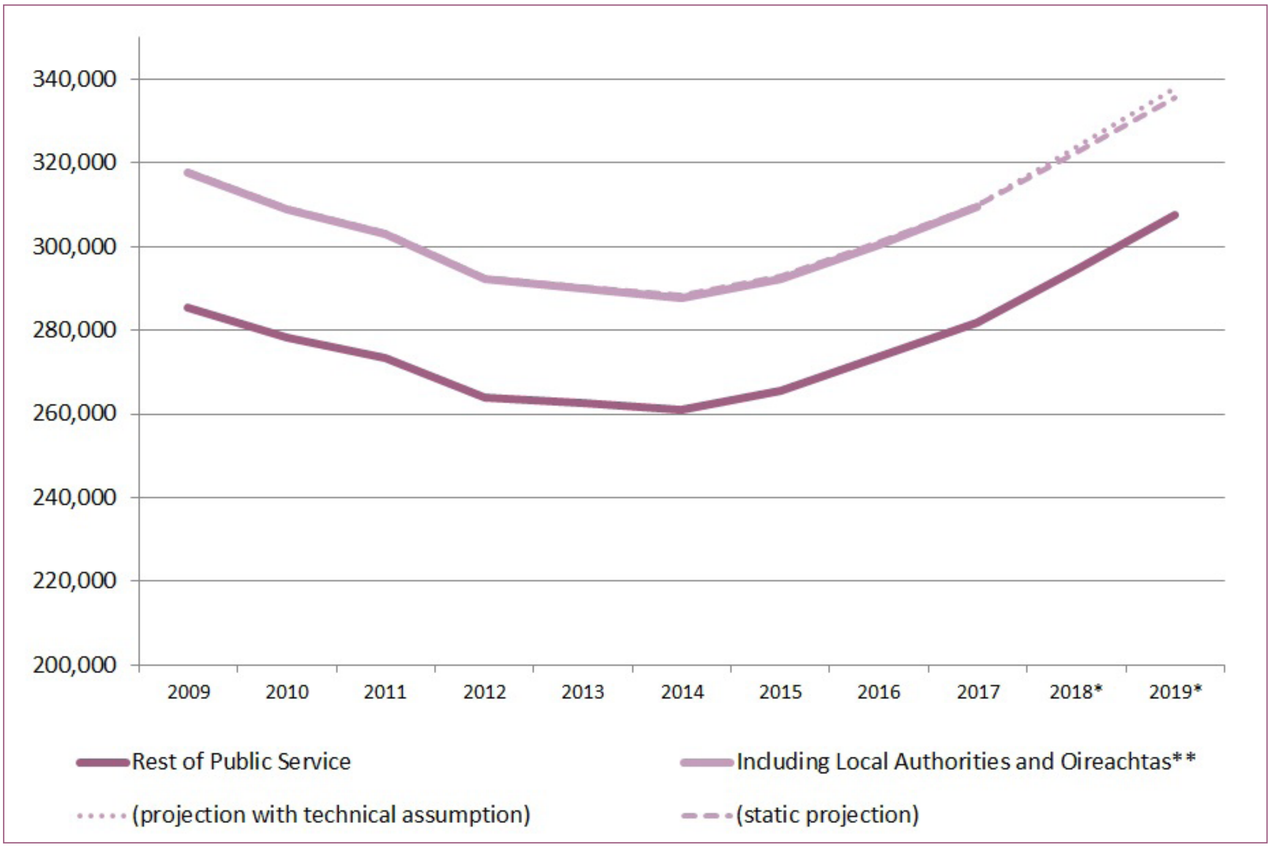
Figure 2 tracks the development of the number of public servants since 2009, and projects staffing in the Local Authorities and Houses of the Oireachtas Service to 2019 (using the assumption for 2018 and 2019 that these organisations will hire at the same rate as the rest of the public service). The increase in these public service numbers is highly localised in just two Votes – Health, and Education and Skills, which together make up 81% of the new employee recruitment projected for 2019. No other Vote is expected to increase employee numbers by more than 350. As Figure 3 shows, the combined increase in all other votes is only 33% higher than Education and Skills alone.

8 i.e. all tables save those of individual Votes in the Abridged Estimates.

