There are significant risks associated with the delivery of the necessary expenditure adjustments given the experience with expenditure ceilings in 2012. The scale of expenditure savings planned over the period to 2015 is sizable (notably in Health). Careful monitoring of expenditure will be essential. The options for further expenditure reduction have also narrowed partly reflecting the very large reductions to date in the capital budget.[52]

In February 2013, following negotiations between the Public Services Committee of the Irish Congress of Trade Unions (ICTU) and the Government, under the auspices of the Labour Relations Commission, a series of proposals aimed at reducing the public service pay bill by €1 billion by 2015 were set out.[53] This new agreement, if passed, would make a valuable contribution to achieving the necessary payroll savings.

Box D: Current Expenditure Ceilings

With the publication of the *Comprehensive Expenditure Report 2012-14 (CER*) in 2011, the annual Estimates campaign was replaced by a multi-annual expenditure ceilings framework. The new approach was aimed at encouraging more medium term expenditure planning and adherence to budgetary targets. The *CER* set out departmental expenditure allocations over a three-year period to 2014. The following statements contained in the *CER* pointed to the binding nature of the ceilings:

"Ceilings for 2012 are binding and fully specified in terms of programme–level allocations."

"Ceilings for 2013 are binding, although there may be some reallocations between Departments, within the set aggregate expenditure level."

"Ceilings for 2014 should be viewed as upper limits of expenditure in that year" (Department of Public Expenditure and Reform, 2012, p.21).

In 2012, spending exceeded ceilings in the Departments of Social Protection and Health partly due to cyclical pressures. The *Expenditure Report 2013 (ER 2013*), published in December 2012, revised the ceilings for 2013 by almost €500 million, thus breaching the "set aggregate expenditure level". This increase has essentially been passed through to 2014 (Table D1). Given these developments, the question arises as to what is meant by the "binding" nature of the ceilings referred to originally.

[52] According to *Budget 2013*, Government investment is projected to decline to 1.4 percent of GDP by 2015. This compares with a share of 4.7 percent of GDP in 2007.

[53] For details see: http://per.gov.ie/wp-content/uploads/LRC-Proposals-printed.pdf

TABLE D1: EXPENDITURE CEILINGS FOR 2013 AND 2014

€ million	Comprehensive Expenditure Report		Expenditure Report	
	2013	2014	2013 (change in ceiling)	2014 (change in ceiling)
Health	13,565	13,359	13,627 (+62)	13,420 (+61)
Social Protection	19,906	19,296	20,246 (+340)	19,633 (+337)
Other Departments	17,298	16,891	17,415 (+117)	17,009 (+118)
Unallocated Savings (incl. pay bill measures)	180	830	220 (+40)	830
Gross Current Expenditure	**50,589**	**48,716**	**51,068 (+479)**	**49,232 (+516)**

EXPENDITURE OUTTURN IN 2012

In 2012, current expenditure exceeded its target for the year by €666 million due to spending overruns in the Departments of Social Protection and Health.[54] The overrun in the Department of Social Protection amounted to €560 million and mainly reflected labour market pressures, which included weaker than expected receipts from PRSI and higher spending on unemployment-related allowances. Labour market outturns last year were significantly less favourable than was expected in *Budget 2012*. For example, in *Budget 2012* the unemployment rate was forecast to average 14.1 percent in 2012 but the outturn according to the *QNHS* was 14.7 percent.

The Department of Health exceeded its ceiling by €311 million. According to the *ER 2013*, this arose in part from "service and demographic pressures" which amounted to €713 million. The demographic pressures were largely attributed to a greater than anticipated demand for medical cards.[55] Most of the other departments kept within their expenditure budgets, which helped to partly offset the current expenditure overruns in the Departments of Social Protection and Health.[56] On the capital side, expenditure in 2012 amounted to €3,489 million which was €145 million below budget.

REVISED AGGREGATE EXPENDITURE CEILINGS IN 2013 AND 2014

In the *ER 2013*, the overall current expenditure ceiling in 2013 was increased by approximately €500 million to €51,068 million with the 2014 ceiling revised by a similar amount (see Table D1). The 2013 ceiling was increased in part due to cyclical pressures associated with the labour market, although little detail has been provided on how the

[54] These figures refer to net voted cumulative current expenditure in the end-2012 Exchequer Statement.

[55] Despite the policy changes announced in *Budget 2013* that will reduce eligibility for approximately 40,000 people currently in receipt of medical cards, the anticipated net growth in medical cards in 2013 is 60,000 (HSE, 2013).

[56] Current spending in Government departments excluding the Departments of Social Protection and Health in 2012 was €205 million under the allocation for the year.

adjustments were made. Offsetting adjustments on the revenue side were taken to keep to the planned €3.5 billion fiscal adjustment in 2013 so the overall budgetary stance was not affected.

