

# **Minister for Public Expenditure and Reform Brendan Howlin, T.D.**

## **Address to Dáil Éireann on Expenditure Estimates 2012**

**Monday, 5<sup>th</sup> December, 2011**

### **Introduction**

As I begin, I would just like to say that I am conscious that the last Minister who stood up here to announce the Government's spending plans was the late Brian Lenihan. I believe that it is appropriate that his commitment to his country and the public interest should be acknowledged here today.

Tomorrow Minister Noonan will deliver his first Budget as Minister for Finance.

Today I am, on behalf of the Government, announcing the Expenditure Estimates which will complement tomorrow's announcements. I would like to thank my parliamentary colleagues for facilitating this changed arrangement. The change is not simply about two Departments and two Ministers. Our budgetary process, as I will outline later, is about to change fundamentally.

I would like to thank all of my colleagues in Government for their support during this process. This is a collective effort, with all members of the Government involved.

### **Economic and Fiscal Context**

There is no hiding from the fact that, as a Government, we must take very difficult decisions. But these are decisions that we must take in the long-term and strategic interests of the State and its citizens.

We are going through a painful process of adjustment. Public anger is acute because the public was not responsible for putting us in this position. Twelve months on from the arrival of the Troika we have seen some improvement. Our position has stabilised. Twelve months ago we were Europe's problem. Now problems in the European and global economy threaten our recovery. As a Labour Minister I never expected that I would be making the type of announcements I am making today. We have been forced to make difficult and unpalatable decisions. But we, as a Government, are committed to being honest and upfront with people in the hard choices that we must make.

We have a significant fiscal deficit which needs to be closed. This is understood by all. We are bound by our commitments to our international partners. They are our lenders of last resort. For now, we depend on them to pay our way. Our country has suffered the greatest economic crisis in living memory leading to a large fall in Exchequer revenues. Tax revenues fell from €47¼ billion in 2007 to €31¾ billion in 2010, a fall of one-third in just three years. We are now re-building our revenue base but we do not have the resources to fund all the services that we would like to provide.

### **The Structure of Spending**

The Minister for Finance has published the Medium-Term Fiscal Statement, which sets out the contribution to our consolidation effort from the different elements of the Budget: taxation and current and capital spending.

For 2012, we have to implement a fiscal consolidation of €3.8 billion to deliver a deficit of 8.6% of GDP. Of the total adjustment, €2.2 billion, or just less than 60%, will be on the expenditure side of the account with the remainder of the adjustment being implemented through revenue measures.

Capital spending will contribute €755 million to the consolidation of expenditure in 2012. Despite the difficult Budgetary parameters, the Capital Investment Programme for 2012-16 will amount to approximately €17 billion, including €3.9 billion next year.

Day-to-day expenditure from the Exchequer will contribute about €1.4 billion to this consolidation which is equivalent to 2.7 % of total current spending. As an indication of the Government's determination to alleviate the burden caused by measures announced today, this is €300 million less than provided for in last year's National Recovery Plan - despite the upward revision in our overall consolidation.

### **Spending Pressures**

Over the period 2009 to 2012, nominal current voted spending will be down from its peak by almost 7 %.

These reductions are at a time when we are facing increased demand for public services and when there are significant spending pressures.

In a recession, the Government is a spender of last resort. Our spending is by necessity greater than our income. Government cannot simply abandon people who are dependent, sometimes critically, on public services.

This is an important point. Despite reductions in overall numbers of public servants and public spending we are delivering considerably more financial supports and services to our people. It is a point frequently forgotten in public debate.

The pressures on our social welfare budget are enormous. The financial allocation for jobseekers' payments alone is now over three times the 2006 level.

The demand for health services has also increased, and the number of medical card holders has increased by more than 500,000 since 2007.

In the Education sector, demographic pressures mean that we need more teachers and class rooms to accommodate more children. This is unavoidable.

The provision for State Pensions has increased from €3.7 billion in 2007 to a projected outturn this year of €4.7 billion. We will need to continue to increase this financial allocation year-on-year due to our demographic profile. In 2012 an additional allocation of €175 million will be required.

While acknowledging these pressures, Government spending must nevertheless fall next year and in each subsequent year to 2015.

### **Comprehensive Review of Expenditure**

Today's expenditure announcements are driven by a Comprehensive Review of Expenditure, carried out by Government over the past eight months.

The Review entailed root-and-branch analysis and assessment of all programmes of expenditure, in an attempt to identify priorities for scarce resources in the years ahead. Everything was looked at and options for savings drawn up by all Government Departments.