9 *Statement of the Minister for Finance and Public Expenditure and Reform*, Mr. Paschal Donohoe T.D., 9th October 2018, p. 4.

10 The *Budget 2019 Macroeconomic & Fiscal Outlook* does not include an estimate for GNI or GNI*, however the Department of Finance uses the Real GNP growth rate for GNI* (see Annex 4, p. 58).

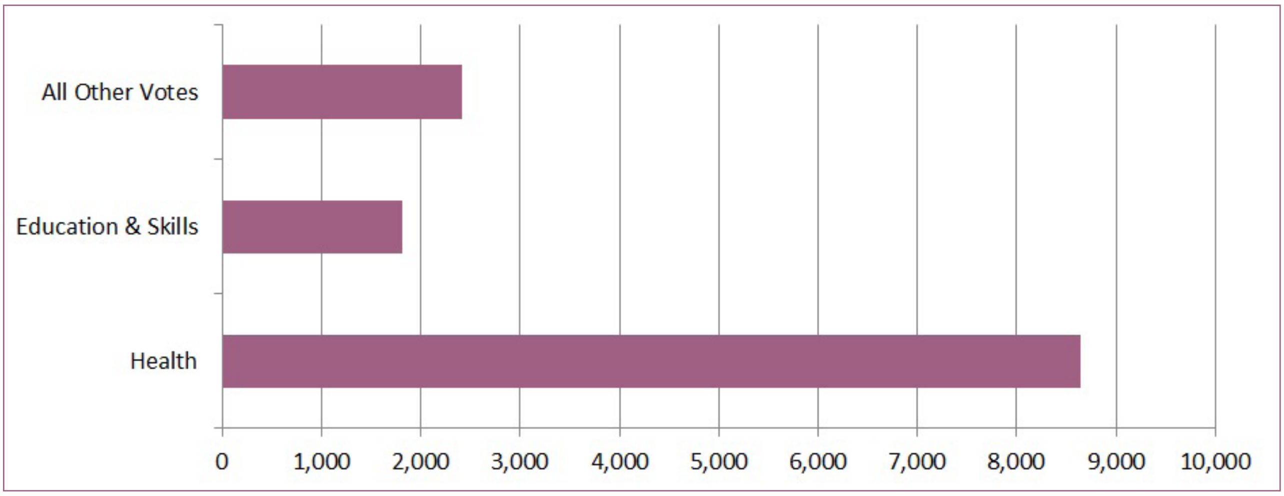
Figure 2: Public Service Staff Numbers, 2009 to 2019.



* 2019 figures based on *Expenditure Report 2019*. 2009-2018 figures based on DPER Databank.

** Local Authorities and Oireachtas staff projected to 2019 based on DPER Databank data, static projection (i.e. no change in Oireachtas or Local Authority staffing) and projection using technical assumption that growth rate of their staff is equal to growth rate of the rest of the public service.

Figure 3: Projected increase in employees in 2019.

