

Expenditure Report

2016

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Executive Summary

This document is the Expenditure Report for Budget 2016, as presented to Dáil Éireann. It sets out the Government's voted expenditure allocations and measures for 2016. It also provides the expenditure ceilings for 2017 and 2018. Strengthened economic growth combined with continued careful management of the public finances mean that it is possible to increase public expenditure modestly for a second year in succession. Public spending is now firmly on the path of steady and sustainable expenditure planning and has moved away from the period of overall expenditure reductions.

Total gross voted expenditure for 2016 will reach €55.3 billion as shown in the table below. This is consistent with Ireland's fiscal targets and its path towards structural balance.

Estimate of Gross Voted Expenditure 2016	
	€ million
Current Expenditure	51,477
Capital Expenditure	3,781
Total *	55,257

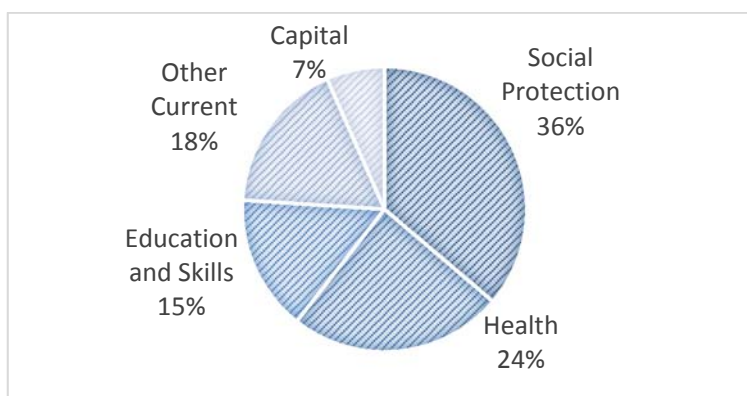
As envisaged in the Spring Economic Statement in April, the budgetary position has provided the scope for a targeted increase in 2016 which allows for a package of new measures as set out in the table below.

Budget 2016 New Expenditure Measures	
	€ million
Social Protection	251
Children and Youth Affairs	85
Justice	37
Education & Skills	24
Environment	20
Arts and Heritage	20
Health	18
Others	15
Subtotal	470
Lansdowne Road Agreement	300
Total *	770

* Rounding affects totals

The chart below shows the distribution of total Government voted expenditure across the main spending headings. It reflects the importance of strategic programmes in the social protection and education areas as part of Government's focus on protecting the most vulnerable in society and prioritising core social services.

Prioritisation of Public Spending 2016



The 2016 allocations to Departments for current and capital expenditure are outlined in the table below. More information about these allocations are provided in Parts II and IV of this Report.

Gross Current Expenditure Ceilings for 2016			
Ministerial Vote Group (rounding affects totals)	2015 Forecast Outturn <i>€million</i>	2016 Estimate <i>€million</i>	Increase/ (Decrease) <i>€million</i>
Agriculture, Food & the Marine	1,112	1,134	22
Arts, Heritage & the Gaeltacht	216	234	19
Children & Youth Affairs	1,007	1,113	106
Communications, Energy & Natural Resources	326	325	(0)
Defence	832	837	6
Education & Skills	8,481	8,524	44
Environment, Community & Local Government	835	957	122
Finance	427	430	4
Foreign Affairs & Trade	682	694	13
Health	12,895	13,175	280
Jobs, Enterprise & Innovation	301	297	(4)
Justice & Equality	2,250	2,264	15
Public Expenditure & Reform	910	940	30
Social Protection	19,887	19,627	(260)
Taoiseach	171	201	30
Transport, Tourism & Sport	675	722	47
Contingency	35		
Total	51,040	51,477	437

Gross Capital Expenditure Ceilings for 2016			
Ministerial Vote Group (rounding affects totals)	2015 Forecast Outturn <i>€million</i>	2016 Estimate <i>€million</i>	Increase/ (Decrease) <i>€million</i>
Agriculture, Food & the Marine	198	217	19
Arts, Heritage & the Gaeltacht	62	76	14
Children & Youth Affairs	35	25 ¹	(10)
Communications, Energy & Natural Resources	89	107	18
Defence	66	66	0
Education & Skills	618	545	(73)
Environment, Community & Local Government	494	539	45
Finance	24	25	1
Foreign Affairs & Trade	5	4	(1)
Health	382	414	32
Jobs, Enterprise & Innovation	539	495	(44)
Justice & Equality	107	130	23
Public Expenditure & Reform	137	111	(26)
Social Protection	25	11	(14)
Taoiseach	0	0	0
Transport, Tourism & Sport	1,053	1,016 ²	(37)
Total	3,835	3,781	(54)

