Comprehensive Expenditure Report

2015 - 2017

BAILE ÁTHA CLIATH
ARNA FHOILSIÚ AG OIFIG AN tSOLÁTHAIR
Le ceannach díreach ó
FOILSEACHÁIN RIALTAIS,
52 FAICHE STIABHNA, BAILE ÁTHA CLIATH 2
(Teil: 01 - 6476834 nó 1890 213434; Fax 01 - 6476843)

DUBLIN
PUBLISHED BY THE STATIONERY OFFICE
To be purchased from
GOVERNMENT PUBLICATIONS,
52 ST. STEPHEN'S GREEN, DUBLIN 2.
(Tel: 01 - 6476834 or 1890 213434; Fax: 01 - 6476843)
or through any bookseller.

(€10.00)

Table of Contents **PAGE**

Executive Summary **5**

PART I Report of the 2014 Comprehensive Review of Expenditure

I.1 Introduction **9**
I.2 Public Expenditure Management: Constraints, Pressures and Reform **13**
I.3 Government Expenditure in Ireland: Support, Services and Investment **23**

PART II Expenditure Allocations 2015-17

II.1 Expenditure Overview **31**
II.2 Department of Agriculture, Food and the Marine **41**
II.3 Department of Arts, Heritage and the Gaeltacht **45**
II.4 Department of Children and Youth Affairs **49**
II.5 Department of Communications, Energy and Natural Resources **53**
II.6 Department of Defence **57**
II.7 Department of Education and Skills **61**
II.8 Department of the Environment, Community and Local Government **65**
II.9 Finance Group of Votes (incl. Office of the Revenue Commissioners) **69**
II.10 Department of Foreign Affairs and Trade **73**
II.11 Department of Health **77**
II.12 Department of Jobs, Enterprise and Innovation **81**
II.13 Justice and Equality Group of Votes **85**
II.14 Public Expenditure and Reform Group of Votes **91**
II.15 Department of Social Protection **97**
II.16 Department of an Taoiseach (incl. Law Offices) **107**
II.17 Department of Transport, Tourism and Sport **111**

PART III Evaluation and Reform

III.1 Spending Better **117**
III.2 Building Evaluation Capacity and Output **123**

PART IV Estimates for Public Services 2015 **129**

Executive Summary

This document is the Comprehensive Expenditure Report 2015 – 2017, as presented to Dáil Éireann on 14 October 2014 by the Minster for Public Expenditure & Reform. It sets out the Government's expenditure allocations and measures for 2015, and the expenditure ceilings for 2016 and 2017.

The fiscal outlook for 2015 is better than in previous years. Ireland's economic recovery is well under way, which is strengthening our tax receipts and reducing the expenditure pressures of the Live Register as increasing numbers of people move into employment. The combined effect of these positive developments means that for the first time since 2009 the Budget no longer involves a cut to the overall level of spending. The Government has used the opportunity of this Budget to hold overall spending steady and make some targeted increases in areas of priority – particularly social housing and some welfare supports.

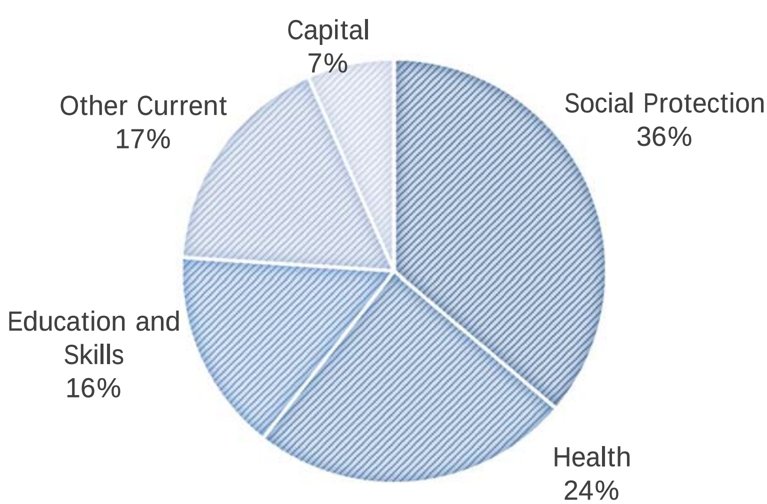
Gross Voted Expenditure			
	2014 Estimate*	**2015 Estimate**	**Increase**
	€ million	*€ million*	*€ million*
Current Expenditure	49,648	50,077	*429*
Capital Expenditure	3,339	3,549	*210*
Total	**52,987**	**53,626**	***639***

*In this Report the 2014 figures are as per *Revised Estimates Volume 2014*, published on 18 December 2013.

The table above provides an overview of spending for the year ahead. Current expenditure, which is directed towards meeting day-to-day needs, will increase by €429m. Capital spending, which comprises investment in social and economic infrastructure, will increase by €210m.

The chart below illustrates how total Government spending is shared between the main areas. It shows how current spending on Social Protection, Health and Education accounts for more than three-quarters of the total and that capital investment is also a significant slice, reflecting the Government's priorities.