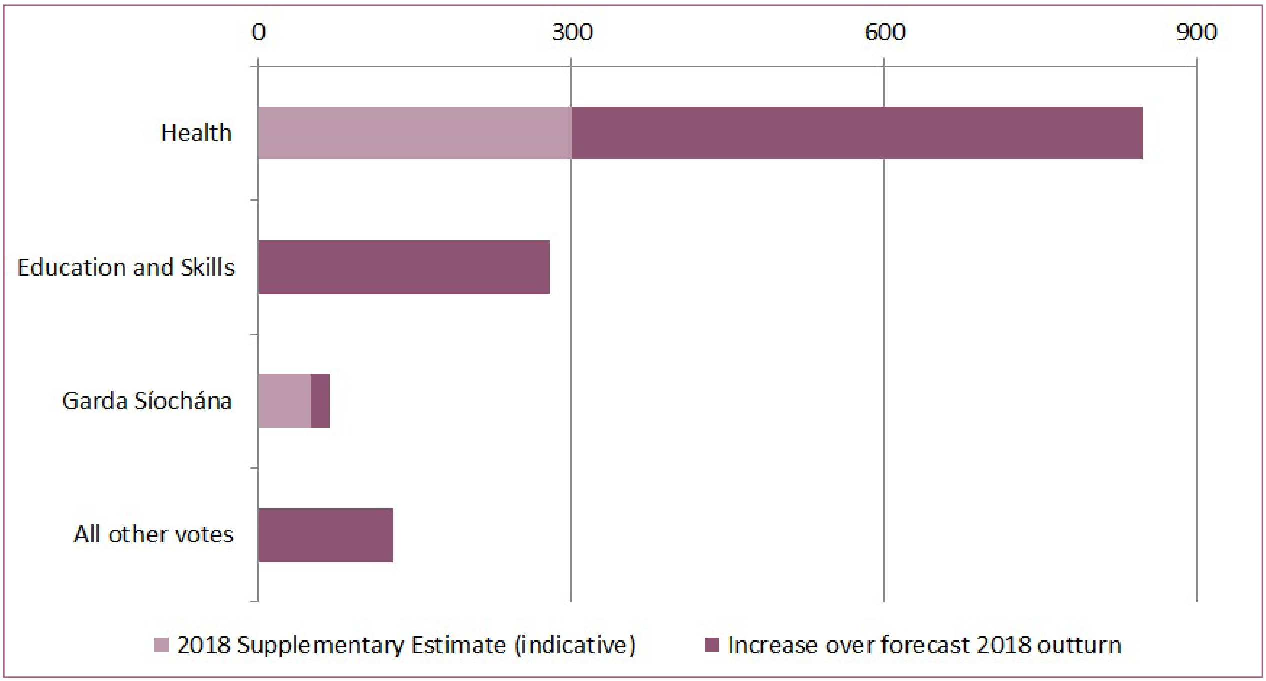


Source: *Expenditure Report 2019*.

Employee numbers and expenditure do not track each other perfectly. While making up 81% of new employees, these two Votes make up only 72% of the increase in expenditure. An Garda Síochána stands out as comprising only 2% of the increase in numbers but 5% of the increase in pay expenditure.

Expenditure growth being greater than employee growth is to be expected, given the wage increases arising from the Public Service Stability Agreement (PSSA), the 'new entrant' salary scale agreement[11] and other pay pressures (increments, etc.). However, in An Garda Síochána, management of overtime pay has been a long-running issue, and is one of the primary reasons for the anticipated Supplementary Estimate in 2018. The 2018 Spending Review paper 'Overtime Spending in An Garda Síochána' found that this type of spending increased by 185% from 2013 to 2017.[12] It is likely to have peaked again in 2018, given the additional expenditure included in *Expenditure Report 2019*. Discretionary and administrative overtime was cut in September 2018 in an attempt to limit the overspend under the overtime budget.[13] The new Garda Commissioner has stated that it is regrettable that overtime has "grown quite considerably over recent years" and that he hopes to have an overtime budget of over €90 million in 2019, compared to €132 million in 2017 and €98.5 million as an opening position in 2018 (though a Supplementary Estimate is expected in 2018, related partially to overtime).[14] While this would amount to a decrease on recent years (since 2016), it would nonetheless equate to 8% of the amount allotted to total pay (€1,122 million) as set out in the Abridged Estimates 2019 while overtime in England/Wales and Scotland is in the 2-3% range.[15] Overtime in 2017 constituted an average payment of €9,000 to Gardaí. For a Garda on the midpoint of the post-1995 scale (€48,000) that constituted an uplift of nearly 20% with another 20% payment relating to allowances bringing their remuneration to €66,000 per annum.[16] In Q1 2018, Garda average weekly earnings were €1,363, which would equate to €70,883 per annum.[17]

Figure 4: Increase in gross exchequer pay expenditure, 2019 over 2018, € millions.



Source: Expenditure Report 2019, p. 166.

