FOI/2012/1802 – Copies of all cabinet papers relating to the Budget 2000
(Mary Minihan, Irish Times)

	Description	**Date**	**Release Y/N**	**Basis of Redaction**
1	Note of Govt discussion re Economic and Budgetary Projections and Budget Strategy 2000 -2006	29/06/99	N	Section 19(2) of the FOI Acts
2	Agenda for Govt meeting of 21 July 1999	21/7/99	Y	
3	Memo for Govt – "Economic and Budgetary Projections and Budget Strategy 2000-2006"	30/06/99	Y	
4	Memo for Govt – "2000-2002 No-policy-change Expenditure Projections"	30/06/99	Y	
5	Fax from D/Foreign Affairs re views of M/FA for Govt meeting	07/07/99	N	Section 19(2) of the FOI Acts
6	Letter to Sec Gen to Govt from Sec Gen D/Finance	07/07/99	Part Release	Parts not relevant
7	Fax re Decision on Budget Strategy	20/07/99	N	Section 19(2) of the FOI Acts
8	Note of Govt discussion re Memo at No. 3	21/07/99	N	Section 19(2) of the FOI Acts
9	Govt Decision re Memo at No. 3	21/07/99	Y	
10	Extract from Minutes of Govt meeting of 21/07/99	21/07/99	Y	
11	Note of Govt discussion re Memo at No. 4	21/07/99	N	Section 19(2) of the FOI Acts
12	Govt Decision re Memo at No. 4	21/07/99	Y	
13	Extract from Minutes of Govt meeting of 21/07/99	21/07/99	Y	
14	Aide Memoire for Govt – "Report of the Budget Strategy for Ageing Group"	30/06/99	Y	
15	Report of the Budget Strategy for Ageing Group	28/05/99	Y	
16	Note of Govt discussion re Aide Memoire at No. 14	21/07/99	N	Section 19(2) of the FOI Acts
17	Govt Decision re Aide Memoire at No. 14	21/07/99	Y	
18	Extract from Minutes of Govt meeting of 21/7/99	21/07/99	Y	
19	Agenda for Govt meeting of 21/9/99	21/9/99	Y	

43	Agenda for Govt meeting of 2/11/99	2/11/99	Y	
44	Memo for Govt – "2000 Abridged Estimates Volume and Summary Public Capital Programme"	02/11/99	Y	
45	Note of Govt discussion re Memo at No. 44	02/11/99	N	Section 19(2) of the FOI Acts
46	Govt Decision re Memo at No. 44	02/11/99	Y	
47	Extract from Minutes of Govt meeting of 2/11/99	02/11/99	Y	
48	Agenda for Govt meeting of 4/11/99	4/11/99	Y	
49	Memo for Govt – "Estimates 2000 – Revisions to Pay Estimates"	03/11/99	Y	
50	Record of decision at Govt re Memo at No. 49	04/11/99	N	Section 19(2) of the FOI Acts
51	Govt Decision re Memo at No. 49	04/11/99	Y	
52	Extract from Minutes of Govt meeting of 4/11/99	04/11/99	Y	
53	Note of discussion at Government re Budget 2000	09/11/99	N	Section 19(2) of the FOI Acts
54	Agenda for Govt meeting of 23/11/99	23/11/99	Y	
55	Memo for Govt – "Estimates of Receipts and Expenditure for the year ending 31 December 2000"	19/11/99	Y	
56	Record of decision at Govt re Memo at No. 55	23/11/99	N	Section 19(2) of the FOI Acts
57	Govt Decision re Memo at No. 55	23/11/99	Y	
58	Memo for Govt – "Ireland – Stability Programme, December 1999 Update"	22/11/99	Y	
59	Record of decision at Govt re Memo at No. 58	23/11/99	N	Section 19(2) of the FOI Acts
60	Govt Decision re Memo at No. 58	23/11/99	Y	
61	Memo for Govt – ""No-policy-change" expenditure projections 2001-2002 consistent with the 2000 allocations in the Abridged Estimates and Summary Public Capital Programme"	22/11/99	Y	
62	Record of decision at Govt re Memo at No. 61	23/11/99	N	Section 19(2) of the FOI Acts