Prioritisation of Public Spending 2015



Estimates of Gross Total Voted Expenditure for 2015

Continued modest increases to spending can be expected for the next few years, within the parameters of Ireland's fiscal policy which is to restore the public finances to structural balance so that we no longer need to borrow in order to fund our normal spending. This will require ongoing focus on prioritising spending needs and seeking efficiency and reform opportunities in the delivery of public services.

The 2015 allocations to Departments for current and capital expenditure are shown in the tables below. Further details about these allocations are in Parts II and IV of this Report.

Ministerial Vote Group Gross Current Expenditure Ceilings (Rounding affects totals)	**2014 Estimate** *€ million*	**2015 Estimate** *€ million*	**Increase/ (Decrease)** *€ million*
Agriculture, Food & the Marine	1,019	1,030	11
Arts, Heritage & the Gaeltacht	208	212	4
Children & Youth Affairs	955	975	20
Communications, Energy & Natural Resources	322	320	(2)
Defence Group	890	885	(5)
Education & Skills Group	8,219	8,279	60
Environment, Community & Local Government	457	579	122
Finance	433	432	(1)
Foreign Affairs & Trade	687	679	(8)
Health	12,774	13,079	305
Jobs, Enterprise & Innovation	339	335	(4)
Justice & Equality	2,121	2,156	35
Public Expenditure & Reform	831	875	44
Social Protection	19,585	19,406	(179)
Taoiseach	146	161	15
Transport, Tourism & Sport	688	672	(16)
Contingency	(25)	0	25
Total Gross Current Expenditure	**49,648**	**50,077**	**429**

Ministerial Vote Group Gross Capital Expenditure Ceilings (Rounding affects totals)	**2014 Estimate** *€ million*	**2015 Estimate** *€ million*	**Increase/ (Decrease)** *€ million*
Agriculture, Food & the Marine	184	197	13
Arts, Heritage & the Gaeltacht	66	62	(4)
Children & Youth Affairs	42	35	(7)
Communications, Energy & Natural Resources	110	89	(21)
Defence Group	8	12	4
Education & Skills Group	546	530	(16)
Environment, Community & Local Government	361	578	217
Finance	5	10	5
Foreign Affairs & Trade	5	5	0
Health	390	382	(8)
Jobs, Enterprise & Innovation	442	450	8
Justice & Equality	64	107	43
Public Expenditure & Reform	116	130	14
Social Protection	19	9	(10)
Transport, Tourism & Sport	983	954	(29)
Total Gross Capital Expenditure	**3,339**	**3,549**	**210**

PART I Report of the 2014 Comprehensive Review of Expenditure

Introduction

Under the budgetary reform measures first introduced by the Government in 2011, current expenditure by the State on the provision of public services - which are funded primarily by the taxpayer through the Exchequer - is now subject to periodic comprehensive review. Comprehensive spending reviews are a growing feature of modern international good practice in managing public resources. They provide the Government with an opportunity to examine public expenditure in a way that enables it to meet overall budgetary objectives and to realign allocations with its priorities over the medium term. The first Comprehensive Review of Expenditure was carried out in 2011 and led to the publication of the first Comprehensive Expenditure Report 2012-14 on Budget Day in that year. That Report set multi-annual expenditure ceilings for current expenditure over the three years 2012 to 2014 and provided the analytical basis that informed each subsequent annual budget. This is the second Comprehensive Expenditure Report.

At Budget time last year, the Minister for Public Expenditure and Reform announced that there would be a Comprehensive Review of Expenditure of current expenditure in 2014 that would examine all of Government spending and inform decisions on public expenditure allocations for the following three years. The Review got under way in early April of this year. Each Government Department carried out a review of its existing expenditure across its main spending programmes and submitted the outcome of that process to the Department of Public Expenditure and Reform. The Government was presented with an overarching assessment of this which formed the basis of the Budget discussions that followed and informed the decisions on the allocations of expenditure for 2015 to 2017 presented in this Report. The public was also invited to contribute to the Review process by way of a formal public consultation, co-ordinated by the Department of Public Expenditure and Reform. More than 60 submissions were received from a mixture of individual citizens and representative groups, and these submissions were forwarded to the relevant Government Departments for consideration.[1]

This Report sets out multi-annual expenditure ceilings for public expenditure for the period 2015 to 2017, broken down on a Departmental basis. The breakdown of the overall expenditure ceilings is informed by the Comprehensive Review process, which has allowed Government to consider and set expenditure priorities for the period 2015 to 2017. The

[1] The Department of Public Expenditure and Reform will make the analysis papers produced as part of the Comprehensive Review of Expenditure available on its web site shortly after Budget Day.

allocations reflect what the Government has agreed is the overall amount of public expenditure in each of the next three years, with regard to its commitment to reduce the Budget deficit to below 3% of GDP in 2015 and to progress towards a balanced budget thereafter. These medium term fiscal targets are as prescribed by the new fiscal rules that apply to all EU Member States, and which are explained in more detail in Chapter II.1. The final determination of the 2016 and 2017 ceilings will be made by Government in line with the fiscal rules under the Stability and Growth Pact (SGP) with specific reference to the Expenditure Benchmark. At that time, the full amount of additional fiscal space available to Government to meet expenditure requirements and other policy priorities can be more accurately assessed.