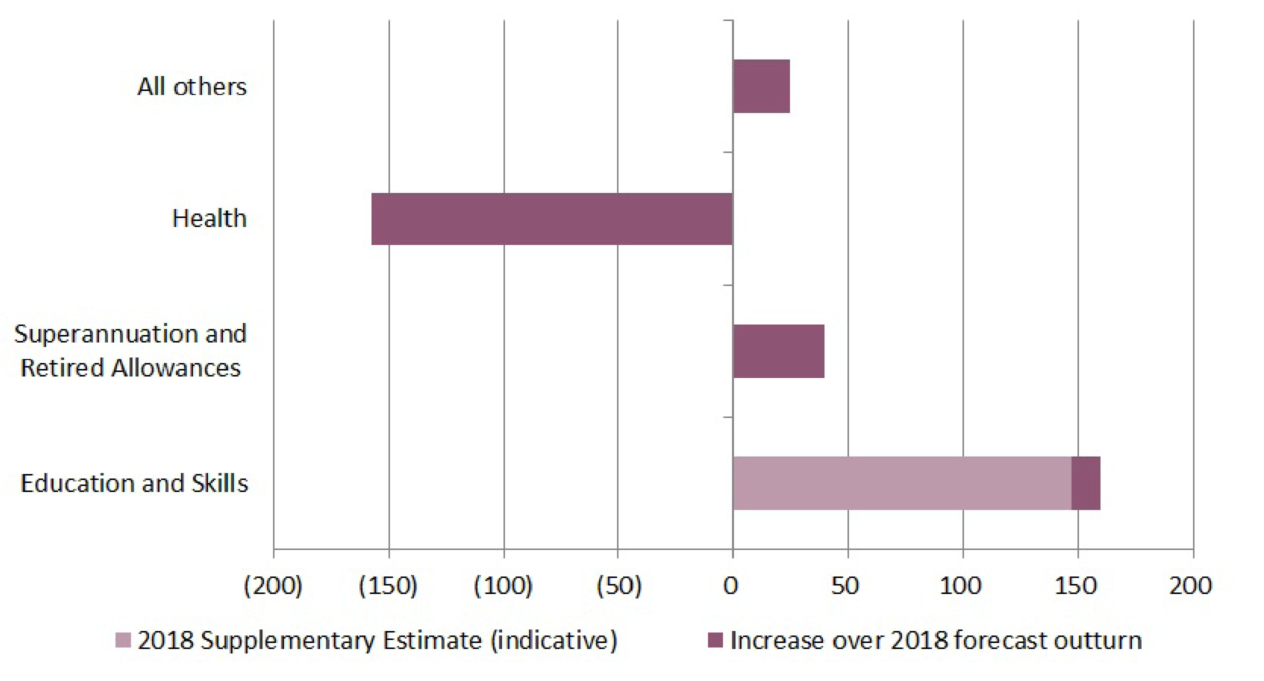
11 No official title has been announced for this agreement, but the Department of Public Expenditure and Reform is expected to publish a detailed circular prior to its effective date of March 2019.
12 'Overtime Spending in An Garda Síochána: Efficiency and Control', Dormer, IGEES, p. 4.
13 See, for example: 'Drew Harris cuts garda discretionary and administrative overtime', RTÉ
14 Appearance of the Garda Commissioner before the Oireachtas Joint Committee on Justice and Equality on 24th October 2018, p.35 and 'Overtime Spending in An Garda Síochána: Efficiency and Control', p. 29.
15 'Overtime Spending in An Garda Síochána: Efficiency and Control', Figure 5.1.
16 Ibid, p.19.
17 CSO, Table EHQ10.

Pensions

The most striking change in relation to pensions is the significant fall in the Exchequer cost of pensions under Vote 38 (Health). However, *Expenditure Report 2019* is not clear about the exact significance of this change. A footnote in Vote 38 states that "the Exchequer Pensions figure for 2019 is net of Pension incomes".[18] This deduction is not applied to the 2018 figures, so a year-on-year comparison of pensions expenditure may be misleading. Further contextual information is needed for meaningful year-on-year comparisons, particularly in relation to:

- The level of pensions income that is netted against the subhead in the Vote; and,
- Where this income was recorded previously.

Figure 5: Pensions Gross Voted Expenditure, 2018 to 2019, € millions.



Source: *Expenditure Report 2019*, p. 167.