1 An additional €3m was allocated to Children and Youth Affairs as part of the Budget 2016 package for childcare.

2 An Exchequer neutral adjustment of €23m has been made from capital to current expenditure.

SUMMARY OF NEW EXPENDITURE MEASURES

	Cost in 2016 (€m)
<i>Arts, Heritage & the Gaeltacht</i>	
<i>Ireland 2016</i> – To provide an inclusive and wide ranging national commemorative initiative as an enduring acknowledgment of the 1916 Rising.	18
Increased investment in Heritage including maintenance in National Parks and Reserves.	2
<i>Children & Youth Affairs</i>	
<i>Childcare (Current)</i> – Extension of Early Childhood Care and Education scheme, including facilitation of children with disabilities. The number of places available through the Community Childcare Programme will be increased.	82
<i>Youth Justice</i> – In respect of the operation of the new Children’s Detention Facility and the introduction of a bail support scheme.	2
<i>Youth Organisations and Services</i> – Additional supports for youth intervention projects.	1
<i>Education & Skills</i>	
<i>Changes in the Staffing Schedule and Management Structures</i> – Changes in the staffing schedule in primary schools (reduced from 28:1 to 27:1), secondary schools (reduced from 19:1 to 18.7:1) and measures to strengthen school leadership.	18
<i>Junior Certificate Reform</i> – Funding to support the introduction and progression of the new Junior Certificate structures and processes.	6
<i>Environment, Community & Local Government</i>	
<i>Social Housing Leasing Programme</i> – This will contribute to the delivery of 3,000 new social housing units under the Social Housing Strategy 2020.	20
<i>Foreign Affairs & Trade</i>	
<i>Passport Service Reform Programme</i> – Providing a streamlined, more efficient, application process and introduction of online applications.	4
<i>Health</i>	
<i>Children’s Health</i> – Extend free GP Care to children under 12 years.	10
Therapeutic services for children including speech and language therapy.	8

	Cost in 2016 (€m)
<i>Justice & Equality</i>	
<i>Response to Syrian Refugee Crisis</i> – This funding will enable the Department of Justice to manage the resettlement/relocation of 4,000 persons in response to the current international migration crisis.	25
<i>Garda Reform</i> – This funding is being provided to support the recruitment of specialist expertise to drive a reform agenda in An Garda Síochána and also to provide for the recruitment of up to 600 new trainee Gardaí.	9
<i>Policy Authority</i> – This funding is to allow for the establishment and staffing of the new Authority which will provide strong independent oversight of policing and bring a new level of public accountability to the administration of policing services. Once established it is envisaged that the body will play an integral part in driving policing reform.	3
<i>Revenue Commissioners</i>	
<i>To continue to confront non-compliance</i> – Increase Revenue staff resources by 50 (f.t.e.) trained staff on audit and other risk based intervention activities.	3
<i>Social Protection</i>	
<i>Pensioners</i> – Increase the weekly rate of all pension payments (for those aged 66 and over) by €3 per week, with a proportional increase for qualified adults, this will benefit 583,000 pensioners and 93,500 qualified adults.	93
<i>Child Benefit</i> – Increase Child Benefit by €5 per month per child, from €135 to €140 this will benefit 1,191,000 children and 623,000 families.	72
<i>Carer's Support Grant (Respite Care Grant)</i> – Increase the Carer's Support Grant by €325 per annum, from €1,375 to €1,700, this will benefit 86,000 people.	30
<i>Jobseeker's Transitional Payment</i> – Increase the JST income disregard from €60 to €90 per week and reduce taper from 60% to 50%, this will benefit 5,900 people.	8
<i>Family Income Supplement</i> – Increase the FIS income thresholds by €5 for families with one child and by €10 for families with two or more children, this will benefit 59,350 families and 131,000 children.	18
<i>Paternity Benefit</i> – Introduce a new Paternity Benefit scheme from September 2016.	5
<i>Fuel Allowance</i> – Increase the Fuel Allowance by €2.50 per week, from €20 to €22.50, this will benefit 381,000 people.	25
<i>Transport, Tourism & Sport</i>	
<i>Additional PSO Subvention</i> – To fund service increases.	6
<i>Tourism Funding</i> – To support Wild Atlantic Way, Ireland's Ancient East and the Rugby World Cup 2023 bid.	2
TOTAL	470

Introduction

Budget 2016 represents another stage in Ireland's steady progression on the path of economic and fiscal recovery, building further on the successful exit two years ago from the EU/IMF support programme. The public finances are now on a course towards achieving structural balance, at which point the State will no longer have to borrow to meet the cost of public services and investment. The country's economic performance is strong and increasingly broadly based but, as a highly open economy, it will always be vulnerable to weaknesses in international economic conditions. This warrants a continuation of the well calibrated domestic fiscal policy that has proven effective in reducing the deficit, bringing the national debt under control and restoring confidence generally.

This Expenditure Report sets out the Government's decisions in relation to spending decisions by Government Departments for 2016 and its voted funding over the period 2016 to 2018. The structure of the Report is as follows:

Part I provides an overview of the main macro-economic, fiscal and expenditure policy considerations which have been taken into account in setting the expenditure strategy for the period 2016 to 2018. It also sets the scene for Budget 2016 by considering the trends in expenditure over an extended period up to the present.

Part II outlines the multi-annual expenditure ceilings agreed for each Government Department. It includes summary data on the overall ceilings for current and capital spending. It also sets out information in relation to each Department describing the nature of its funding allocations for current spending, the public services to be delivered in 2016, and a summary of the new measures being funded from the Budget announcements.

Part III provides an update on some of the reforms to the public expenditure framework. It sets out the new programme of Value for Money reviews and highlights a range of analytical work completed by the Irish Government Economic and Evaluation Service. It also recaps on two new innovations which informed this year's Budget deliberations: the Spring Economic Statement and the National Economic Dialogue.

