

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

Address to Dáil Éireann on Expenditure Estimates 2013

Wednesday, 5th December, 2012

Introduction

To complement the Minister for Finance's Budget Statement, I am announcing the Expenditure Estimates for 2013.

This Government continues to face a daunting challenge in repairing the economy and the public finances. Difficult decisions are still required. We are committed to meeting that challenge, and are confident that through good government we can lead Ireland back to independent funding and back to sustainable growth in living standards and in employment.

The expenditure adjustments I am announcing amount to just under €2 billion out of an overall adjustment of some €3½ billion. As a result, current expenditure will be reduced to €1.1 billion in 2013, and capital spending to €3.4 billion in 2013. I am very conscious that adjustments of this scale, of necessity, affect everyone. However, we have sought to be fair, protecting the most vulnerable to the greatest extent possible.

Political Reform

The crisis that we are enduring is borne of a series of related failings. Ours is a banking, fiscal and political crisis. It will not be resolved unless all three issues are addressed. That is why the Government established a Department of Public Expenditure and Reform, not a Department of Public Expenditure.

This represents the Government's commitment to more effective and open Government.

Measures including whistleblowing reform, new freedom of information legislation, the new powers recently conferred on the Ombudsman, legislation to empower the Oireachtas to hold inquiries within the existing constitutional constraints, legislation to bring greater transparency to lobbying activity, and revised ethics legislation in response to the reports of the Moriarty and Mahon Tribunals are all being prepared in my Department. Minister Hogan has also announced a programme of radical local government reform.

We are working too on revised Budgetary procedures to enhance the role played by parliamentarians in our budgetary process. For the first time, this year Oireachtas Committees debated the annual estimates in advance of decisions taken. Changing budgetary processes for all Eurozone Member States may make this the last December Budget in this country.

Oireachtas Committees are also scrutinising legislation in advance of finalisation by Government and feeding constructively into the decision making process.

I intend to bring proposals to Government shortly for Ireland to participate in the global Open Government Partnership, reinforcing our commitment to progress in this area.

These are crucial reform measures which stand as this Government's response to our governance crisis. I believe they will not only help bolster confidence in our political system but will help to enhance openness and transparency around policy formation.

Spending Pressures

Today though, is primarily about our fiscal crisis.

We must cut spending while the pressure on our public services is greater than ever.

Last year's census revealed that there were almost 350,000 more people living in Ireland than in 2006.

Compared to 2008, there are over 565,000 more medical card holders today. There are over 50,000 more students in our schools and almost 30,000 more third-level students. There are almost 80,000 more people in receipt of the State Pension and nearly 200,000 more people receiving jobseekers payments each week.

It is against this backdrop that we must continue to meet our fiscal targets and to reach a deficit of below 3% by 2015.

Public Service Reform / Croke Park Agreement

Reducing public expenditure and numbers while continuing to provide key public services and social supports is not easy. That is why we are undertaking the most comprehensive reform of the Public Service since the State was founded.

The Croke Park Agreement has been essential in supporting this reform. The value of a stable industrial relations environment in achieving a fiscal consolidation of this scale should not be underestimated.

Public Service staff numbers will be reduced to around 287,000 in 2013, a reduction of some 33,000 from the 2008 peak of 320,000. We plan to go further to reduce this number to 282,500 by end 2014.

Public servants have already had two pay reductions, totalling an average of 14%. Top salaries have been reduced by up to 30% and capped at €200,000. We have also reduced the salaries for new entrants to the Public Service by a further 10%.

Public Service pensions have been reduced, saving over €100 million annually. Legislation for a new Single Public Service Pension Scheme has been enacted to reduce future pension costs.

We are implementing a radical reform of the way in which public procurement is organised, to yield significant savings.

We are reducing duplication and waste through greater use of Shared Services for a range of back-office functions. For example, a new HR

Shared Service Centre for the Civil Service will reduce HR headcount by 17% and costs by 26%, with annual net savings of €12.5 million.