In parallel with the Comprehensive Review of Expenditure, the Department of Public Expenditure and Reform has undertaken a review of the Exchequer Capital Programme. The purpose of the review is to refresh the existing Programme – which is set out to 2016 – review the key determinants and infrastructure deficits and set out key priority areas that require Exchequer investment out to 2020. A report of the review will be published in the coming weeks along with a new Capital Investment Framework for 2015 to 2020. The multi-annual allocations for the period 2015 to 2017 are contained in this Comprehensive Expenditure Report.

Over the last number of years, as part of its response to Ireland's fiscal crisis, the Government introduced a variety of expenditure measures - informed by the first Comprehensive Review of Expenditure 2012-14 and implemented by Government Departments - which helped re-set public expenditure onto a more sustainable path. These expenditure measures, in tandem with tax and other measures, were key to the progress that has been made in terms of the successful exit of the EU/IMF programme and the year-to-year reduction of the General Government Deficit. The impact of these decisions, and the economic recovery that they have helped to take hold, means that the general backdrop to this second Comprehensive Review is better than was the case in 2011.

There is a much more positive outlook, which means that Ireland's future progress towards achieving a balanced budget in the next few years can be made without recourse to further annual reductions in the overall aggregate level of Government spending. Nonetheless, expenditure increases in the future will have to fit within available resources which means that Government Departments need to oversee continued strict financial and operational management of expenditure to ensure that service level pressures and other emerging spending demands are managed and addressed within the budgetary parameters. For that reason, the efficiency and productivity improvements made by Government Departments since the last Comprehensive Expenditure Review in 2011 need to be secured and expanded into other areas. The Public Service Reform Plan 2014-2016 and the Haddington Road Agreement provide the blueprint for achieving this.

Over the next three years, therefore, public expenditure policy and management will continue to focus on how to best use limited available public resources. It will be important to ensure that the choices and prioritisation support sustainable economic and social progress and that resources are utilised in an efficient manner to deliver effective services to citizens.

This Report is set out in four parts.

Part I sets out an overview of the services and schemes that are supported by Government expenditure and also explains in some more detail the medium term fiscal parameters within which Ireland's public expenditure must be managed.

Part II provides details of the multiannual expenditure ceilings agreed for each area of Government activity, including an explanation of the main expenditure programmes that will receive funding from the relevant Government Departments and Offices.

Part III discusses expenditure reform opportunities and presents some high level summaries of expenditure analysis papers prepared by the Irish Government Economic and Evaluation Service.

Part IV presents the Estimates for Public Expenditure 2015 for each Vote

Public Expenditure Management: Constraints, Pressures and Reform

Introduction

Much progress has been made in the last few years in returning Ireland's public expenditure to a sustainable and affordable path. This has involved very difficult but necessary decisions to reduce day-to-day spending on public services across central Government, but importantly it has also been supported by significant efficiency improvements made possible by a parallel process of public service reform. In this way, notwithstanding the reductions in expenditure and a necessary reduction in public service employment by almost 10 per cent in the last five years, increased service demands have been met, most notably in Health, Education and Social Protection.

While Ireland's strengthening economic position in conjunction with a successful exit from the EU/IMF Programme and a restored ability to raise funds on the international markets are reasons for optimism, there are a variety of factors that constrain public expenditure policy. It is important to recognise and understand these various factors as they shape the context in which decisions are made about how to allocate the available resources. The positive outlook is that we have reached the end of the type of fiscal consolidation – involving a series of annual cuts to the overall level of spending – that has defined the last six years.

This Section of the Report provides a brief outline of the various constraints, pressures and reform opportunities that will shape decisions on the allocation of public expenditure over the course of the next three years, and perhaps some way beyond that. It provides a context for the actual expenditure allocations, which are presented later in Part II of this Report.

Constraints

Against the somewhat uncertain international economic outlook, the Irish economy appears set for continued growth, but despite this there will remain limitations on how much of this can and will translate into increases in public expenditure. In particular, the application of the new fiscal rules that were introduced across the Eurozone in response to the crisis, the open nature of our economy, and the high level of Government debt all demand continued strict and carefully balanced management of the public finances into the future. There will be some room for additional spending to address demographic and a number of pressures and policy priorities.

