2. Sensible spending
Breakout Session 2 - Sensible Spending
Chair: Minister for Public Expenditure and Reform, Paschal Donohoe, TD
Rapporteur: Dr. Stephen Kinsella

Potential Issues/Questions for Discussion

1. How can economic and social goals be best reconciled while preserving sustainable public finances? How should these decisions be reached?

2. Should we move from a broad, more universality-based, system of public services to a deeper, targeted system? How can this best be achieved?

3. How can economic uncertainty best be taken into account when undertaking medium-term expenditure and fiscal planning?

4. What are the main areas of impact that should considered when allocating resources?

5. How can we successfully future-proof expenditure policies?

6. How can the role of performance information in the budgeting process be extended and improved to move the focus of budgeting more firmly to the totality of available resources rather than the incremental increase?

7. What should be the key cross-cutting priorities for inclusion in the next phase of Public Service Reform?
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Background
As the recovery in Ireland’s economy and public finances becomes firmly established the key challenge for the future is to put in place appropriate policies to build on this foundation. Policy in the coming years should create a virtuous circle in which continued robust economic growth provides the resources necessary to advance social progress, promote inclusivity and provide high-quality public services to all citizens.

Public expenditure has role in pursuing social, re-distributive and growth-enhancing aims. Public expenditure planning must consider these goals within the available resources. However, there is evidence that suggests these features can be interdependent, with higher levels of inequality reducing longer-term economic prospects in certain circumstances. In many ways the Medium-Term Expenditure Framework is designed to prove a lens through which such trade-offs can be viewed over the medium-term.

Given constraints of overall public spending, medium-term planning must be enabled through a continuing emphasis on value-for-money and effectiveness, enabled by public service reforms and the focus on outputs and outcomes provided by performance budgeting initiative.

Expenditure Trends
Ireland’s fiscal position has undergone significant change over the past decade. Figure 1 below plots the trajectory of the public finances since 2000. It shows the scale of the gap between revenue and expenditure which developed from 2008 onwards necessitating large levels of borrowing to finance the day-to-day running of the State and public services. It also graphs the impact of the difficult spending and taxation policies that were adopted in response to the crisis.
Departmental expenditure in 2016, also referred to as total gross Voted expenditure, is planned to be €55.8 billion, with €51.9 billion - 93 per cent - on current (or day-to-day) spending and €4.0 billion – 7 per cent - on capital. Pay is planned to make up 28 per cent of total Departmental spending, with a further 5 per cent on public service pensions. The more detailed breakdown in Figure 2 shows day-to-day and capital spending by main and sector.¹

Figure 2 Composition of Departmental Expenditure 2016
a. Day-to-day (current) expenditure, by main sector  
b. Capital expenditure, by main sector

¹ As this represents Departmental spending it does not include, for example, debt interest costs.
Managing expenditure into the future

The move to the Preventive Arm of the Stability and Growth Pact (SGP), and the changed budgetary landscape that this entails, requires that long-term fiscal and economic sustainability be balanced with the continued provision of much needed public services (see Box 1).

The Summer Economic Statement set out the trajectory for overall expenditure in the medium-term on the basis latest estimates of fiscal space. This is summarised in Table 1 below.

| Table 1 Planned Medium-Term Expenditure Path (Summer Economic Statement) |
|-----------------------------|-----|-----|-----|-----|-----|-----|
|                            | €m   | €m   | €m   | €m   | €m   | €m   |
| Day-to day spending        | 51,870 | 53,180 | 54,405 | 55,760 | 57,205 | 58,645 |
| year on year % change      | 2.5%  | 2.3%  | 2.5%  | 2.6%  | 2.5%  |
| Capital spending           | 3,965  | 4,380  | 5,140  | 5,915  | 6,515  | 7,125  |
| year on year % change      | 10.5% | 17.4% | 15.1% | 10.1% | 9.4% |
| Total Departmental spending| 55,835 | 57,560 | 59,545 | 61,675 | 63,720 | 65,770 |
| year on year % change      | 3.1%  | 3.4%  | 3.6%  | 3.3%  | 3.2%  |

Ireland’s Medium-Term Expenditure Framework (MTEF) was established in law in 2013 to set up a new model of multi-annual budgeting. The MTEF has been an important mechanism in ensuring compliance with the prevailing fiscal requirements and, given the recent closure of the excessive deficit, in this it has been successful. It is centred upon the principles of transparency and openness in regard to the setting and review of Departmental spending priorities, and upon the necessity for clear medium-term planning so that available resources are deployed, managed, and re-allocated (as appropriate) to best effect. It introduced three year rolling ceilings for current expenditure for Government Departments and Offices, moving from the previous system of annual budgeting. The ceilings, as the output of the MTEF, should not only reflect trade-offs in a given year but also over time, e.g. costs arising from demographic change, climate change etc.