We are taking a focused and integrated approach to external service delivery of non-core activities, where appropriate.

In April, we published a new eGovernment Strategy, which builds on Ireland's strong recent performance in this area. The most recent European Commission eGovernment Benchmarking exercise shows that Ireland is now ranked first in Europe for the provision and sophistication of online services to businesses and citizens, for example.

We have agreed the standardisation of annual leave and paid sick leave across the Public Service, which will yield both productivity increases and cost savings.

Notwithstanding the progress made to date, the Public Service pay and pensions bill, at 36% of spending, will need to make an additional and substantial contribution to meeting our fiscal challenge in 2013 and beyond.

Additional productivity and cost extraction measures - not envisaged under the current Croke Park deal - will be required to ensure that the Government meets these commitments.

Following my invitation, the Public Services Committee of the ICTU recently agreed to enter into discussions to establish if we can reach agreement on such measures. The aim of these discussions is to achieve additional reductions in the cost of delivery of public services of the order

of €1 billion from the Public Service pay and pensions bill over the period 2013 to 2015.

Public servants are delivering our new vision for the Public Service and their contribution should be recognised. This is a real opportunity for us to build on the achievements of the current Agreement and to drive a range of workforce reforms that will support our public services into the future.

But reforming public services is not just about reducing unsustainable costs. We need a service that is flexible and responsive to public needs – a service that is world class.

Supporting Jobs and Enterprise

Creating jobs for our people is central to this Government's agenda and Minister Noonan has outlined a series of tax measures to build on the Jobs Budget and *Action Plan for Jobs* of last year. The latest figures show some growth in private sector employment.

Jobs

In 2013, we will maintain our support for employers across all sectors in creating and sustaining jobs.

I am allocating total capital expenditure for the Department of Jobs, Enterprise and Innovation of just under half a billion euros in 2013 to drive the jobs and enterprise agenda.

I am providing Enterprise Ireland with an allocation of €139 million to support indigenous Irish exporters in 2013. In addition to the wide range of

existing measures, this will support the launch of a new ten-year €175 million Venture Capital Fund, which will fund new and expanding Irish companies over the medium term.

The Government is restructuring County Enterprise Boards to provide a One-Stop-Shop through the Local Authority system. This reform will be supported with an allocation of over €26 million in 2013, which will facilitate this transition and fund schemes to support small businesses across the economy.

A key challenge is to ensure that the new jobs that will be created as our economy improves, result in a reduction in unemployment rates. This will involve the Government providing for better targeting of labour activation places and opportunities to provide valuable work skills to unemployed people, particularly those who are long-term unemployed.

I am providing an additional €11 million in 2013 and €26 million in a full year, to allow the Department of Social Protection to increase by 10,000 the number of placements available across the labour market activation schemes offered by the Department. This will improve employability and work readiness outcomes for participants by giving them opportunities to put their work skills into practice and learn new ones. My colleague, the Minister for Social Protection, will expand on these measures later today.

Capital Expenditure

The five-year Exchequer Capital Framework published last year sets out a programme of Exchequer investment of €17 billion out to 2016, which will address critical infrastructure deficits, aid economic growth and jobs and

provide much needed social infrastructure. The overall capital budget for 2013 will be €3.4 billion and will focus on the sectors prioritised in the 2011 capital review – Health, Education and Jobs.

In July, I announced a new Government Stimulus Initiative amounting to a package of €2.25 billion aimed at leveraging funding to support a new PPP programme of projects in key areas of infrastructure.

There have already been some very positive signals for the PPP market.

PPP Schools Bundle 3 reached financial close last month and construction work has commenced. A loan of €50 million secured through the European Investment Bank for this project is a further signal of the bank's renewed confidence in the Irish State and our recovery programme, as is their provision of €200 million in funding for Exchequer projects in schools and the water sector.