Based on current documentation, it is not clear what this change to the Health Vote means for the level of pension expenditure. It may be that this change to the reporting of pension income is masking some of the year-on-year expenditure growth, as pension expenditure in the Health Vote appears to drop significantly year-on-year which is unlikely to have occurred in reality. There has not been a decrease in the number of pensioners funded by the Health Vote, so expenditure is highly unlikely to have dropped in reality. In fact, the largest increase in pensioner numbers (1,870) under any single Vote is expected to occur under the Health Vote in 2019.[19]

It would assist the Houses of the Oireachtas and its committees in its scrutiny of Voted expenditure if further details of this change could be published with the *Revised Estimates for Public Services 2019* as this would facilitate more effective year-on-year and trend analyses. The exact amount of pensions income that produces the new net figure could also be detailed, and where this income was previously recorded could be clearly set out.

18 Expenditure Report 2019, p. 217.

19 *Ibid.*

Brexit

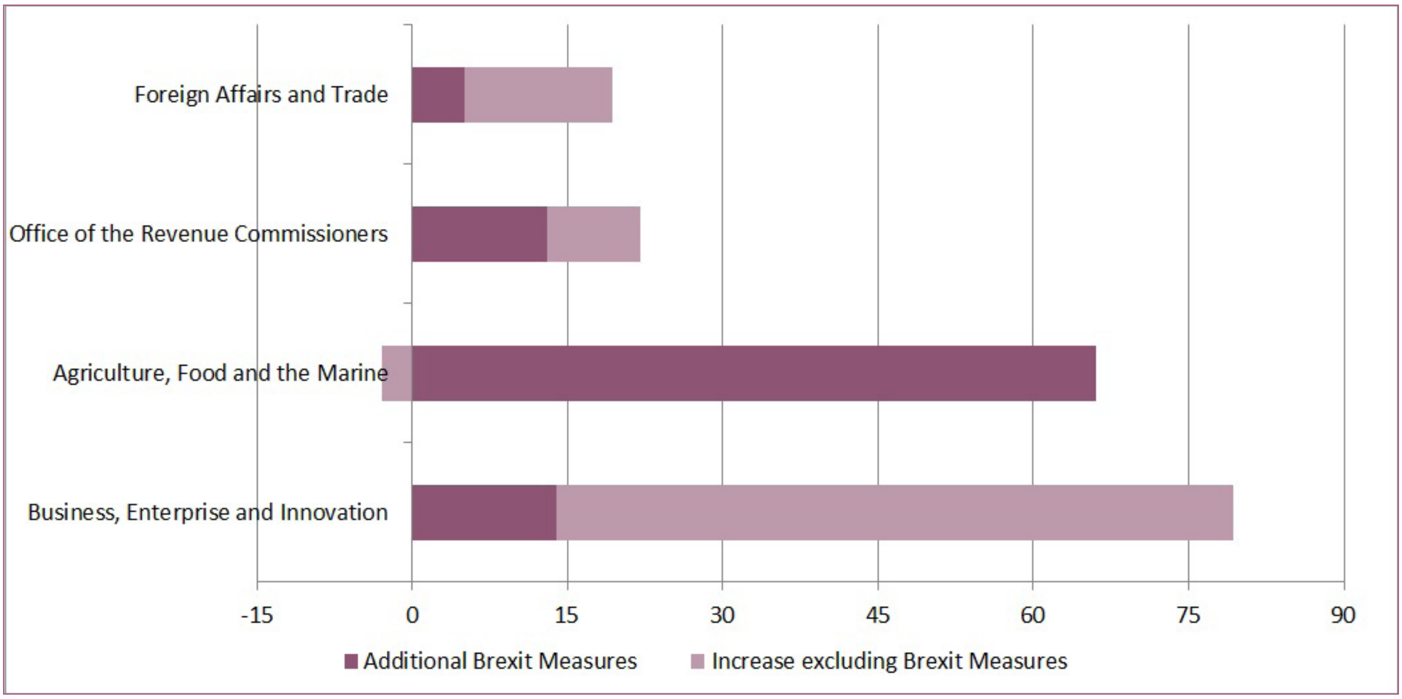
Brexit plans are mostly dealt with in Part II of the *Expenditure Report, Expenditure Allocations 2019-2021*. The following Departments have indicated that €92 million in total will be spent on new measures targeting Brexit:

- Agriculture, Food and the Marine;
- Business, Enterprise and Innovation;
- Foreign Affairs and Trade;
- Finance (for the Revenue Commissioners); and,
- Transport, Tourism and Sport.