Department of Health Ceiling

The Department of Health's current expenditure ceiling for 2013 was revised upwards from the *CER* ceiling by €62 million. However, in order for spending to be kept within this ceiling, a total of €781 million in saving measures were announced in the *ER 2013*.[57] The savings for this year are partly aimed at correcting an ongoing operating deficit in the Department in the region of €500 million but are also aimed at correcting additional spending pressures that arose in 2012. Half of the €781 million in savings are to be delivered through pay-related initiatives (which include professional fees). Most of the remaining adjustment arises from a reduction in prescription charges and drug related costs (see Table D2). Anticipating expenditure pressures in the Department of Health is more difficult than in other departments given the demand-driven nature of the health services. A welcome recent development is that the Health Service Executive (HSE) and the Department of Health will report on a monthly basis to the Cabinet Committee on Health on the implementation of the Health sector measures to proactively prevent expenditure overruns.

Department of Social Protection Ceiling

The Department of Social Protection's current expenditure ceiling was revised upwards by €340 million. Most of this reflected cyclical labour market pressures that arose in 2012. The remainder of the increase was accounted for by the decision in *Budget 2013* to increase spending in social welfare by €150 million. To adhere to the new ceiling for 2013, however, €390 million in new saving measures were announced in *Budget 2013*, the most important of which was a reduction in child benefit (see Table D2). For future expenditure reports, it would be helpful if changes to expenditure ceilings as a result of cyclical and non-cyclical developments were documented more explicitly.

Risks

While the Department of Social Protection exceeded its ceiling in 2012, the reasons appear to reflect predominantly cyclical pressures. In the case of the Department of Health, while there were also cyclical pressures, the impact arising from other areas is less clear. The Department of Health has persistently exceeded its expenditure budget in recent years.[58] A recent report by the HSE highlighted the challenges facing the sector in 2013.[59] The failure to deliver on planned current expenditure savings in 2012 and the significant measures planned for 2013

[57] The required level of savings for the Department of Health in 2013 has been revised upwards significantly since the publication of the *CER 2012-2014* which specified savings of €71 million.

[58] In 2009, 2010, 2011 and 2012, the current expenditure overruns in the Department of Health were €0.2 billion, €0.4 billion, €0.1 billion and €0.3 billion, respectively. The Department of Social Protection exceeded its budget in 2010 and 2012 but under spent in 2009 and 2011.

[59] The HSE (2013) report referred to "... unavoidable pressures of €748 million" facing the HSE and the need to achieve savings of €721 million.

are a key risk to meeting budgetary targets this year. While savings of €781 million have been specified in the *ER 2013*, questions must be raised about the capacity of the Department of Health (and of the HSE) to deliver. These may ultimately be achieved but recent experience suggests that careful monitoring throughout the year will be needed.

Beyond the Departments of Health and Social Protection, there are also sizable unallocated savings, primarily pay bill savings, in the *ER 2013* of €0.2 billion in 2013 and €0.8 billion in 2014. These pay bill savings account for half of the planned expenditure adjustment in 2014. A failure to deliver on these pay savings is another sizable risk and would necessitate cuts in expenditure in other areas and/or higher taxes and charges. However, the Croke Park Extension Agreement could make a valuable contribution to achieving the necessary payroll savings.

While the binding nature of the ceilings was discussed in the *CER*, the intended legal nature of the ceilings is set out in the *Ministers and Secretaries (Amendment) Bill* (*MSAB*), published in September 2012.[60] The *MSAB* sets expenditure ceilings on a rolling three-year financial basis.

TABLE D2: SAVINGS MEASURES IN THE DEPARTMENTS OF HEALTH AND SOCIAL PROTECTION

Department of Health	**Savings in 2013**	**Full Year Savings**
	€ million	
Reduction in cost of drugs and other prescribed items	160	330
Increase DPS threshold to €144 per month	10	10
Increase prescription charges for medical card holders	51	51
Reduced professional fees	70	80
Other changes to Primary Care scheme	32	44
Pay-related savings	308	458
Increased generation of private income	65	115
Savings on Department vote	60	60
Procurement measures	20	20
Other measures	5	5
Total net savings	**781**	**1,173**

[60] http://www.oireachtas.ie/documents/bills28/bills/2012/8112/b8112.pdf

TABLE D2 (CONTINUED): SAVINGS MEASURES IN THE DEPARTMENTS OF HEALTH AND SOCIAL PROTECTION

Department of Social Protection	Savings in 2013	Full Year Savings
	€ million	
Child Benefit: Reduction in Rates	136	142
Back to school clothing and footwear allowance: Reduction in rates	17	17
Changes to the Farm Assist programme	4	5
Job Seekers Benefit: Reduction in duration	33	82
Changes to Redundancy Payments Scheme	25	30
Changes to Supplementary Welfare Allowance	6	6
Changes to Back to Education Allowance	11	24
Reduction in Respite Care Grant	26	26
Changes to Household Benefits Package	81	84
Fraud, Control and Overpayments: Increased control measures	60	60
Administrative savings	5	5
Increased funding for activation programmes and school meal provision	(13)	(28)
Total net savings	**390**	**452**

2.3.2 FORECASTS BY OTHER AGENCIES

A comparison of *Budget 2013* projections with recent forecasts of other agencies is shown in Table 2.4. Around the time of the Budget, there was a consensus on the outlook with all agencies expecting the budget deficit to fall to just below 3 percent of GDP in 2015. Similarly, the debt to GDP ratio was projected to peak this year at just over 121 percent of GDP. A more recent forecast from the IMF based on more up to date information has a more positive outlook for the General Government balance, with the deficit projected to improve to 2.2 percent of GDP in 2015.