I should also say that today does not mark the end of the expenditure reviews. Rather, it is a first step. We must constantly, and consistently, monitor and review public expenditure. We can't afford not to. We have decided that a fresh CRE-type exercise should be conducted on a regular basis, to re-set the multi-year expenditure ceilings in line with emerging Government priorities, and informed by new evaluations of which expenditure programmes are delivering value-for-money. To this end, it is anticipated that the next CRE will be undertaken in 2013/14 to inform the next phase of fiscal planning. The Government has a shared determination to ensure that the taxpayers receive value for money for their investment in our public services.

Of course, the fact that there was a detailed and careful review of options does not make the difficult choices any easier given the structure of spending. Spending on social supports makes up 38% of current spending. Public Service pay comprises 30% and Public Service pensions 6%. All other programme expenditure makes up the rest.

From a sectoral perspective, the vast bulk of Government current expenditure is accounted for by three core areas of Healthcare; Social protection; and Education. Together, these components make up over 80 % of total current spending.

We cannot make the savings that we need to make, without touching sensitive policy areas.

### **GUIDING PRINCIPLES**

The expenditure decisions announced today reflect the need to prioritise. With this in mind, the difficult decisions made were based on three guiding principles: Fairness; Jobs; and Reform.

#### **Fairness**

We must ensure that the burden of recovery is shared fairly and that the most vulnerable in our society are protected as far as possible. We need to maintain social solidarity in the face of difficult times.

My colleague, the Minister for Social Protection, recently referred to the challenge of social inclusion in an environment where unemployment has increased, incomes have fallen and the revenue available to Government to fund public services has decreased. Despite this, the Government remains committed to building a socially inclusive and fair society and we are determined to do our utmost to protect the most vulnerable people in Irish society.

#### **Jobs**

Central to all this is jobs. We need to keep people working and get others back to work. Budget 2012 makes further inroads to dismantling barriers to employment, complementing progress on re-orienting labour market activation and training policy.

The Government recently committed to deliver a multi-annual Action Plan for Jobs, with quarterly targets for delivery every year and a monitoring group to

oversee implementation. The Action Plan for Jobs will address seven principal areas:

1. Improving competitiveness and intensifying competition in sheltered sectors;
2. Supporting indigenous start-ups;
3. Assisting indigenous business to grow;
4. Attracting inward entrepreneurial start-ups;
5. Developing and deepening the impact of Foreign Direct Investment;
6. Developing employment initiatives within the community; and
7. Exploiting sectoral opportunities, identified as priorities.

The Government shortly will be publishing a policy statement on labour market activation: "Pathways to Work". In it we set out our strategy to reform labour market activation policy to prevent the drift into, and help the reduction of, long-term unemployment.

During 2012 we will prioritise places, including in the further education and training sector, specifically for those on the Live Register for 12 months or more. We will also provide for a further roll-out of the "Springboard" initiative, to provide conversion courses to up-skill and re-skill unemployed people to meet skills shortages in new and emerging sectors.

I am also providing for an allocation of €20 million for a new Labour Market Activation Fund. This fund, which will be specifically targeted at the long-term unemployed, will deliver upward of 6,500 places next year.

### **Reform**

Reforming how Government works to reduce costs and protect front-line services is also a guiding principle. This Government is a reforming government. We have already:

- Reduced the pay of the Taoiseach and Ministers;

- Reduced allowances and secretarial supports for former Taoisigh;
- Reformed Ministerial transport arrangements;
- Changed pay and conditions for senior public servants;
- Reduced the number of Oireachtas Committees;
- Cut the overall costs of special advisors to Ministers;
- Taken measures to significantly reduce future Public Service pensions costs;
- Produced a significant programme of agency rationalisation;
- Cancelled many parts of the ill-conceived decentralisation programme;
- Standardised annual leave arrangements for serving and new public servants; and
- Launched the most ambitious programme of Public Service reform since the foundation of the State, to improve customer service and reduce costs.

We are also pushing ahead with reforms of other areas of public service, including the Oireachtas, and are insisting upon greater openness, transparency and accountability, underpinned by legislative change where necessary.

### **PUBLIC SERVICE PAY AND NUMBERS**

Today I am announcing that the public service pay bill will fall by €400 million in 2012. By the end of this year, the numbers employed in the Public Service will be below 300,000. Next year, the Government plans to reduce the size of Public Service by a further 6,000.