Figure 6 illustrates the additional measures highlighted in *Expenditure Report 2019* that are labelled as connected to Brexit. However, in Agriculture, Food and the Marine in particular, Brexit related measures are not clearly separated from other departmental policy priorities. In fact, the expenditure earmarked for additional measures in 2019 in that Department exceeds the additional funding to be received in 2019 by €8 million. This may mean that the Department is expecting reduced expenditure in other areas. The allocation in Transport, Tourism and Sport is not detailed financially in the *Expenditure Report*.

The Office of the Revenue Commissioners is providing for a substantial staffing increase with an extra 270 staff; the increase in pay is estimated to cost €10 million in 2019, while IT resources are estimated to cost €3 million. It is unlikely that the €10 million is a full year cost (i.e. the 270 staff are unlikely to be in place by 1 January 2019), and the ongoing cost seems likely to be higher. Contingency staffing requirements for a no-deal Brexit have reportedly been significantly higher than this figure.[20]

Figure 6: Additional measures *in Expenditure Report 2019* clearly related to Brexit, € millions.

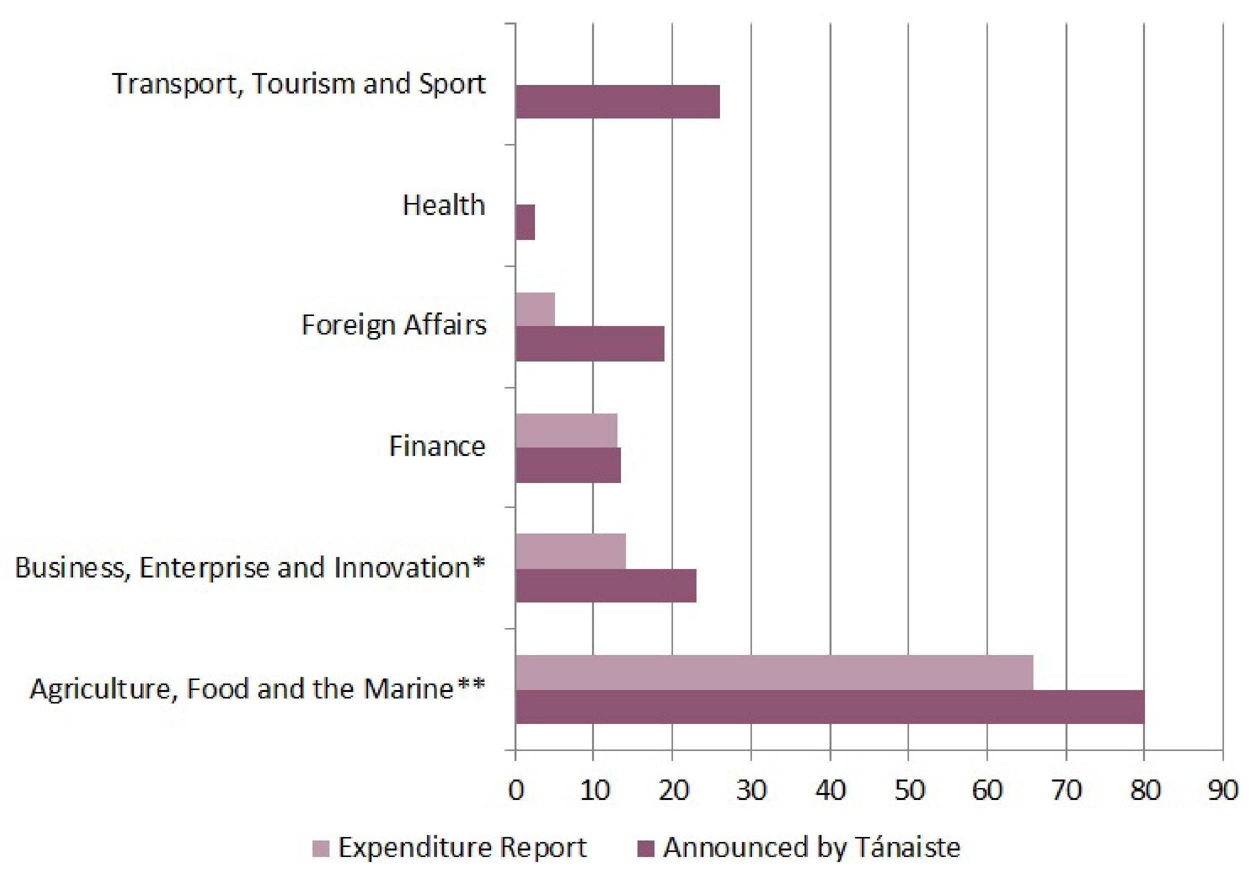


Source: *Expenditure Report 2019*, p.p. 47, 52, 57, 96, 103 and 163.

20 The *Expenditure Report 2019* projects that the Agriculture Vote will see an increase of 162 staff in 2019 - this is an area that has also been mentioned in relation to Brexit staffing.

Alongside the official budget documentation, the Department of Foreign Affairs and Trade has also announced a 'Brexit package'.[21] The measures announced by the Tánaiste differ to those detailed (under 'new measures') in the *Expenditure Report 2019* and include a number of allocations that were not described in the Budget documentation itself. Further clarity about Brexit-specific measures as part of the Revised Estimates for Public Services would make the impact of preparations for 2019 more transparent to the Dáil when approving estimates for 2019. In addition, it is not currently clear whether a change from the 'orderly' Brexit scenario on which the Government's macroeconomic and fiscal forecasts underpinning Budget 2019 are based would require a change to the published expenditure estimates for 2019 (i.e. whether a 'disorderly' Brexit scenario would necessarily result in significant Supplementary Estimates in 2019).

Figure 7: Comparison of measures detailed in *the Expenditure Report 2019 and those* announced by the Tánaiste on Budget night, €millions.