Part IV contains the full details of the expenditure allocations for 2016 with a presentation of the Estimates for Public Services for each Vote.

PART I Expenditure Strategy

Economic Outlook

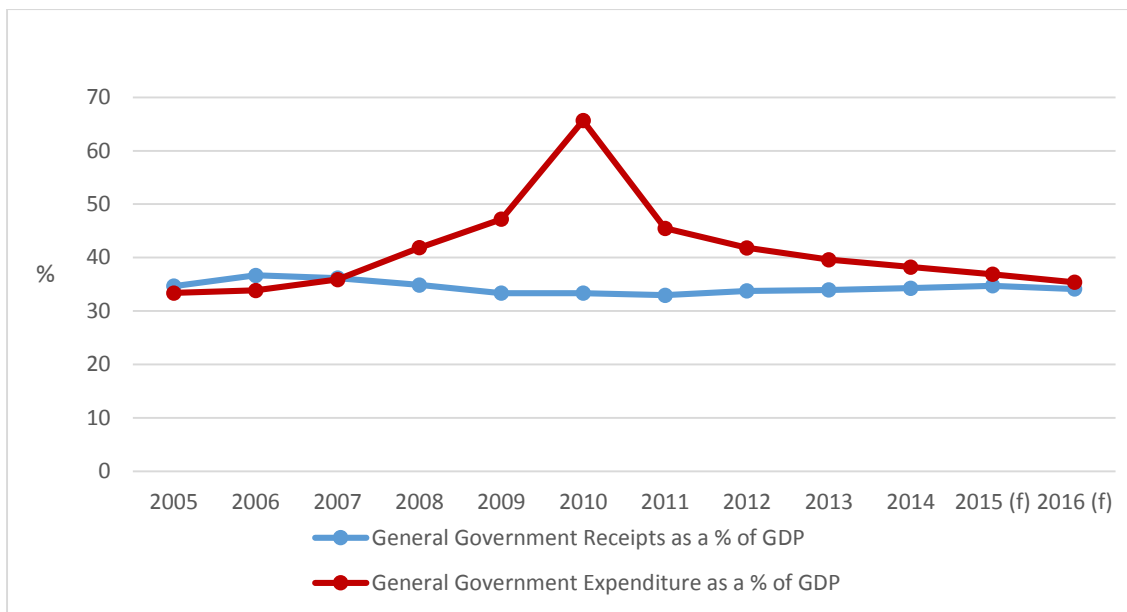
The performance of the economy is an important backdrop to medium term expenditure planning. The Irish economy's strong return to growth has contributed to the restoration of stability in the public finances, most notably through higher tax receipts and reduced pressure on welfare payments from higher employment. The latest official macro-economic outlook forecasts robust economic growth of 6.2 percent for 2015 and 4.3 percent in 2016.³ Over the medium term, prospects remain very positive with expected growth of 3.5% in 2017, moderating to 2.9% by 2021. This bright outlook gives the Government the basis for making sustainable medium term fiscal plans to bring the public finances back to balance in a short few years while also having the capacity to make some further targeted increases in priority areas of public spending.

Evolution of the Fiscal Position

Ireland's fiscal position has undergone significant change over the past decade. Figure 1 below plots the trajectory of the public finances since 2005. 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 ultimately positive impact of the difficult spending and taxation policies that were adopted in response to this crisis, and which helped to curtail the unsustainable spiral of borrowing and reset the public finances onto a recovery path.

³ For a fuller outline of these macro-economic forecasts, see Economic and Fiscal Outlook 2016 published by the Department of Finance as part of Budget 2016. Available at <http://www.budget.gov.ie/Budgets/2016/2016.aspx>.