The capital allocation for Education will ensure that we will continue to provide additional school places in 2013 to meet demographic demand. Preparation works for the Grangegorman DIT campus will also get underway in 2013.

My officials are also engaging with the Council of Europe Bank on funding for the justice projects in the PPP Programme.

I have reached agreement with the Troika that the proceeds of State Asset sales can be used to support investment and structural change in the economy.

Last week, my colleague, the Minister for Transport Leo Varadkar, gave details on the commencement of the pre-construction enabling works for the Luas Broombridge project which will be provided for in the allocation for Transport.

I am also providing €17.4 million to the Department of Children and Youth Affairs for the development of a new youth detention facility at Oberstown. The Minister for Children and Youth Affairs, Frances Fitzgerald, is driving this project, which is due to start next year and should create some 520 jobs during construction. On completion, it will mean that 17 year old boys will no longer be detained in Saint Patrick's Institution which is unsuitable for children and has been heavily criticised by many national and international bodies.

We have long recognised that energy efficiency measures in both the public and private sectors have the potential to generate jobs and to help Ireland meet its climate change targets. Ireland has challenging CO2 and energy savings targets to meet by 2020. The Government's National Energy Efficiency Action Plan sets out the measures necessary to deliver the national 20% energy savings target.

One of the key measures is the retrofitting of existing buildings to achieve energy savings. The targets in this area imply upgrading the energy performance of 100,000 houses per annum and reducing the energy consumption in the public sector by 33%.

These are challenging targets, but they are also opportunities.

The Government has already taken measures to stimulate economic activity and unlock the untapped potential of the public sector in this area. I have also agreed to allocate €9 million to improve the energy consumption of central government buildings up to 2015.

Furthermore, to place the retrofit industry on a sustainable footing, the Minister for Communications, Energy & Natural Resources has been working closely with the private sector to create an Energy Efficiency Fund. Good progress has been made on exploring private funding participants' interest but as a sign of the Government's intent, I have agreed to provide resources of €35 million as seed capital for this fund, with a view to establishing a leveraged fund of over €70 million.

Energy retrofitting is labour intensive and provides job opportunities for our construction sector. We have companies in Ireland who supply much of the material for these works, so jobs will be secured and created in those companies.

Minister Rabbitte will announce further details in due course.

Current Expenditure

We all know we must reduce public expenditure. Our current levels of expenditure are no more sustainable than the property bubble that once sustained them. There is no point in trying to pretend otherwise. We must be strategic in how we do this. We are not going to slash and burn essential public services to satisfy particular interests, or in response to sensationalist

headlines. We need to protect the more vulnerable in our society to the best of our ability.

Accordingly the Government has decided to raise the expenditure ceilings for 2013 in two Government Departments that deliver on our social values as a society.

Spending in the areas of Social Welfare and Health will increase by €150 million each. This means that a lower adjustment is required for those Departments than we had previously stated.

These increases will be funded by a number of taxation measures, as announced by the Minister for Finance, and by increased dividend payments to the State.

Social Protection

The social protection expenditure ceiling for 2013 will be over €20.2 billion.

Expenditure on social supports has an important impact on stabilising our domestic economy through supporting the overall demand for goods and services. In this context, we concluded that reducing the primary weekly rates of social welfare payments would have a more detrimental impact on domestic consumption than reducing incomes at higher levels.

Accordingly, I can confirm that we are, once again, not reducing any primary weekly rate of social welfare payment.

This means that all pensioners and all those under 66, such as people with disabilities and jobseekers, will have their weekly primary payments fully maintained. In addition, there will be no change to either the rate or duration of weekly fuel allowances where payable.

Nonetheless, the pressures on our social welfare budget are considerable. For example, pensions will cost around €200 million more in 2013 than in 2012 and unemployment, while stabilised, has not reduced to the extent that we envisaged last year. Even with the increase to the social protection ceiling for 2013, measures must be taken to reduce costs.