Source: *Expenditure Report* and Department of Foreign Affairs and Trade

* The Department of Business, Enterprise and Innovation has also announced a Future Growth Fund worth €300 million, but the 2019 implications of this are unclear based on *Expenditure Report 2019*. The Department of Education and Skills is also implementing a Human Capital Fund, but this is being implemented in January 2020.

** The Department of Agriculture, Food, and the Marine announced a total package of €80 million. Separately €7 million for sanitary and phytosanitary inspectors was announced. It is not clear whether the €80 million includes the €7 million, but given it already exceed the additional resources available to the Department (which was €63 million), the PBO has taken the more conservative figure of €80 million in total.

21 'Tánaiste and Ministers announce package of Brexit Readiness measures from Budget 2019', Department of Foreign Affairs and Trade.

Demographics

Demographic changes have an impact on the demand for public services, and can either increase or decrease the cost of providing existing services. As part of the budgetary process, the government must make provision for these changes on an ongoing basis.

However, the provision made in respect of demographics in *Expenditure Report 2019* is not clear. A range of estimates, from different sources (see Table 2), are provided that conflict with each other. Demographic pressures are alluded to in the budgetary documentation without being systematically and clearly set out. The *Expenditure Report 2019* takes the *Mid-Year Expenditure Report 2018* figure in respect of 2019 as its starting position, without specifically detailing the demographic costs included.[22] Elsewhere, the *Expenditure Report 2019* sets out that the IGEES paper, *Budgetary Impact of Changing Demographics 2017-2027* is its source for the likely additional costs (€435 million) arising out of demographic pressures in 2019.[23]

In its analysis of the Spending Review 2018, the PBO compared the projections from IGEES to those more recently produced by IFAC. Table 2 updates this with information from the *Mid-Year Expenditure Report* and *Expenditure Report 2019*.

Table 2: Projected cost implications of demographics, 2019-2021.

Projections	2019	2020	2021
IGEES (2016)	€0.428bn	€0.435bn	€0.148bn
Expenditure Report 2018 (2017)	€0.53bn*	€0.48bn	N/A
IFAC (2018)	€0.55bn	€0.67bn	€0.67bn
Mid-Year Expenditure Report 2018 (2018)**	€0.4bn	€0.4bn	€0.5bn
Expenditure Report 2019 (2018)	€0.435bn	€0.45bn	€0.46bn

Source: PBO, Analysis of Spending Review 2018, p. 20, Mid-Year Expenditure Report 2018, p. 4, and Expenditure Report 2019,[24] p. 45.