The operation of the MTEF is facilitated by other reforms, such as regular Comprehensive Reviews of Expenditure (http://www.per.gov.ie/en/comprehensive-review-of-expenditure/), and greater emphasis on tools to support evaluation such as the Public Spending Code (http://publicspendingcode.per.gov.ie/) and establishment of the Irish Government Economic and

Box 1  OVERVIEW OF FISCAL RULES UNDER THE PREVENTIVE ARM OF THE SGP
The main elements of the Preventive Arm of the Stability and Growth Pact that will apply to Ireland from this year are:

i. The Budgetary Rule ensures that budgetary policy either remains at, or is on the path to, the Medium-Term Budgetary Objective (MTO). The MTO factors in future growth and ageing costs for the economy to set a sustainable structural budgetary target.

ii. The Expenditure Benchmark ensures that annual expenditure growth is limited to the stable medium-term growth rate of the economy.
Evaluation Service (http://igees.gov.ie/). These reforms have been put in place to ensure that the whole of Departmental expenditure is subject to scrutiny, rather than the incremental annual increase.

Given the new budgetary environment from this year, and the return to more ‘normal’ medium-term budgetary management, it is timely to review the operation of the MTEF as envisaged in its establishment. This may include the treatment of economic and fiscal uncertainty when planning public expenditure over the medium-term, e.g. contingencies and a ‘Rainy Day Fund’ and also the use of incentives and sanctions such as carryover provisions.

Moving to an output and outcome focus

Performance budgeting refers to procedures or mechanisms intended to strengthen links between the funds provided to public sector entities and their outcomes and/or outputs through the use of performance information in resource allocation decision-making. The information that is published shows what public service outputs and outcomes are being delivered with public funds.

In the past number of years there has been a consistent effort to improve the quality of performance information that is made available. The Revised Estimates Volume - the detailed publication setting out spending across Departments by scheme and grant – and now augments the data on financial and human resources with information describing the services that these resources are delivering and the impact of these services. This performance information is presented under different categories – quantitative metrics, discrete metrics (publications and legislation) and qualitative metrics.

As part of the reforms to the budgetary process to facilitate enhanced scrutiny by the Oirechta, the Minister for Public Expenditure and Reform will now submit a performance report to the Oirechta by end Quarter 1 each year. This report will provide information on the performance of each Vote and the linkages between results and resources. It is intended that the report will lay the foundation for a more systematic engagement by parliamentarians and the public on the impact of public policies and on resource allocation decisions and ensure that the relevant sectoral Committees are equipped to track progress in achievement or non-achievement of strategic outcomes. By presenting relevant performance indicators in a dedicated, focused document, this report will help enhance focus on performance and delivery.
The role of public service reform in creating a culture of efficiency and effectiveness

The importance of an efficient and effective Public Service cannot be overstated - the successful delivery of public services has major implications for the management of the State’s finances and for employment creation. Most importantly, the Public Service provides essential services for our people when they need them most.

Public Service Reform was a key element of the response to the challenges of recent years and continues to be an essential part of building for the future. The primary objective of the current Public Service Reform Plan, which runs to end 2016, is to improve service delivery and outcomes for users of public services. It also maintains an emphasis on efficiency measures, which was a key element of the first Reform Plan published in late 2011. The actions set out in the Reform Plan address areas such as increased use of technology and improved engagement with service users; greater use of shared services and innovative approaches to service delivery; more efficient and effective public procurement and property management; increased accountability and transparency in public decision making; and enhanced leadership and performance management. A comprehensive Progress Report is available at www.reformplan.per.gov.ie.

The final year of the implementation of the current Public Service Reform Plan commenced in January and work is also continuing on implementing the Civil Service Renewal and other sectoral reform programmes. The three year Civil Service Renewal Plan was published in late 2014 and is leading to major changes right across Government Departments and Offices. The Plan provides a framework to deliver a more unified, responsive, professional and open and accountable Civil Service with the aim of providing a world-class service to the State.