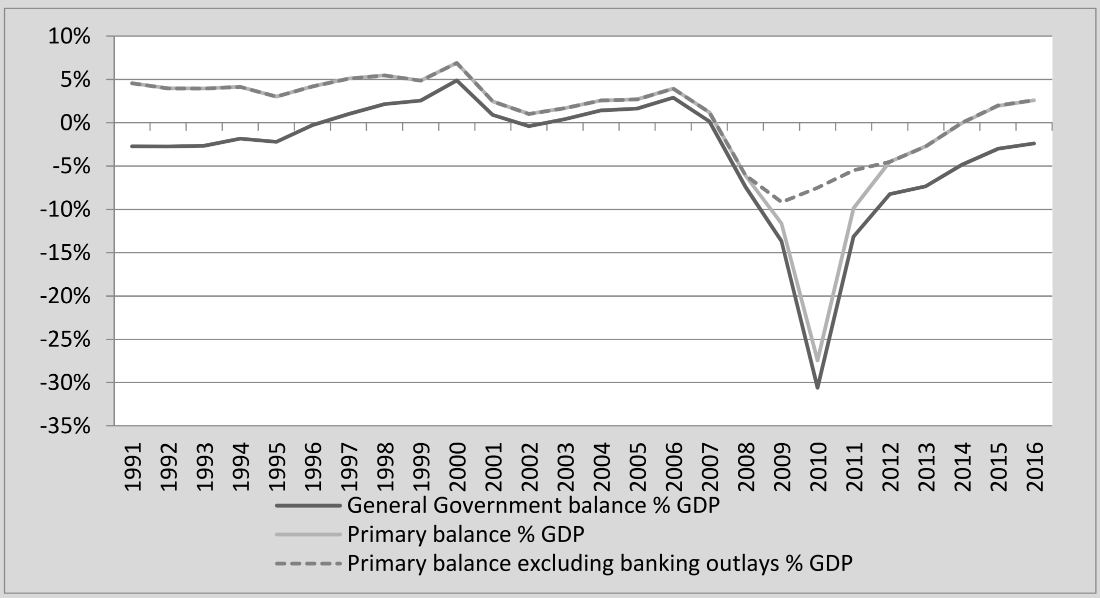
In broad terms, the new rules require us to achieve a balanced budget in structural terms, to match spending with economic growth and revenues, and to maintain this over the medium to long term in order to reduce the level of government debt. A key component of the new rules from a public expenditure perspective is the setting of three-year expenditure ceilings, which are calculated with reference to projected medium term economic growth. For the period ahead, Ireland must continue to move towards a balanced budget and pay down our high levels of national debt. This necessarily means that public expenditure levels must continue to be carefully managed. Once that balanced budget target has been achieved, the challenge thereafter will be to maintain this, and in this scenario the level of public expenditure will be determined by the level of sustainable, structural growth in the economy. Essentially, the framework, which is explained in more detail in Chapter II.1 is designed to impose a fiscal discipline that will help protect us against future shocks by ensuring that changes to Government spending remain in line with growth in the economy, that the levels of public spending are sustainable and that they can be funded from Government taxes and revenues.

Box 1 – Overall Fiscal Position

In the period from 2008 onwards, the national economic downturn led to a dramatic deterioration in Ireland's fiscal position. In 2010, the headline deficit stood at nearly 31% of GDP including banking related costs. Excluding these costs the primary deficit, i.e. the amount by which Government spending (excluding debt service costs) exceeds revenues, was 9.2% of GDP at the peak of the crisis. The headline deficit is forecast to be below 3% of GDP in 2015.

Ireland is expected to record a primary surplus in 2014 for the first time since 2007. In other words, the revenues raised by the State will be sufficient to meet expenditures, excluding debt service costs. This is a key metric in assessing the underlying sustainability of Ireland's public finances. It is a necessary first step towards lowering our debt levels and freeing up expenditure for uses other than debt servicing.

General Government Balance and Primary Balance as a Percentage of GDP



Source: Government Finance statistics CSO data for 1991-2012. Projections based on Budget 2015. CSO data is based on the ESA 95 statistical standard for producing Government accounts while Budget projections are based on the ESA 2010 standard. Figures include impact of the national accounts classification of the promissory notes in 2010.

One of the key lessons to be taken from the impact of the global economic downturn on Ireland is that our small, open economy demands a high level of fiscal discipline. The size, inherent flexibilities and openness of the Irish economy have been important factors in driving a rate of recovery here that is not evident amongst many other economies suffering in the aftermath of the global downturn, but the same characteristics should also act as a natural constraint on resource allocation decisions into the immediate future. This is not to mean that our public expenditure levels cannot begin to grow, rather that such growth needs to be modest, controlled and targeted at priority areas.

As much as Ireland's openness to international trade and investment has and will continue to be an important element driving economic development, it is also clear – perhaps more than before – that the same openness also makes us vulnerable to adverse international economic events. Therefore we need to be mindful and prepare for possible further shocks in the future. The socio-economic impact of the crisis on employment, on living standards and on the daily lives of citizens generally has been severe. The challenge is to be better prepared in the future and less exposed.

This risk exposure to adverse global events is why a key Government priority is to reduce the national debt to levels that are more sustainable over the medium to long term. During the period of the economic crisis, Ireland's national debt increased significantly, both in nominal terms and as a proportion of national output.

The debt-to-GDP ratio is a key macro-economic indicator that is used as a measure of an economy's overall fiscal health, and it was the deterioration in the Irish debt position as the economic crisis unfolded that undermined confidence in Ireland's ability to access funds on international markets and contributed to its call on international partners – the Troika - for support. Ireland's current high levels of debt mean that our fiscal position remains very vulnerable to further economic shocks. Although the historically low interest rates on Irish debt have given us some breathing room and helped mitigate the annual cost of the debt burden, Ireland is exposed to the impact of rate increases.