- We will reduce the duration of jobseeker's benefit by 3 months. This will save €33 million in 2013 and €82 million in a full year.
- The Household Benefits package comprises electricity allowance, telephone allowance and free TV licence schemes. Given the universal element of the Household Benefits package, we have decided to reduce the supports available to the telephone allowance scheme, to achieve savings of €61 million next year. We have also decided to introduce changes to the electricity allowance to achieve savings of €20 million next year.
- We will reduce the child benefit rate by €10 per month. This measure will save €136 million next year. We are conscious of the impact that this will have on many households. Therefore, we are providing for additional supports that are specifically targeted at low-income households. These include:

- €4 million in funding to the Department of Children and Youth Affairs to increase the number of childcare places available to low income workers;
- €2.5 million additional supports to the Department of Children and Youth Affairs to further enhance targeted early-childcare and education supports for children in a number of very disadvantaged areas.

Full details of the specific social welfare measures are set out in the expenditure report. My colleague the Minister for Social Protection will expand on these measures later today.

Health

I am allocating €3.6 billion to the health budget. As indicated, this includes an additional allocation of €150 million to this area.

The demand for health services continues to grow due to demographic pressures and we must make certain that these services continue to meet the health needs of the population.

For example, by end year, it is expected that expenditure on the primary care reimbursement service will account for 20% of total HSE expenditure. This growth is being driven by the cost of drugs, payments to professional service providers, and the growth in the numbers of cardholders. We will take measures to contain these costs, while at the same time ensuring that medical needs are met. These measures will yield savings of €23 million next year.

- To contain the growth in the cost of medical cards under the primary care reimbursement service, we are increasing the prescription charge for medical card holders. This charge is being increased from 50c to €1.50 per item and the monthly cap for a family is being increased from €10 to €19.50. The increased co-payment for drugs will help make funding more sustainable.
- The Drug Payment Scheme threshold is being increased from €32 to €44 per month and will save €10 million.
- Professional fees for health service providers such as GPs and community pharmacists will be reduced to save €70 million.
- People over 70 with an income of €600- €700 per week for a single person and €1,200-€1,400 per week for a couple will have their medical card replaced with a GP only card.

The increased demand on overall services is being met through reform of health structures, changing the way services are delivered and securing efficiencies, and pay savings. The discussions on savings through an extension to the Croke Park Agreement will be critical to meeting the funding needs of the services in 2013 and beyond.

Other measures including greater efficiency and improved income collection will yield savings of €150 million.

My colleague, the Minister for Health, will be announcing details of all the health funding and savings measures.

Education

The Department of Education and Skills estimate that next year will see over 20,000 additional pupils in primary and secondary school, with a further 3,300 in third level. Gross education current expenditure will total just over €8.5 billion next year.

Education and training will continue to be a priority of this Government and this is evidenced by the level of investment in this area at a time of such severe resource constraints. In particular, we will prioritise and protect as far as practicable those programmes that deliver the best results and meet the requirements of children, parents, the disadvantaged, the unemployed and the labour force.

However, we cannot exclude the education sector from the requirement to make savings when we have to make difficult choices in areas like health and social protection. While bearing in mind demographic pressures in the coming years, we have had to take decisions to meet the budgetary parameters for education. We have focused the savings measures on those areas where expenditure can be reduced without a significant impact on core education services.

- We will increase the staffing schedule for Fee-Charging schools in 2013 by two points.
- We are reducing the allocation to VECs by €13 million in 2013. The VECs will be able to deliver the same level of service by managing from within both their Exchequer allocation in 2013 and their existing own resources.