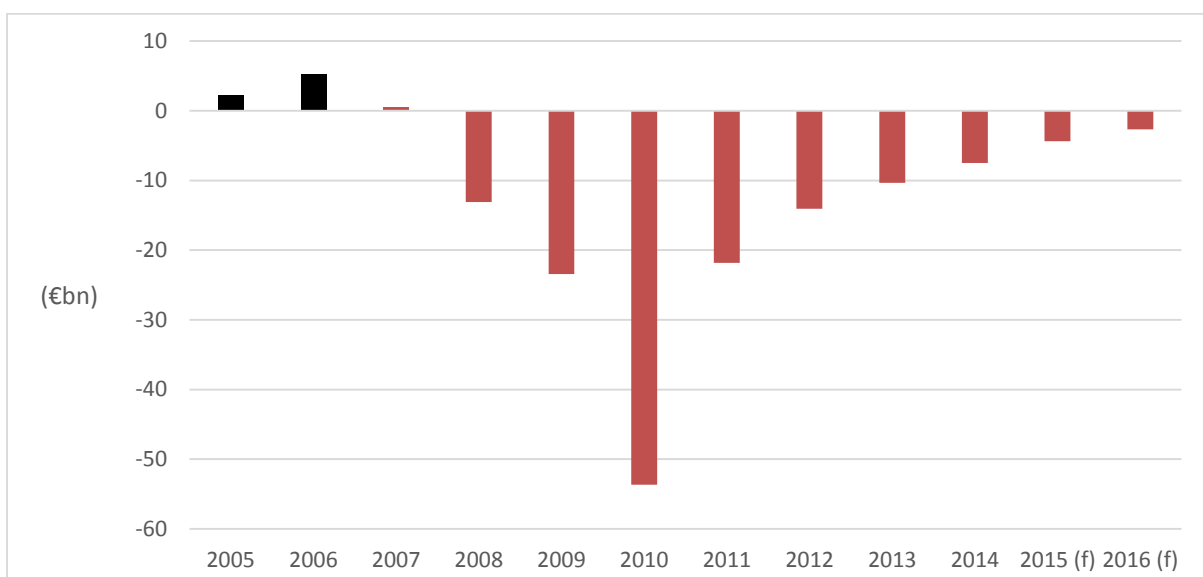
Figure 1 Public Finances, 2005 to 2016



Source: CSO and Department of Finance

Progress has been made in reducing the deficit, but as Figure 2 shows the State continues to need to borrow each year to pay for public services and investment, and it is forecast to continue to do so until 2018. In 2016, the deficit between revenues and expenditure will be approximately €2.7 billion. While this is much lower than previous years, it is still an addition to borrowing.

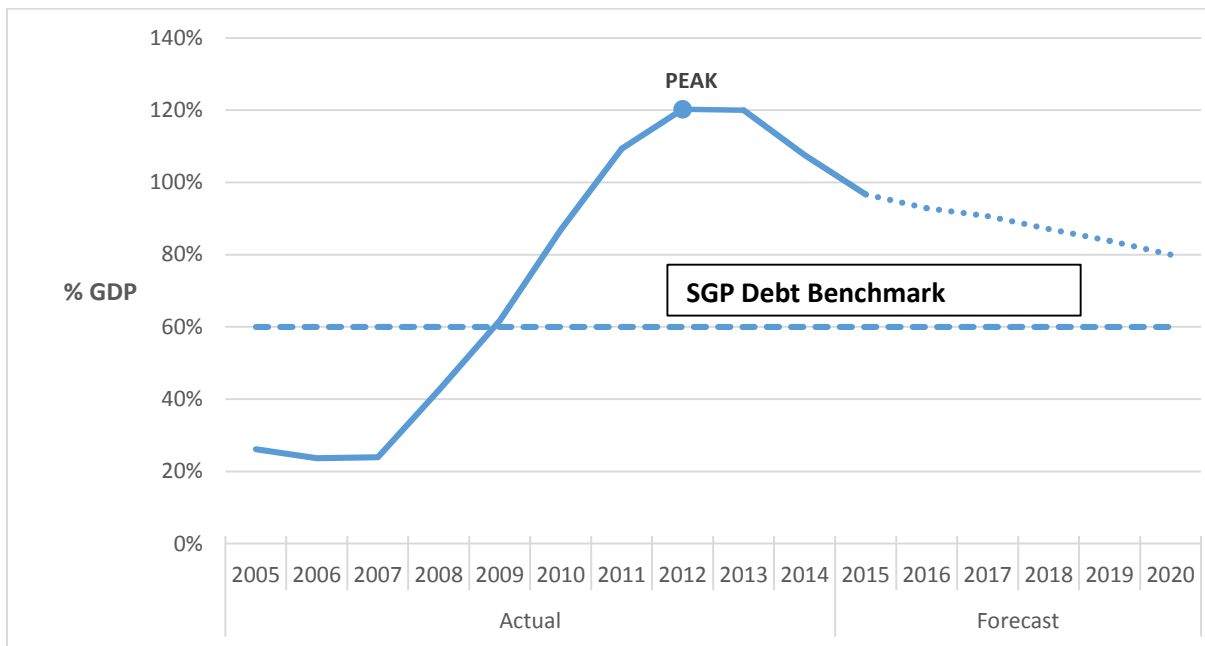
Figure 2 General Government Surplus/Deficit, 2005 to 2016



Source: CSO and Department of Finance

The public debt, as a percentage of GDP, having peaked in 2012 at just over 120 percent is now set to fall below 100 percent by the end of this year. This is still a very high level of indebtedness by any measure and reducing it further will help make the fiscal position more robust and protect against Ireland’s openness to external economic shocks and the potential for borrowing rate increases over the medium term. As Figure 3 suggests, it will be necessary to run primary Budget surpluses for some years to come in order to ensure that Ireland’s debt remains on a firm downward trajectory and reaches recommended EU norms (the ‘debt benchmark’) within a reasonable timeframe.⁴