By any standards, this reduction of 37,500 or 12% of staff, against 2008 levels, by 2015, is significant and poses enormous challenges. Reform of everything we do is required to deliver adequate services as we reduce numbers. Proactive workforce planning is also essential to respond to these reduced numbers and to ensure that the right people with the right skills-set are in the right place. To this end, I am pleased to announce that there will be

some limited recruitment in to the Public Service in early 2012. Critically, I want to move towards more targeted recruitment across a range of disciplines to enhance the skills and expertise available to policy makers in the coming years.

Through reduced numbers, through the pay cuts that were applied in 2010 and through the ongoing pension related deduction, the overall cost of paying public servants will have fallen by €3.5 billion, or 20%, over the 7 year period from 2008 to 2015.

In discussing public service pay, it is important to acknowledge that public servants have already seen significant reductions in their pay. The impact of the pay reduction on the gross pay of public servants was progressive and ranged from almost 9% at Clerical Officer Level to over 23% at Secretary General Level. On a similar basis, a Teacher would have incurred a reduction of 12%, a Staff Nurse over 10.5%, a Garda over 11% while a middle-ranking public servant at Higher Executive Officer level would have sustained a reduction of 12.3%.

And these figures do not include the various tax changes that have been introduced across the board in recent years.

That said, the Croke Park Agreement simply has to deliver. We have made a good start but we have a way to travel yet.

I expect all public service bodies to address inefficiencies in their systems, and achieve additional cost savings, through the introduction of new working arrangements, including new rosters where applicable. In 2012, Public service bodies will have to achieve savings in respect of overtime of 10% and in allowances and premium payments of 5%. My Department will lead a review of allowances and premium payments across the public service, in consultation with all Government Departments, in early 2012.



I can also now announce plans to overhaul public service paid sick leave arrangements, and discussions between my officials and the unions will commence shortly in this regard.

### **PUBLIC SERVICE PENSIONS**

We have been reducing public service pension levels. These are very significant measures, the nature and scale of which needs to be fully appreciated.

In September, I published legislation to introduce a new single public service pension scheme for new entrants to the service. It is estimated that, by the middle years of the century, annual spending on public service pensions will be about €5 billion per annum in 2010 terms, if no action is taken. The new single scheme will reduce this annual expenditure by about 35% or €1.8 billion.

No further cuts for ordinary public service pensioners are proposed.

### **KEY CURRENT SPENDING DECISIONS**

Details of all spending decisions taken by the Government are included in pages 21 to 88 of the spending report. The detailed Estimates are also published. The relevant Ministers will also provide further details later.

In this announcement I propose to set out some of the key savings measures.

### **Social Protection**

As I mentioned earlier, I believe that we have a duty to protect the most vulnerable in our society, and to provide the safety net of social protection in what are very extraordinary times. We must also get people back to work and I have already set out some of our plans in this regard. Minister Noonan will discuss a range of other proposals tomorrow.

The sharp reality that this Government is facing is that the level of social welfare expenditure now in place cannot be sustained from the funding base now available. As unpalatable as it might be, we must make some difficult choices in order to contribute to the reduction of the budget deficit.

Notwithstanding this, I can confirm today that the Government has decided:

- not to reduce any weekly rate of social welfare payments; and
- to protect the universal child payment at a standard rate.

We will endeavour to make savings from a range of measures, which will save €475 million in the Social Protection area in 2012. This is €190m less than set out in the National Recovery Plan.

- Over two years we will standardise the rates of payments of child benefit for all children. This will save €43 million next year;
- We have decided to base the payment week for jobseekers' benefit on a five-day week rather than the existing six-day week basis. This will save €5.9 million next year. From January 2013, employment on a Sunday will be taken into account when determining the level of entitlement to jobseeker's payments;
- The Government has decided to reduce the fuel season from 32 to 26 weeks. This will save €51 million next year;
- Changes to the one-parent family payment will save €20.7 million;
- Changes to the redundancy and insolvency scheme, to reduce the employer rebate from 60% to 15% will save €81 million;

- Increasing minimum contributions and reviewing rent limits will yield savings of €55 million in rent supplement; and
- Changes to the present system of concurrent payments will save €21.8 million in 2012.

Full details of the specific social welfare measures are set out in the Expenditure Report along with a number of other changes to social welfare schemes and entitlements. My colleague, the Minister for Social Protection will expand on these measures later today.