Pressures

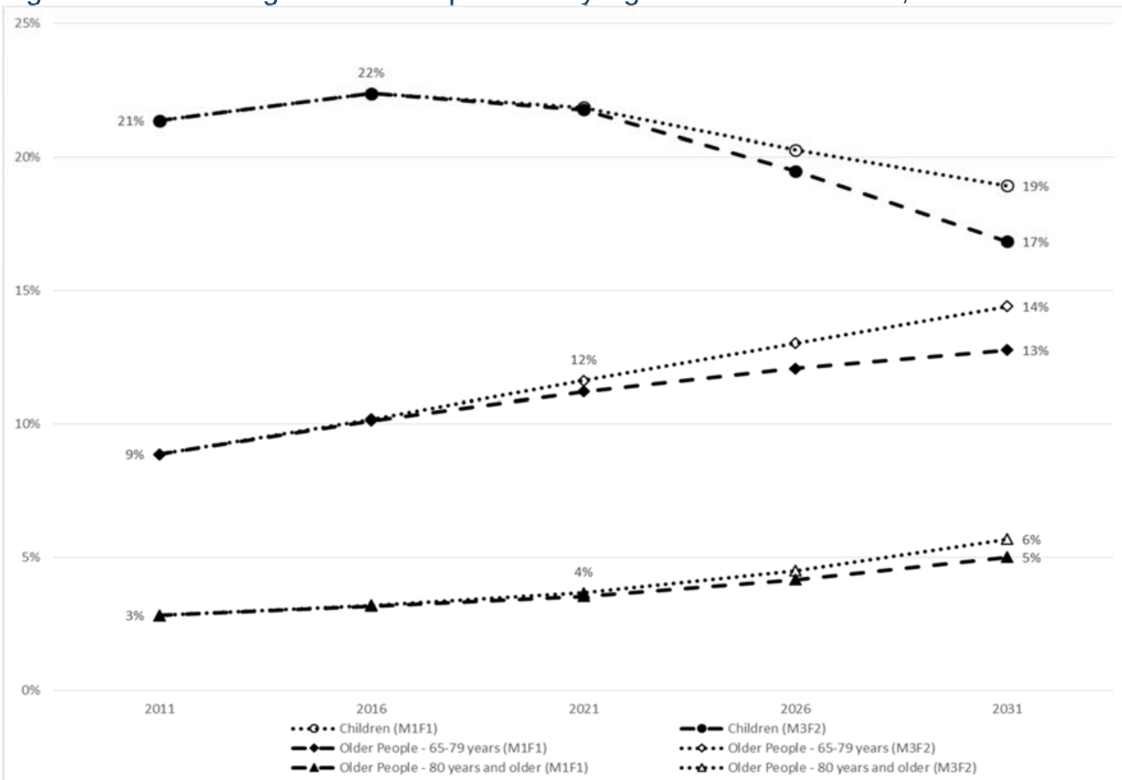
There are a number of different types of pressures on the horizon that are likely to result in future demands for public resources, and these will have to be accommodated within the budgetary management framework and constraints described above. Some of these challenges are obvious today, while others are likely to develop over the next decade.

Demographic Changes

Population projections indicate that there is likely to be a significant shift in the composition of the Irish population, which presents perhaps the most significant challenge to the Exchequer over the medium to long term. The coming decades are associated with an increasingly aging population, with the share of the population aged 65 years and older expected to almost double by 2060. This, in tandem with the projected contraction in the share of the working age population will contribute to an increase in the old-age dependency ratio: by 2060 there is expected to be fewer than 2 people employed for every person over 65 years, as compared with today's ratio of almost 4.

While many discussions of demographic change are concerned with forty or fifty year time horizons, the projections presented in Figure 1 indicate that there are likely to be notable shifts in the composition of Ireland's population over the next decade or so. People are living longer at the same time as the birth rate is peaking and beginning to decline. This combination of higher numbers of older people and falling numbers of people flowing into the working age cohort will drive an increase in the old-age dependency ratio. The change to the composition of the population could be quite evident by 2021, as older people are projected to account for about 16% of the population as compared with 12% in 2011. This is a significant shift in a relatively short timeframe. It is anticipated that this trend will continue, so that by 2031 older people are projected to account for about a fifth of the population with the share of the population accounted for by people aged 85 years or older projected to have doubled.

Figure 1 – Percentage of Total Population by Age Particular Cohorts, 2011-2031



Source: Data from CSO Population Projections[2]

These projected changes in the composition of the population present perhaps the most significant challenge to the Exchequer over the medium to long term. The European Commission's 2012 report on aging suggest the following for Ireland, on the basis of current trends and without a change in policies: [3]

- Total pension expenditure projected to increase from 9.3% of GDP in 2010 to 11.5% in 2020 (15% in 2060);
- Expenditure on health care and long term care projected to increase from 8.4% of GDP in 2010 to 8.5% in 2020 (10.9% in 2060).[4]

[2] The CSO data in the graph presents an upper and lower range of outcomes for three age categories – children, people aged 65 to 79 and people aged 80 and over.
[3] Economic Policy Committee and European Commission, 2012, *The 2012 Ageing Report – Economic and Budgetary Projections for the 27 EU Member States (2010-2060)*: 400-401. Updated projections are underway and will be published in Spring 2015.
[4] The OECD (1987) assumes that the costs associated with people aged 65 years or older are four times those associated with younger people. Demand for expensive long term care is influenced by the age profile of the population and the proportion of the population in each age group with a disability.