Figure 3 General Government Debt as a share of GDP, 2005 to 2020



Source: Department of Finance

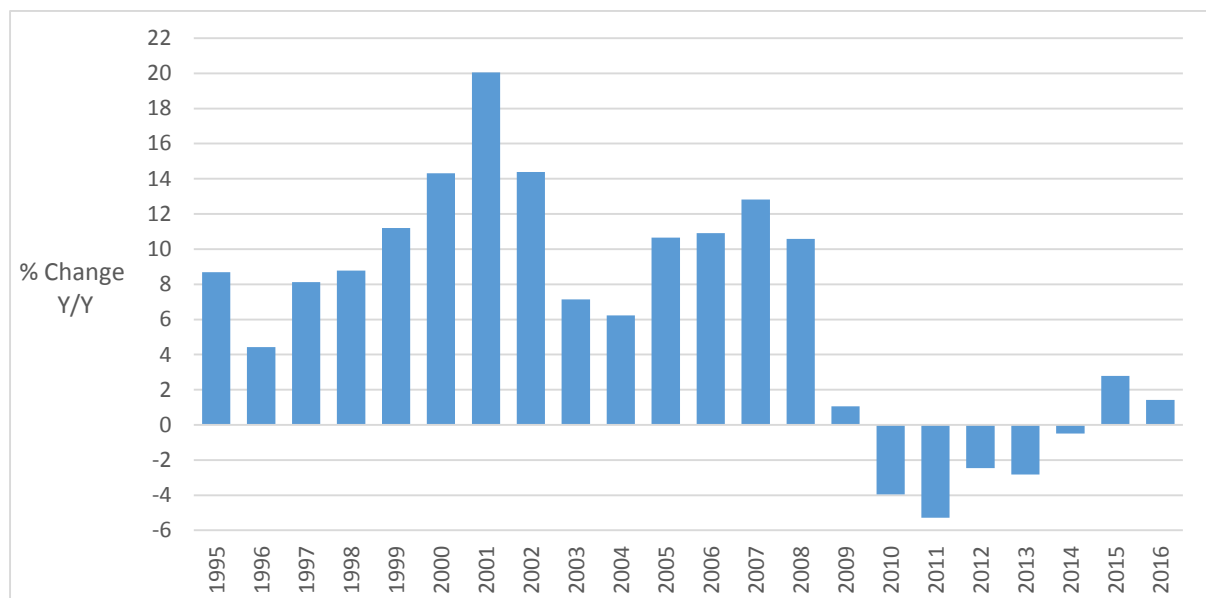
⁴ Ireland is not fully subject to this requirement until 2019. However, a pillar of the SGP requires that the debt to GDP ratio should make sufficient progress towards compliance with the debt benchmark. Ireland’s forecast improvement in debt to GDP ratio will meet this target.

Expenditure Trends

To help understand present developments in public expenditure it is useful to review the trend in spending levels over time.

Figure 4 shows the year on year change in total voted spending, capital and current, from 1995 to 2016. Over the 14-year period from 1995 to 2008, annual increases in spending were in excess of 6 percent in all except one year (1996). In 2009, the rate of spending growth dropped sharply at the onset of the economic and fiscal crisis. In the following years, as part of the fiscal consolidation effort, total voted spending was reduced annually. In 2015, expenditure began to grow again, and it will continue to grow in 2016.

Figure 4 Annual Percentage change in Gross Voted Expenditure, 1995 to 2016^{5, 6}



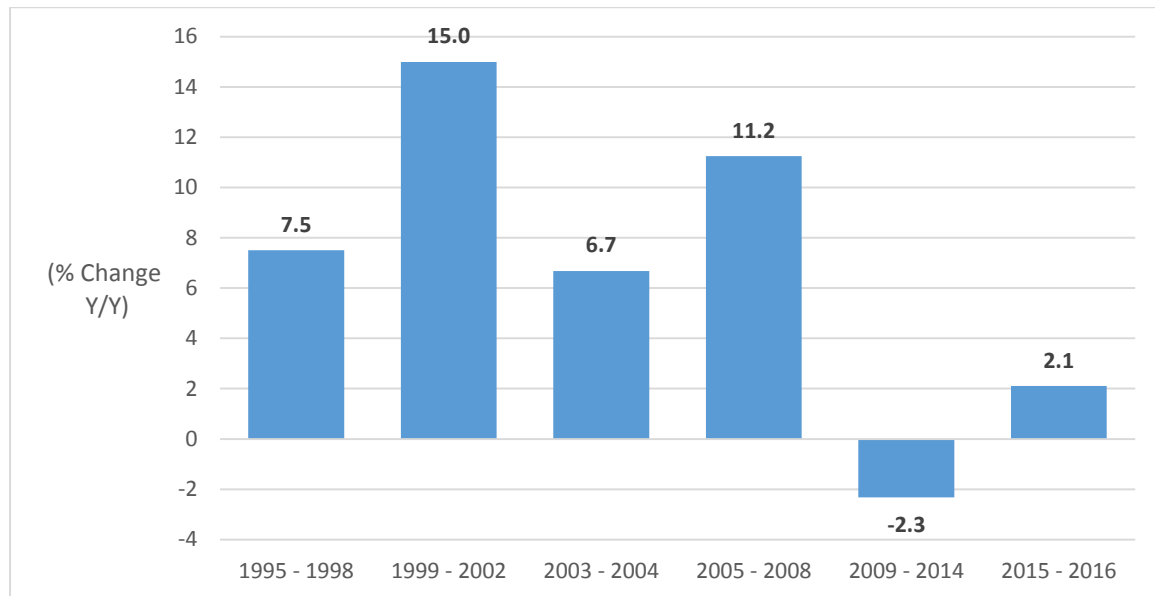
Source: Department of Public Expenditure and Reform

⁵ There was a technical restructuring of Health expenditure from 1 January 2015, reflecting the disestablishment of the HSE Vote in accordance with Health Services Executive (Financial Matters) Act 2014. This affects the comparison of data between 2014 and 2015. Accordingly, in order to allow a like-for-like comparison, the 2015 figure above shows the percentage change in gross voted expenditure between 2014 and 2015 using an adjusted 2014 expenditure figure for Health, as previously presented in the Revised Estimates Volume 2015.

