

Response to the Select Committee on Budgetary Oversight in relation to Voted Expenditure Pre-Commitments for 2019 as set out in SPU 2018

As outlined in the Stability Programme Update (SPU) 2018 there are voted expenditure pre-commitments of €2.6 billion in 2019, with €1.5 billion for additional capital spending (NDP and other), €0.4 billion to provide for demographic related costs, €0.4 billion for public service pay and €0.3 billion in relation to carryover costs into 2019.

The Summer Economic Statement (SES) 2017 provides estimates of fiscal space for the period 2018 to 2021. These estimates were based on a number of variables, including reference rates for potential growth which are set each year by the European Commission and are therefore subject to change based on the latest Commission forecasts. In addition, in arriving at projections for net fiscal space certain expenditure that was pre-committed, at the time of publication of the SES in July last year, was taken into account.

Specifically in relation to 2019, Table 3 in SES 2017 set out projected net fiscal space of €3.2 billion for 2019. This is after accounting for pre-committed voted expenditure relating to demographics and the Public Capital Plan (PCP) (see footnotes 2 and 3 in SES 2017, Table 3) and other general government commitments. The nominal amounts relating to these voted expenditure pre-commitments were set out in Table 1.3 on Page 9 of the Mid-Year Expenditure Report (MYER) 2017, with €0.4 billion of current expenditure in respect of demographics and €0.3 billion of capital expenditure arising from increases set out in the Public Capital Plan and from prior year budget adjustments.

The SES and the MYER did not reflect the impact of the subsequent abolition of domestic water charges and the consequent change in funding arrangements for Irish Water. With funding in respect of domestic water services now being provided through voted expenditure, €0.1 billion of the overall year-on-year increase in voted capital expenditure in 2019 arises from the change in funding arrangements for Irish Water and is therefore technical in nature.

Consequently, of the €2.6 billion in voted expenditure pre-commitments set out in the SPU 2018, the fiscal space impact of nominal amounts of €0.4 billion in voted current expenditure (for demographics) and €0.4 billion in voted capital expenditure (including the €0.1 billion in relation to Irish Water capital expenditure), were taken into account in arriving at the estimated net fiscal space amount of €3.2 billion for 2019 in last year's SES.

In relation to current expenditure there are pre-commitments in 2019 that arose after the SES 2017 of €0.7 billion. There is a cost of €0.4 billion arising in 2019 from the Public Service Stability Agreement (PSSA). As signalled, this amount was not included as pre-committed expenditure in the SES or the MYER as the agreement at that stage was subject to ratification. In addition, as outlined in the Expenditure Report 2018, there was a cost

estimated, at that time, of €0.2 billion in respect of the carryover impact of certain Budget 2018 measures that would need to be met from the available resources for 2019 or from savings/reprioritisation. The current updated estimate of the carryover impact into 2019 is €0.3 billion.

In Budget 2018 last October, additional capital was allocated over the four year period 2018 to 2021 following the mid-term review of the Capital Plan. Expenditure Report 2018 set out gross voted capital expenditure amounts of €5.3 billion for 2018 and €6.6 billion for 2019. These amounts were in line with the increases set out in the MYER, with just over €0.3 billion in the pre-Budget position and an additional approx. €1 billion to be allocated as part of the Budget 2018 process. The fiscal space impact of the additional capital allocated during the Budget 2018 process is in line with the indicative allocations of fiscal space for capital grants and gross fixed capital formation of just under €0.6 billion in aggregate set out in Table 4 of SES 2017.

The National Development Plan revised the Departmental capital expenditure ceilings for 2019 to 2021, published in REV 2018, to facilitate the early commencement of a number of funds. The 2019 voted capital expenditure amount in the SPU 2018 reflects the additional funding allocated in the National Development Plan in respect of the Funds. With the cost of the funds being partly covered by an unallocated Public Capital Plan (PCP) reserve; the additional cost arising in 2019 is less than €0.1 billion.

Consequently, and as outlined in Table 1 below, the voted expenditure pre-commitments, outlined in the 2018 SPU, that arose after publication of last year's SES and MYER amount to €1.8 billion, with an impact of c. €1.4 billion on fiscal space after taking into account the estimated effect of the capital smoothing adjustment that applies under the Expenditure Benchmark. Table 4 in the SES included provision for a contribution of €0.5 billion to the Rainy Day Fund. The contribution is also reflected in the SPU 2018 and is included in Table 1 below.

The forthcoming Summer Economic Statement 2018 will outline the parameters for Budget 2019. In setting out these parameters a key consideration is the formulation of budgetary policy, based on what is right for the economy, and that does not jeopardise the sustainability of our public finances and our future living standards. It is imperative that the pro-cyclical mistakes of the past are avoided. With the economy now very close to full employment, it is crucial that budgetary policy does not add to overheating pressures. So, in formulating policy, it is the budgetary stance that will set the framework within which decisions will be taken. The Government wants steady and sustainable improvements in living standards, not a return to the boom-bust of the past.

Table 1: Impact on Indicative allocations of Fiscal Space, as set out in Tables 3 and 4 of SES 2017, of €2.6 billion in Expenditure Pre-Commitments outlined in SPU 2018

			Fiscal Space 2019 €bn	Expenditure 2019 €bn
Gross Fiscal Space		a	3.6	
Non-indexation		b	0.5	
Adjusted Fiscal Space	(a+b)	c	4.1	
SES Expenditure Pre-Commitments		d	0.7	0.8
Demographics			0.4	0.4
Capital Expenditure	Public Capital Plan		0.2	0.3
	Irish Water		0.1	0.1
Other Commitments		e	0.3	
Net Fiscal Space	(c-d-e)	f	3.2	
Post SES Expenditure Commitments				
Current Expenditure		g	0.7	0.7
Public Service Stability Agreement			0.4	0.4
Carryover Impact of Budget 2018 Measures			0.3	0.3
Capital Expenditure - Budget 2018 Multiannual Allocations		h	0.6	1.0
Capital Grants			0.2	0.2
Gross Fixed Capital Formation			0.4	0.8
NDP - Allocation for Funds net of PCP Reserve		i	0.1	0.1
Total Post SES Expenditure Commitments	(g+h+i)	j	1.4	1.8
Rainy Day Fund Provision		k	0.5	
Expenditure Pre-Commitments and Rainy Day Fund Provision	(j+k)	l	1.9	

Note: Rounding may affect totals.