- Expenditure on education projected to increase from 6.3% of GDP in 2010 to 7.1% in 2020 (after that it is expected to decrease to 6.0% in 2040 before returning to 6.4% in 2060).

Public Service Pay and Pensions

Such demographic pressures will also have an impact on the public service pay and pensions bills which together comprise a third of public spending and which, in the context of the fiscal crisis, have been the subject of reductions. As the population grows and ages, there will be an ongoing need to employ additional people to teach growing numbers of children and to care for an increased number of elderly. A larger number of public servants are approaching retirement and are living for longer periods after they finish employment. That will also cause a natural increase in the overall annual cost of their occupational pensions. In the period under consideration, the Government will also have to address the position on the emergency measures taken to reduce pay and pensions, while ensuring that pay and pension costs remain sustainable over the longer term.

Climate Change

The implications of climate change are becoming clearer, and responding to this will bring pressure on our society and on our public finances to change behaviour and to invest higher amounts in climate change related infrastructure. At the moment, the long term financial risks to the economy and to the public finances associated with climate change are difficult to assess, but they are likely to be significant.

A warming climate is likely to alter Ireland's weather patterns, increasing the likelihood and frequency of extreme weather events such as flooding and droughts. Such weather events would put greater pressure on the national strategic infrastructure, requiring increased investment in the repair, refurbishment and climate proofing of roads, railways and the electricity and water networks. In the agricultural sector, while on one hand a warmer average annual temperature is likely to benefit the growing season, more frequent extreme weather events could reduce output and increase the costs of farming.

A proposed new EU framework agreement for climate change and energy, which will provide the basis for setting binding national targets for reducing emissions and increasing renewable energy levels out to 2030, is due to be negotiated in the coming months. The outcome of these negotiations will determine the scale of the challenge ahead.

The agriculture sector contributes almost one-third of national greenhouse gas emissions.[5] Irish agriculture has a proven high level of technical efficiency, and efforts are being made to build upon the progress made to date. In terms of management of the projected increase in food production under Food Harvest 2020 and the ambition for reduced GHG intensity of that production, it may be possible for Ireland to approximately flat-line aggregate emissions from agriculture compared to 2005, for instance. The Department of Agriculture, Food and the Marine advises that there is a large climate efficiency ambition that is implicit in this. A flat-lining of Irish agricultural emissions would represent the current best estimate of the absolute maximum that is technically achievable. Anything beyond this would be very problematic.

Given the proportion of Ireland's population living in rural areas, achieving a cost effective modal shift in transport over a relatively short time frame is also very difficult. Strong population growth forecasts, reliance on technology developments from elsewhere to realise emissions savings, dependency on road freight, and the derived demand for transport due to increased economic activity are exacerbating factors in the challenge facing transport in reducing its emissions.

Public Service Reform

The multi-annual allocations set out in this Report, in tandem with the tax and other measures outlined in the Budget, will enable sustainable economic growth, provide continued support for citizens and families, and help businesses and job creation. To underpin this effort, there must be continued focus on reforming the quality and effectiveness of public services. There are two key components of this: the first is bedding down a culture of evaluation that will better inform decisions on resource prioritisation and allocation, the second is maintaining momentum on improving how these resources are invested and used to deliver public services.

5 http://www.epa.ie/climate/emissionsinventoriesandprojections/#d.en.42672

The productivity of the Irish workforce has been an important factor over time in attracting international investment, which is why it is important to ensure that Ireland's workforce not only maintains its high levels of productivity but becomes more productive. All parts of the economy, both in the private and public sectors, need to continue to contribute to this. Competition is a key driver of productivity in an economy. It encourages firms to reduce costs and to invest in the development of new products and production methods. This same dynamic needs to be replicated in the public service too, where competition is not a driver. In the public service, there needs to be a continued focus on driving cost-efficiencies and adopting new and innovative solutions to providing key services for our citizens. More progress also needs to be made in tackling the remaining sheltered areas of the economy, such as legal services.

Over the last year good progress has been made on the implementation of the Government's *Public Service Reform Plan* and the *Haddington Road Agreement* has delivered important and valuable workplace flexibilities, including additional hours across the public service. It is important that more new ways of delivering better, higher quality public services continue to be identified and implemented. There are also likely to be opportunities from leveraging the increasing role for private and non-governmental actors in public service provision. In Ireland, private and voluntary actors already play an important role in public service delivery. The challenge is to ensure that specific public services are provided through the most appropriate and accountable means in a manner that is not only cost-effective but also optimises quality and performance.

The Irish public service plays an important role in supporting economic growth, in particular the education sector and those agencies charged with supporting and developing enterprise and international trade. There is a need to ensure that all of these bodies provide high quality services to students and to indigenous and international enterprises. As well as focusing on those who will benefit from their services in the short term, these public services also need to ensure that they are cognisant of international trends that are shaping the economic context of the next decade and beyond so that Ireland's young people and those who manage enterprises have the requisite skills to prosper. In addition, Ireland needs to look at what has been developed in other countries, identify successful policy innovations and adapt these to an Irish context.