- The sick leave referral arrangements for teachers and SNAs will be made similar to those operating in the Civil Service.
- Changes will be made in respect of the income supports paid to new entrants to further education and training programmes.
- The student contribution in higher education will be increased by €250 in each of the years 2013, 2014 and 2015. This is necessary to help maintain higher education services at a time when the Exchequer is severely constrained.
- We are reducing the allocation to higher education institutions by €25 million. Using their existing own resources as well as very considerable exchequer allocations, the higher education sector will be able to maintain services in 2013.

Further details of the education measures are set out in the expenditure report and will be announced by the Minister for Education and Skills.

Other Departments

In addition to jobs, social protection, health and education, important measures are being taken in other areas.

Savings from Agriculture, including from changes to the Disease Eradication, Suckler Cow, REPS and Early Retirement schemes, will yield some €89 million.

Within the Justice Sector, reductions in Garda Overtime and various other payroll and efficiency measures will yield over €60 million.

Following agreement between the Housing Bodies and NAMA, I now expect the flow of properties from NAMA for social housing to increase significantly in 2013, and an additional €10 million will be allocated to the Department of the Environment, Community and Local Government to ensure that we make real progress in delivering these units to those that need them.

A range of other expenditure measures are set out in the Expenditure Report.

Political Expenses Reform

The payments that the members of these Houses receive are constantly under scrutiny and rightly so. While the revised system of expenses introduced by the last Government was an improvement on what went before, the system remains unsatisfactory. The recent PAC report has raised a number of issues regarding who should determine Oireachtas Expenses. As the PAC report acknowledges, previous efforts at the independent setting of remuneration did not resolve all issues. To that end, I have written to the Oireachtas Commission, as the body responsible for these Houses, seeking their views.

Nonetheless there are a number of issues that I believe require to be addressed immediately.

It is untenable to have a system of ‘unvouched’ expenses so I am proposing to abolish the unvouched element of the Parliamentary Standard Allowance. In future, all members of the Oireachtas will have to use the vouched system. I will also be applying reductions of 10% and more to the expenditure limits that comprise the Parliamentary Standard Allowance and of 50% to the allocation of Oireachtas envelopes.

Similarly, it is untenable for the Party Leaders Allowances to be paid to independent Members without any external validation of its use. I am announcing here today that I intend to amend the legislation to provide for such auditing. I am also announcing that I intend to apply an across the board reduction of 10% to the Party Leaders Allowance.

Currently, severance is payable to Ministers and other officeholders, commencing the day after the person ceases to hold Office. This is payable for a period up to a maximum of two years. I do not believe this is justifiable any more. I am now proposing to introduce legislation to abolish this payment for current and future officeholders.

Summary

In total, spending adjustments designed to yield over €15 billion have been implemented during this crisis. This represents the vast bulk of the required total adjustment.

The scale of this adjustment should not be underestimated. Nor do we underestimate the difficulties that this has caused for many. As reliable economic commentaries from the ESRI to the European Commission and the OECD have indicated, we have sought to do so in a manner consistent

with fairness. In reducing the deficit, we are endeavouring to ensure that we protect the vulnerable in our society. Those who can contribute more, should and will do so.

This year's General Government deficit is estimated at just under €13½ billion or 8.2% of GDP. This is within the 8.6% of GDP limit set by the ECOFIN Council in December, 2010.

We must continue to meet our fiscal targets and to reach a deficit of below 3% by 2015.

The next Comprehensive Review of Expenditure will commence in 2013, and will be central to identifying additional cost savings and efficiencies. The Croke Park Agreement will continue to enable reforms and cost savings across the Public Service.

Conclusion

As a Government this is our second Budget. The economy we inherited had experienced a catastrophic shock.

When I took office last year, I could not be certain that we would make it through this crisis.

I no longer hold this fear.

What the people of Ireland have endured has been tough, almost without precedent in the developed world.

That we will come through it, and we will, is a significant shared achievement.

In time, future generations will be proud that we, as a people, tackled this crisis head on.

There remain difficult challenges ahead of us but Ireland and her people will prosper again.

Thank you.

ENDS/