### **Health**

Expenditure on the Health budget will be 26% of current expenditure and the sector comprises around one-third of all public service employment. The scale of the resources being invested means the sector must continue to make a significant contribution to closing the deficit.

At the same time, the Government is very aware of the fact that the ageing population is already placing demands on essential health and personal social services. We will be using the reform programme to address these demands within the limited resources we have available. One of the main aims of the Comprehensive Expenditure Review for Health was to reduce, as far as is possible, the negative impacts on essential frontline services of the savings required to meet the budgetary targets and to facilitate real reform of health services so that we can improve the quality and quantity of services in the medium to longer term.

I am allocating €13,644 million for Health in 2012. This will allow the health care system to meet the demands placed on it and, in particular, accommodate the continued growth in demand-led schemes such as medical cards and long-term care.

As part of this, I am allocating an additional €50 million to fund implementation of the Programme for Government commitments on mental health and access to GP care. €35 million of this is being made available for the development of community mental health teams and services as outlined in “A Vision for Change”. €15m will fund access to primary care without fees to claimants of free drugs under the Long Term Illness Scheme.

This is the first step towards the Government’s objective of introducing major reforms to the Health system.

We must reduce our cost base and increase efficiency to enable health service provision that delivers its essential services effectively, professionally and compassionately. We must strive to make savings that do not impact on frontline services. Today I am announcing a total of €543 million in net savings in the Health area which, in addition to reducing our deficit, will be used to meet unavoidable pressures in Health, as well as the extension of key services in some areas. We will:

- Reduce numbers and contain pay costs, to save €145 million;
- Introduce measures to reduce the price of drugs, such as reference pricing and generic drugs, and reduced fees for services, to save €112 million;
- Increase the monthly threshold from €120 to €132 under the Drug Payment Scheme, to save €12 million;
- Ensure efficiencies in procurement by active management and control of both price and volume of usage which will save €50 million;
- Improve the generation and collection of private income in public hospitals to save €143 million; and

- Secure 2% efficiencies in disability, mental health and childrens' services, saving €50 million.

Details are set out in the Expenditure Report and the Minister for Health will provide further details on these measures later.

### **Education**

Education expenditure, including the National Training Fund (NTF) will comprise around 17%, or €8,604 million, of all current expenditure next year, and will continue to be a priority of this Government. At a time of resource constraints, we must invest in education and training and prioritise those programmes that deliver the best results and meet the requirements of children, parents, the disadvantaged and the labour force.

We will continue to provide a full programme of training and further education through SOLAS, the VECs and other educational bodies. These programmes will be actively focused on helping the unemployed return to the labour force. We will continue to make substantial provision for children with special needs in terms of resource teachers and special needs assistants.

We have had to make the difficult decision to increase student contributions in order to protect the higher education sector from what would otherwise have been greater cuts in that area. While we have had to make savings by abolishing student support for some new post-graduate students, we will make a contribution towards the fees of the post-graduate students from the lowest income backgrounds. Substantial allocations will also continue to be made to assist students from lower income backgrounds to achieve an undergraduate qualification.

The Department of Education and Skills will continue the drive to reduce administration costs by proactively pushing rationalisation, efficiencies and economies in budgets, including the rationalisation of VECs, the optimal configuration of school provision, reviewing allowances, the establishment of a

single awarding authority for student grants and the merger of various educational bodies.

The measures in the Education area which I am announcing today will save €132.3 million in 2012. This will allow the necessary expenditure targets to be met but will also provide the Minister for Education and Skills with the necessary resources to pursue important policy initiatives such as Junior Cert Reform and implementation of the Literacy and Numeracy Strategy. The 2012 savings measures include:

- A requirement for Post Primary Schools to manage guidance provision from within their existing Pupil Teacher Ratio allocations will save €10.4 million;
- A reduction in capitation grants to schools by 2% will make savings of €7 million;
- Phased withdrawal from 2012 of supports in some schools from earlier disadvantage schemes, pre-dating the current DEIS educational disadvantage programme in schools, will make savings of €6.5 million;
- Reduction of costs associated with trainee and apprenticeship schemes will yield €19.2 million savings;
- A 2% reduction in core funding for higher education will secure savings of €23.6 million;
- Increase of €250 in the third level student contribution will secure savings of €18.5 million; and
- Changes to fee and maintenance supports for new post-graduate students and reducing maintenance grants generally will deliver savings of €12.6 million.

### **Other Areas**

These three key areas – social protection, health and education - contain measures that will yield savings of over €1 billion in 2012.