Conclusion

The level of resources that the State will have available to spend on providing services to the public will be largely dependent on how the Irish economy fares over the medium term and how well we manage the public finances. Our capacity for addressing demands for additional or new expenditure will be shaped by factors that constrain public expenditure policy and other pressures that potentially reduce the fiscal space available. It is therefore important to recognise and understand the constraints and pressures that shape the context in which decisions about how to allocate resources are made.

As a small open economy, Ireland is well placed to benefit from positive developments in the international economy but is also vulnerable to significant downturns. Given recent experience, it is imperative that the public finances are returned to a sustainable path and that the debt burden is reduced. Through sensible and prudent fiscal discipline Ireland should be better able to absorb any future external economic shocks and avoid having to repeat the levels of contraction in expenditure of recent years.

There is always a temptation to give less priority to the future. The projected shifts in the age profile of the Irish population and the consequences for public expenditure are no longer part of some distant horizon. The choices and decisions relating to public expenditure and taxation that will be made over the next few years need to take account of the on-going implications of any such commitments for the sustainability of the public finances.

Nonetheless, while expenditure policy is constrained and there are notable pressures on the horizon, the legacy of earlier investment in skills and positioning Ireland as a key centre for international investment within the European Union mean that Ireland is well placed to benefit from the opportunities associated with an upturn in the international economy.

Government Expenditure in Ireland: Support, Services and Investment

This chapter discusses trends in overall government expenditure, explains the ranges of economic and social supports, services and infrastructural investments that currently account for the vast bulk of public expenditure in Ireland, and briefly examines the impact on the different areas of government expenditure of the fiscal consolidation of recent years.

The State today is either the sole or primary provider or funder of health care, education, welfare support, policing, economic infrastructure, economic regulation and consumer protection, and underpins safety standards across a broad range of activities (e.g. building, transport, utilities, food, medicine etc.). It is also a major supporter of enterprise, the community and voluntary sector and other key areas of the economy such as agriculture and tourism.

Understanding the composition of our public expenditure is important because it helps clarify the choices available regarding the allocation of public resources, choices which may be influenced by short-term factors shaped by the democratic process, long term trends such as an ageing population or an increase in the birth rate, and global factors such the impact of climate change. The ability of a State to react to these and other pressures to increase or to expand the range of expenditure is limited by the resources that can be raised from society by means of taxation or can be borrowed from the financial system.

The Main Components of Government Expenditure

Reflecting the various socio-economic rationales for government intervention, there are three main types of government expenditure: expenditure on welfare payments, provision of services, and investment in infrastructure.

Welfare Payments: The single largest component of government expenditure is on social welfare programmes, which includes unemployment related benefits, child benefit, disability supports and pensions. The purpose of these payments is primarily to provide a safety net for people and families to ensure that their incomes do not fall below a minimum level as a result of unemployment, illness or age. In Ireland, State pension and welfare support payments play a central role in reducing the risk of poverty. In 2015, 36% of voted Government expenditure will be allocated to the Department of Social Protection, and over the course of the next three years addressed by this Comprehensive Expenditure Report, total expenditure in this area will be in the order of €58bn.

Public Services: Expenditure on the provision of public services includes day-to-day expenditure on Education, Health, the Justice system, Local Government, Defence and the Civil Service. These types of services are generally 'non-market' services, which are provided by the State either through direct provision (e.g. policing services) or indirect financial provision (e.g. state funding of schools and GP surgeries run by private organisations/individuals). In Ireland, as is the case in all developed countries, education and health care are the major areas of expenditure on services. In 2015, there will be increases in Government expenditure on Education and Health Care, which will represent 42% of voted Government expenditure. This level of expenditure will be maintained and increased where possible over the course of the next three years addressed by this Comprehensive Expenditure Report.

Investment in Economic and Social Infrastructure: The State also plays a central role in ensuring the provision of an appropriate level of infrastructure to support economic activity and to enhance the quality of life of its citizens. Public investment in the country's infrastructure has two motivations. Firstly, to provide a level and quality of infrastructure that raises productivity levels and the growth potential of the economy. For example, investment in transport networks enhances both domestic and international trade and encourages private investment which contributes to job creation. Second, to provide public amenities that improve citizens' quality of life and ensure that services are provided in appropriate settings.

Across all three of these main areas of expenditure are public servants who are employed to: provide services directly (e.g. doctors, nurses, teacher/trainers, social workers); administer the welfare and tax systems; support the administration of national and local government; and manage construction contracts for roads and schools etc. There have been significant productivity gains and cost savings over the course of the last number of years, most evident in the continued delivery of services against the backdrop of a 10% reduction in staff numbers and in savings in the Exchequer pay bill. In 2015, the Government will allow some additional scope for recruitment into the public service to help alleviate emerging service pressures, particularly relating to demographic pressures in Education. This will involve reinvesting some of the cash savings made possible by the reform measures and productivity gains that have been delivered.

Prioritisation and Protecting Key Services

As we emerge from a period of very severe but unavoidable fiscal consolidation, it is useful to take stock of the impact of some of the measures taken to reduce the Government deficit and repair the public finances. In Ireland, the consolidation effort of recent years to reduce the fiscal deficit has meant that since 2008 successive Governments have undertaken a range of measures which have impacted differently across the main areas of public expenditure.