⁶ The 2015 outturn figure has been adjusted to reflect the crystallisation of a pay and pensions accrual.

Figure 5 shows the same information grouped by time period. It highlights some distinct periods of expenditure growth and expenditure consolidation.

Figure 5 Average Annual Percentage change in Gross Voted Expenditure for sub-periods between 1995 and 2016^{7,8}



Source: Department of Public Expenditure and Reform

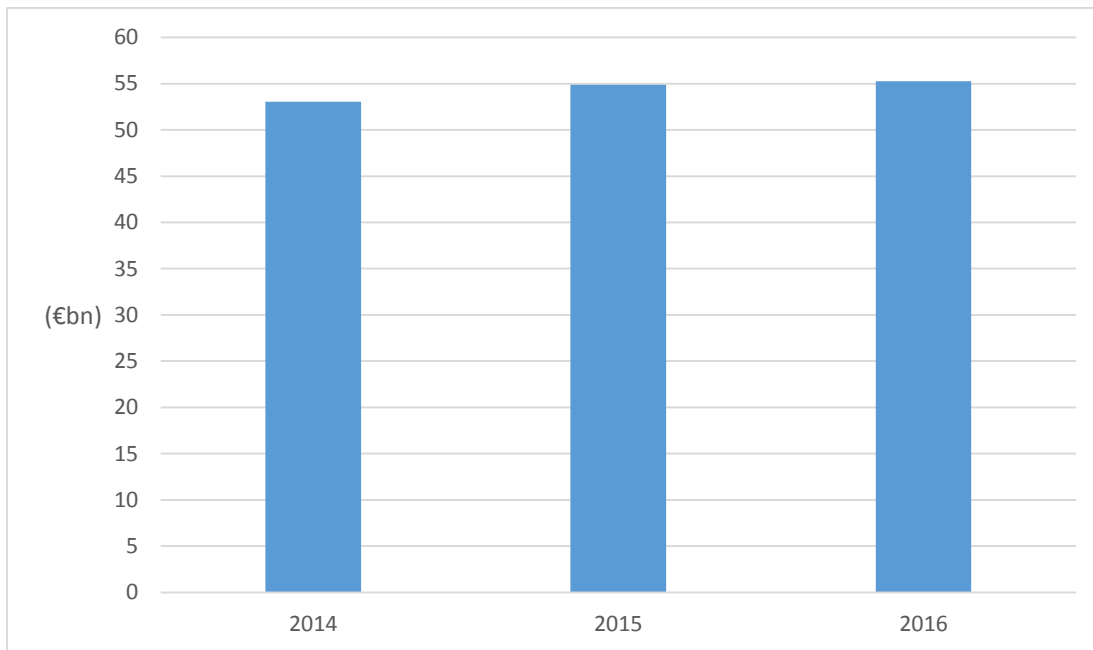
There is a particular contrast between the average expenditure levels in the years immediately before the fiscal crisis and the present period. The cumulative rate of total gross expenditure growth for the 4-year period 2005 to 2008 is 38%. By contrast, the rate of expenditure growth for the three years 2014 to 2016 is expected to be 4.2 percent.

Budget 2015 was notable for marking the end of several consecutive years of overall expenditure reduction when, for the first time since 2009, the Government was in a position to begin to provide for some growth in public expenditure. Budget 2016 again provides for increased spending, but as in 2015 the increase will be modest by historic standards. Figure 6 below shows the trend in total voted expenditure from 2014 to 2016.

7 There was a technical restructuring of Health expenditure from 1 January 2015, reflecting the disestablishment of the HSE Vote in accordance with Health Services Executive (Financial Matters) Act 2014. This affects the comparison of data between 2014 and 2015. Accordingly, in order to allow a like-for-like comparison, the 2015 figure above shows the percentage change in gross voted expenditure between 2014 and 2015 using an adjusted 2014 expenditure figure for Health, as previously presented in the Revised Estimates Volume 2015.

8 The 2015 outturn figure has been adjusted to reflect the crystallisation of a pay and pensions accrual.

Figure 6 Trend in Total Voted Government Expenditure, 2014 to 2016^{9,10}



Source: Department of Public Expenditure and Reform

9 There was a technical restructuring of Health expenditure from 1 January 2015, reflecting the disestablishment of the HSE Vote in accordance with Health Services Executive (Financial Matters) Act 2014. This affects the comparison of data between 2014 and 2015. Accordingly, in order to allow a like-for-like comparison, the 2014 data above includes an adjusted expenditure figure for Health, as previously presented in the Revised Estimates Volume 2015.

10 The 2015 outturn figure has been adjusted to reflect the crystallisation of a pay and pensions accrual.

Drivers of Expenditure

Table 1 tracks the share of spending accounted for by pay, pensions, welfare and other key programme areas. In 2016:

- Spending on public sector pay will again be significantly below the level at the outset of the economic and fiscal crisis;
- The cost of the Live Register continues its steady decline from a peak in 2010;
- Total expenditure on other welfare payments will return to 2011 levels; and
- Public spending on other programmes will increase modestly.

Overall, the total level of spending across Departments in 2016 is still significantly below the peak level in 2009.