Most other Departments will also experience reductions and the details are set out in the Expenditure Report. Selected measures include:

- The Department of Agriculture, the Marine and Food – measures amounting to savings of €105 million;
- The Department of Transport, Tourism and Sport – measures amounting to €45 million; and
- The Department of the Environment, Community and Local Government – measures amounting to €34 million.

Of course, other Departments are also making a contribution to lower spending.

### **Overall Spending Ceiling**

These measures are significant. Taking account of offsetting spending pressures, the Government's decisions will reduce public spending to €55.8 billion in 2012 compared with €57.7 billion in 2011. As part of a new approach to budgeting I am setting out the overall expenditure envelope for each year to 2014, with spending ceilings of just under €54 billion for 2013 and just under €52 billion for 2014.

Full details of the allocations for each Department are set out in Part 2 of the Expenditure Report.

## **Reform of the Budgetary Process**

Correcting our public finances inevitably involves very difficult decisions for the Government. But this year's Comprehensive Review of Expenditure has not just been about identifying cutbacks. There is a much more fundamental problem that we are now tackling.

The fact is that Ireland's traditional system of budgeting no longer works for us. The old budgeting system that we have inherited from our past is secretive and opaque. It has not led to sustainable spending policies, to proper Value for Money, or to good outcomes for our citizens.

Under our Programme, the Government is committed to bringing about a major transformation of Ireland's old-fashioned budget system. The key elements of the reform agenda have been outlined in the plan for *Public Service Reform* which I announced on November 17<sup>th</sup> last. Today, in the *Comprehensive Expenditure Report* that I am presenting to the Dáil and to the public, I am pleased to announce that these expenditure reform measures are being implemented across all fronts.

In brief, the main features of the new budgetary architecture are as follows.

*First, this Government will Plan for Sustainable Public Expenditure.* The Government's spending plans, along with our tax plans, are anchored in a clear vision for how the public finances will be managed over the coming years. A sustainable expenditure plan will build confidence, at home and abroad, about our commitment to deliver our public services in a responsible and achievable way.

*Second, we will introduce a Modern, Multi-annual Expenditure Framework.* The annual Estimates 'campaign,' conducted privately within the system of public administration, is being replaced by a medium-term framework with transparency about the allocations available to each Department over the



three-year period. This will open the way for proper structural planning, based on priorities and upon reform, with full public input and Dáil oversight.

*Third, we will introduce Evidence-based Expenditure Policy.* In a time when resources are exceedingly scarce, old expenditure lines are no longer sacrosanct, and all areas of spending must be subject to rigorous scrutiny. As part of this year's Comprehensive Review, all areas of spending have been examined. The momentum from this process must be maintained, however. A tough, clear new Value for Money (VFM) Code is also being launched today, to re-double the processes for ongoing scrutiny and evaluation across the entire Irish public service.

*Fourth, we will build Performance Information into the annual Estimates.* This year, for the first time, most Departmental Estimates will be presented in a new format, so that performance information can be scrutinised by Dáil Committees at the same time that public money is being requested.

*And Fifth, we will Enhance the Role of the Oireachtas.* All of these reforms support Oireachtas members, as representatives of the public, in holding Government to account. The Government is also moving to a new 'whole of year' budgetary timetable to allow for Dáil Committees to engage earlier, and more fully, on Estimates allocations before they are settled for the year.

## **Conclusions**

This Government is in effect a national Government containing the two largest parties in the State. It provides the stability necessary to plan and work our way out of this crisis. It won't be easy. And we will not resolve our problems overnight.

No Government, whatever its numbers, wants to be the bearer of bad news. But, our options are extremely limited. The public knows this. It is wary of those who offer simplistic options.

We are at the start of a reform process. Today and tomorrow are significant days in that process but our work is ongoing.

Our resources are now more scarce but we do have some choices. And this Government is choosing to divert those scarce resources – albeit not at levels we previously enjoyed – to those areas of the economy and society where they are needed most.

Today, despite the tough decisions we have had to take, we have been able to maintain core social welfare payments including jobseekers allowance and state pensions. We have maintained family income supplement, carers' entitlements and disability allowances, our support for special needs assistants in our schools and the pupil teacher ratio in the primary sector.

Tomorrow my colleague, the Minister for Finance, will announce his first Budget. This should be viewed in conjunction with the measures I have outlined today.

As a country we have already endured four years of hardship. Yet we remain an innovative and creative people. Faced with a more benign European economy and with clear and determined leadership this nation will prosper again.

**ENDS/**