In overall terms, Table 1 shows that gross current expenditure in 2014 is €49.6 billion, compared with €53.4 billion in 2008 (nominal). Within this overall picture, it also shows that expenditure on Social Welfare payments rose sharply before falling back in recent years and that expenditure on non-pay Health and Education (i.e. not affected by amendments to pay rates for employees) remained largely unchanged. Offsetting this have been savings in expenditure allocations in other areas.

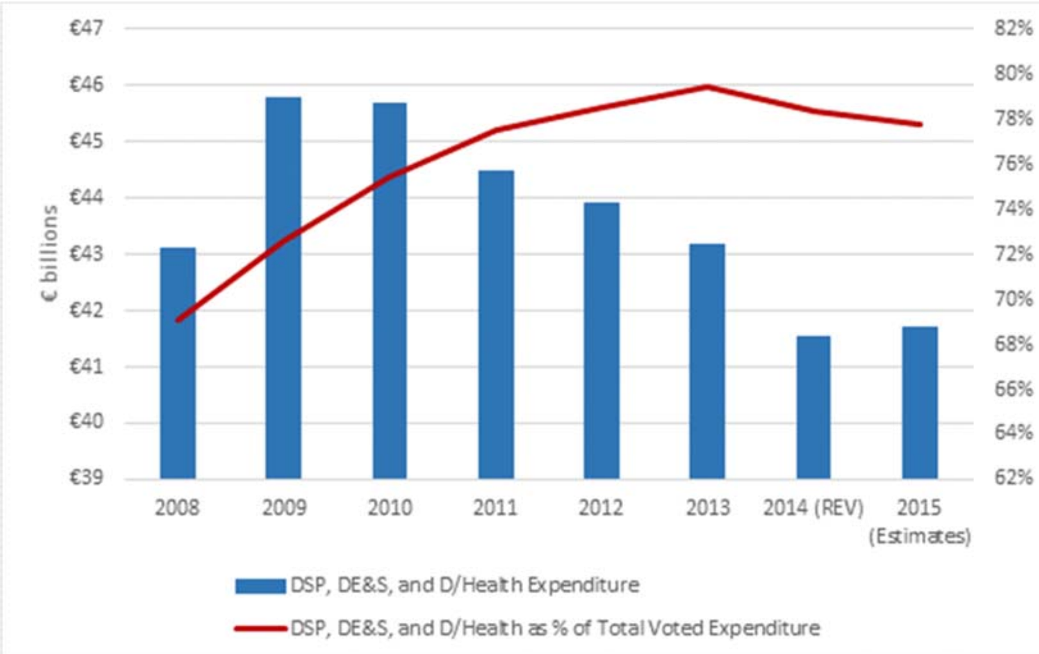
Table 1 – Evolution in Voted Expenditure by category, 2008-2014

Government Expenditure, 2008-2014 (€ billions)	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Pay	17.2	17.5	16.0	15.6	15.3	15.1	14.5
Pensions	2.1	2.6	2.7	2.8	3.1	3.0	2.9
Social Welfare - Live Register	2.1	3.7	4.1	3.9	3.6	3.7	3.3
Social Welfare – Other	15.4	16.5	16.5	16.8	16.6	16.2	16.0
Other Programmes	16.6	15.5	14.9	13.8	13.3	13.2	12.9
(of which) Health non-pay	*6.9*	*7.1*	*6.9*	*6.9*	*6.7*	*6.6*	*6.6*
Education non-pay	*2.0*	*1.9*	*2.1*	*1.8*	*2.0*	*2.0*	*2.0*
Other	*7.7*	*6.5*	*5.9*	*5.1*	*4.6*	*4.6*	*4.3*
Gross Current Expenditure	**53.4**	**55.8**	**54.2**	**52.9**	**51.9**	**51.2**	**49.6**
Gross Capital Expenditure	**9.0**	**7.3**	**6.4**	**4.5**	**4.0**	**3.4**	**3.3**
Gross Total Expenditure	***62.4***	***63.1***	***60.6***	***57.4***	***55.9***	***54.6***	***52.9***

Source: Dept. Public Expenditure and Reform.

This demonstrates that the Government has, as far as possible, prioritised expenditure by those Departments most closely aligned with providing vital public services and social transfers: Social Protection, Health and Education. This is reinforced by the data presented in Figure 2 below, which shows that combined expenditure at the Departments of Social Protection, Health, and Education and Skills as a proportion of total expenditure has grown from 69% to 78% since 2008.

Figure 2: Prioritisation of Key Services



(Source: Department of Public Expenditure and Reform)

Conclusion

Government expenditure on the provision of day-to-day public services will be €50.1bn in 2015, which is €429m more than in 2014. The allocation of this amount across the various areas of the public service, which is detailed in Parts II and IV of this Report, reflects what the Government has decided are the priorities for the next three years, having taken account of the analysis presented as part of the Comprehensive Review of Expenditure.

The space to do this additional spending has been made possible by the very careful management of the public finances over the last number of years and of course by the turnaround in the economy. It suggests that there is good reason to consider that further increases in investment in key public services will be possible too, provided the economy continues to grow and that we maintain a prudent approach to expenditure management. These plans to 2017 are based on the availability of additional fiscal space which will be allocated if circumstances permit.