Table 1 Total Voted Government Expenditure, 2009 to 2016¹¹

	2009	2010	2011	2012	2013	2014	2015	2016
	(€ billions)							
Pay	17.5	16.0	15.6	15.3	15.1	14.5	15.2	15.4
Pensions	2.6	2.7	2.8	3.1	3.0	3.0	2.9	2.9
Social Welfare - Live Register	3.7	4.1	3.9	3.6	3.7	3.3	3.1	2.8
Social Welfare - Other	16.5	16.5	16.8	16.6	16.2	16.4	16.7	16.8
Other Programmes	15.5	14.9	13.8	13.3	13.2	12.4	13.0	13.6
<i>(of which) Health non-pay</i>	<i>7.1</i>	<i>6.9</i>	<i>6.9</i>	<i>6.7</i>	<i>6.6</i>	<i>6.0</i>	<i>6.7</i>	<i>6.8</i>
<i>Education non-pay</i>	<i>1.9</i>	<i>2.1</i>	<i>1.8</i>	<i>2.0</i>	<i>2.0</i>	<i>2.0</i>	<i>2.0</i>	<i>2.0</i>
<i>Other</i>	<i>6.5</i>	<i>5.9</i>	<i>5.1</i>	<i>4.6</i>	<i>4.6</i>	<i>4.4</i>	<i>4.4</i>	<i>4.8</i>
Gross Current Expenditure	55.8	54.2	52.9	51.9	51.2	49.6	51.0	51.5
Gross Capital Expenditure	7.3	6.4	4.5	4.0	3.4	3.5	3.8	3.8
Gross Total Expenditure	63.1	60.6	57.4	55.9	54.6	53.0	54.9	55.3

Source: Dept. Public Expenditure and Reform.
Rounding may affect totals

Over the medium term, the demands on spending will be influenced by a number of key drivers.

11. There was a technical restructuring of Health expenditure from 1 January 2015, reflecting the disestablishment of the HSE Vote in accordance with Health Services Executive (Financial Matters) Act 2014. This affects the comparison of data between 2014 and 2015. Accordingly, in order to allow a like-for-like comparison between 2014 and later years, the 2014 data above includes an adjusted expenditure figure for Health, as previously presented in the Revised Estimates Volume 2015. This influences comparisons of 2014 with previous years.

Demographics

Changes in population demographics present obvious implications for expenditure policy. The size and age structure of the population influences the demand for schools, hospitals, income supports and infrastructural investment. Although Ireland has a young population at present, the population as a whole is projected to increase and become increasingly older over the medium term. Scenarios can be developed to help estimate the expenditure impacts of population dynamics but demographics can change quickly in Ireland due to the volatility of net migration flows over short periods of time. This can make planning for service delivery and capital spending a complex exercise.

Overall, the pressures on public services and capital investment arising from changes in population are likely to lead to increased demands for public spending across the health, education and social protection areas. This will mean investing resources in teachers, health care facilities for the young and old as well as income supports for those at pension age. Demographics can also impact on some other areas of Government services. These pressures have to be accommodated within the overall budgetary parameters. The expenditure ceilings set out in Part II of this Report recognise the impact on certain Departments of demographic pressures in 2015 and future years.

Public Service Pay Bill

The services provided by Government to its citizens are principally delivered through people – teachers, healthcare workers, revenue officials, social workers, prisons officers, army personnel, safety inspectors and court officials, for example – making the public service pay bill a core component of public spending.

Public service pay constitutes 28 percent of total voted expenditure, the underlying drivers of which are the number of public servants employed and the pay rates. Over the next three years, there will be some upward movement in both of these, and so the policy challenge is to ensure this area of spending remains sustainable and under control over the medium term.

Government has taken steps to commence the process of unwinding the emergency legislation introduced to reduce public service pay and pensions.¹² This phased and careful restoration

¹² The Lansdowne Road Agreement introduces various measures, underpinned by the proposed Financial Emergency Measures in the Public Interest (FEMPI) Act 2015, to restore a portion of the reduction in take-home pay of public servants.

of remuneration recognises the contribution made by public servants to the ongoing improvement in the public finances.

The impact of Government decisions on additional numbers and pay rates is that the overall public pay bill will increase in 2016 by an estimated 1.3 percent. Total expenditure on pay will amount to €15.4 billion next year. Budget measures for additional staff – including more teachers, nurses and Gardaí – and the implementation of the Lansdowne Road Agreement are reflected in the allocations detailed in Part II of this Report.