*Includes amounts in respect of the Rural Development Programme (RDP).

** Figure is net of live register savings of €50 million.

As Table 2 illustrates, while Expenditure Report 2019 references Budgetary Impacts of Changing Demographics, 2017-2027 as its key source for demographic effects, the allocation for demographic effects in 2021 is substantially higher (210%) than those forecast in the IGEES paper but close to the *Mid-Year Expenditure Report* (MYER) 2018. The reasons for this discrepancy are not set out in either the *Expenditure Report 2019* or the MYER 2018. However, the higher allocation set out in the MYER 2018 and the *Expenditure Report 2019* (Table 9) appears to exclude the pre-planned saving in 2021 and 2022 in relation to the changing pension age which should see the demographic cost fall to €148 million in both these years. As this is explicitly referenced in the *Expenditure Report 2019* (p.21) it is unclear what basis there is for this higher figure or whether it is an error.

The MYER 2018 states that "all other demographic costs will be revisited during the Estimates process and adjusted accordingly at that point".[25] *Expenditure Report 2019* is not clear about what the outcome of this review was, other than that an additional "€0.29 billion arising primarily from additional reductions in Live Register expenditure and expenditure on employment supports" is being used to fund demographic pressures and other expenditure measures.[26] These reductions are presumably being utilised to reduce the allocation that would have been required by the Employment Affairs and Social Protection Vote Group in 2019 but what proportion is being used to addressed demographics specifically is not detailed.

22 *Expenditure Report 2019*, Table 9, p. 45.
23 *Ibid*, p. 21.
24 *Expenditure Report 2019* states that the IGEES paper (2016) estimates a demographic cost of €435 million for 2019. However, this appears to be an error, as the paper estimates €428 million for 2019 and €435 million for 2020.
25 *Mid-Year Expenditure Report 2018*, p. 5.
26 *Expenditure Report 2019*, p. 39.

Assuming that the MYER 2018's allocation for demographic changes in the Health, Employment Affairs and Social Protection, and Education and Skills Ministerial Vote Groups[27] remain unchanged in the *Expenditure Report 2019*, the MYER's opening position can be used to calculate the demographic pressures in these Vote Groups.

Table 3 shows the combined changes implied by the MYER and selected measures where Demographic adjustments are noted in the Expenditure Report. This is the PBO's own calculation based on the *Revised Estimates for Public Services 2018*, the *MYER 2018* and *Expenditure Report 2019* but this is not specifically set out anywhere in these documents. Therefore, the exact amount of additional demographic costs arising in 2019 is not clear in the Expenditure Report, other than where it is specifically referenced under Vote Group chapters in the 'Expenditure Allocations' section of the report.

The publication in December of the *Revised Estimates for Public Services 2019* therefore presents a further opportunity to provide the Houses of the Oireachtas with more detail about the impact of demographics on (at least) the three main demographically driven Vote Groups of Health, Education and Skills, and Employment Affairs and Social Protection. Where the projections made by the 2016 IGEES paper have changed, this should also be detailed – especially concerning the demographics allocation for 2021.

Table 3: Demographic adjustments in the Ministerial Vote Group Ceilings for 2019.

Vote Group	MYER 2018 Demographic Adjustment	Expenditure Report 2019 Demographic Adjustment	Total Estimated Demographic Adjustment
Health	124	0	124
Social Protection	241	0	241
Education and Skills	49	21*	66*
Total	414	21	431

Source: *Revised Estimates for Public Services 2018*, *Mid-Year Expenditure Report 2018*, *Expenditure Report 2019*.

* Total Education and Skills adjustment for demographics is stated to be €66 million in the *Expenditure Report* (see p. 77). However, the additional demographic measures in the *Expenditure Report* sum to €21 million while the MYER included an adjustment in the Ministerial Ceiling of €49 million, which sums to €70 million. In Education and Skills, €16 million is included under "Demographics and additional carryover"; this may result in the figures not summing correctly, as other carryover items are included.

27 *Mid-Year Expenditure Report 2018*, p. 5, says "Health, Social Protection and Education [are] where amounts are included in respect of demographics".

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