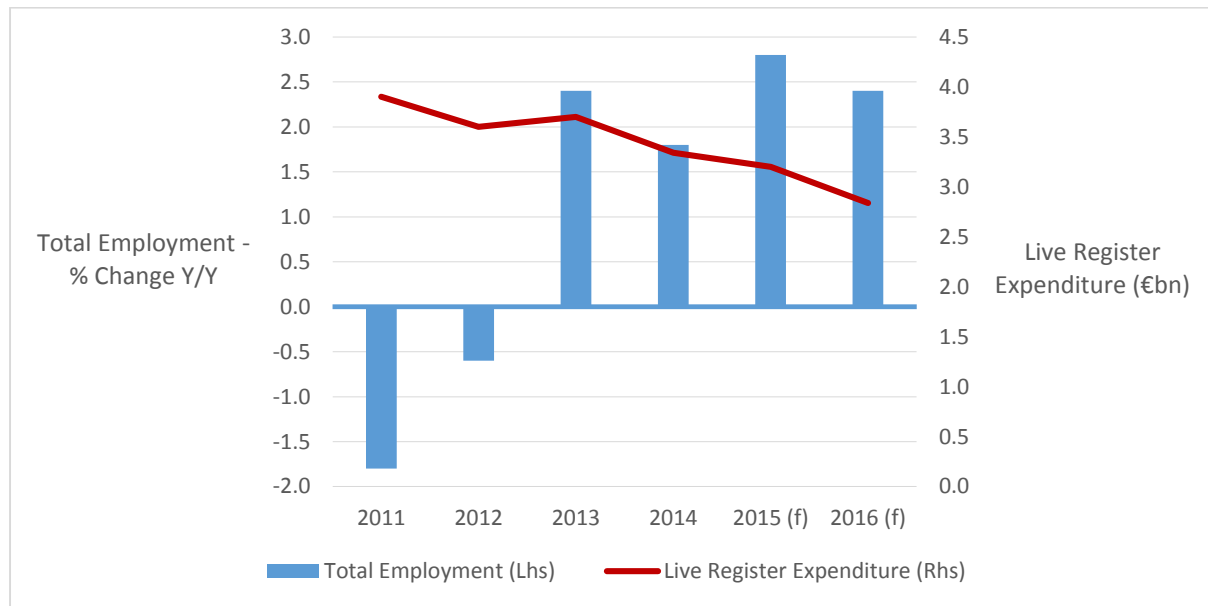
Labour Market

The employment growth in the economy and the related reduced demand for welfare supports is taking some pressure off the public purse. The recent economic crisis had a significant impact on employment levels, with unemployment reaching a peak of over 15% in 2012 and with numbers employed reaching a low point in Quarter 3 of that year. Since then, however, there has been a strong employment recovery, with a total of 130,000 new jobs.¹³ All regions have benefitted from jobs growth.

Figure 7 below shows the trends in the live register and the growth in employment. The impact of job creation on Live Register expenditure is clear, with a decline of 15% between 2011 and 2014 alone.

¹³ Based on data from the CSO databank

Figure 7 Annual percentage change in Live Register and Employment: 2012 to 2016¹⁴



Source: Department of Finance and Department of Social Protection

Note: Figures for Live Register Expenditure 2015 and 2016 are estimated

Fiscal Rules

There is broad consensus that the strongly pro-cyclical nature of fiscal policy during the years to 2008 contributed heavily to the fiscal and economic crisis. Expenditure strategy in Ireland is now set within the context of reformed rules that have been developed to guard against a return to unsustainable management of the public finances. The objective of these Fiscal Rules is to avoid a recurrence of the problems which hit Ireland and other European economies over recent years by helping Governments to manage public resources in a better way.

Ireland is now forecast to have a General Government Deficit of 2.1 percent at the end of 2015. With this, Ireland will exit the Excessive Deficit Procedure – which has governed its fiscal targets for the past number of years - and will transition to the 'Preventive Arm' of the Stability and Growth Pact, which will set the context for our fiscal targets from 2016 onwards.

¹⁵ The core of the new arrangements is the Medium Term (budgetary) Objective, which is essentially a fiscal target for Member States of the European Union to achieve. For Ireland,

¹⁴ Note: Figures for Live Register Expenditure 2015 and 2016 are estimated

¹⁵ For a fuller discussion of the fiscal framework as it applies to Ireland's public finances, see Chapter 4 (Budgetary Strategy) in the *Spring Economic Statement* published by the Department of Finance and the Department of Public Expenditure and Reform, April 2015.

the Medium Term Objective is to achieve a balanced budget in structural terms: this means a balanced budget once allowances are made for once-off temporary factors and the impact of the economic cycle on the public finances. It will involve improving the structural deficit at a rate greater than 0.5% of GDP each year until the Medium Term Objective is met.

Along with this balanced budget requirement, compliance with the Expenditure Benchmark is another important pillar of the Fiscal Rules. This is a complementary requirement under the reformed Stability and Growth Pact. It assists Member States to maintain or reach their Medium Term Objective by explicitly setting the rate at which aggregate public expenditure can grow, unless funded by the introduction of discretionary revenue measures. The Expenditure Benchmark is designed to regulate the growth in public expenditure in line with the medium term potential growth rate of the economy. Its purpose is to prevent spending growing faster than the overall rate of expansion in the economy, thereby making sure that the level of spending is sustainable and can continue to be supported by the economy.

The expenditure decisions outlined in this Report – including the spending allocations for Departments and the three year Government expenditure ceilings set out in Part II – have been framed by the Government in the context of the Medium Term Objective and the Expenditure Benchmark.¹⁶

Conclusion

Compliance with the provisions of the Fiscal Rules is an important cornerstone of the Government's expenditure strategy and will support the ongoing sustainability of the public finances, promote economic growth and ensure that resources are invested in necessary public services in a targeted manner. Budget 2016 represents a further step along the road of economic improvement and provides an opportunity for some increases in public expenditure to meet Government priorities. The level of these increases may be modest by historic standards but, importantly, they are affordable and sustainable.

¹⁶ For further information please see the Budget 2016 document published by the Department of Finance and available at <http://www.budget.gov.ie/Budgets/2015/2015.aspx>.