2

SPECIAL ALL DAY MEETING

Dé Ceadaoin, 21 Iúil, 1999.	08:30 a.m.	Seomra Comhairle

DO RUNAI CUNTA AN RIALTAIS

MINUTES
COMMUNICATIONS BY MINISTERS

PRIORITY CONSIDERATION

01. ECONOMIC AND BUDGETARY PROJECTIONS & BUDGET STRATEGY 2000-2006	Airgeadais	Memorandum dated 30/06/99
02. NO-POLICY-CHANGE EXPENDITURE PROJECTIONS 2000 - 2002	Airgeadais	Memorandum dated 30/06/99
05. BUDGET STRATEGY FOR AGEING GROUP: Report	Airgeadais	Memorandum dated 30/06/99

③

F43/1/99

RECEIVED
30 JUN 1999

Office of the Minister for Finance
30 June, 1999

SECRET

Memorandum for the Government

Economic and Budgetary Projections

and Budget Strategy 2000 - 2006

Summary

I. Decision Sought

1. The Minister for Finance asks the Government to

(i) decide to introduce the 2000 Budget on 1 December 1999;

(ii) decide that the 2000, 2001 and 2002 Estimates and Budget be prepared within the aggregates set out in Annex 1,

(iii) decide that the 2000, 2001 and 2002 Estimates be prepared on the basis of the following targets for net current voted expenditure which are consistent with the Government's commitment to a 4% annual average growth in total net current expenditure;

2000: £12,919m
2001: £13,667m
2002: £14,414m

(iv) decide that the voted capital expenditure for 2000, 2001 and 2002 be no greater than £2,595m, £2,777m and £2,943m respectively;

(v) agree the targets for the budgetary parameters for the period 2003 to 2006 also set out in Annex 1.

Policy Framework

2. The Minister is satisfied that strong economic growth can be maintained in the medium-term provided sound macroeconomic and budget policies are followed. He signals his intention to give the highest priority to public investment, particularly in the context of the National Development Plan, and to securing a successor agreement to P2000. In addition to these short run objectives, a number of medium term considerations also have a bearing on

the fiscal stance to be adopted. These include EMU obligations, the need to run budget surpluses while strong economic growth continues and the need to make adequate provision, through the part pre-funding of pension liabilities, for the future costs of demographic change. The Minister's proposals seek to balance these considerations with an appropriate approach to taxation and expenditure in the short term (paragraphs 4-13).

Overall Budget Targets

3. The proposal is that the 2000 Budget should be based on a provisional target surplus of not less than 3% of GDP (1999 expected outturn 2.9%), moving to 3.2% by the year 2006. These targets are in line with the Minister's no-policy-change projections and include realistic provisions for the costs of social inclusion and other budgetary initiatives and for the proposed £33 billion cost of the National Development Plan. In particular, the proposals provide for:

- **an envelope for total net current expenditure including debt service, increasing at 4% a year.** The Minister intends to keep the Government's 4% commitment - which will, nevertheless, permit net voted current expenditure to grow at an average rate of about 5¾% per annum.
- **an envelope for voted capital expenditure increasing at 6.4% a year on average with an increase of 7.9% in 2000,** coming on top of the **66%** increase in the past three years and supplemented by PPP expenditure.
- **provisional personal tax packages each year costing £350 million in a full year,**
- **a 4% per annum reduction in the standard rate Corporation Tax** each year to 2003; and indexation of excise duties,
- **a significant fall in EU receipts** and
- **GNP growth** of 5¾% for 2000, 5¼ % for 2001, 5% for 2002 and an average of 4½ % 2003-2006.
- **a general contingency** provision which progressively increases to reflect greater uncertainty further into the future
- **a pre-funding provision** for ageing of 1% of GNP (1/3rd of which affects the GGBalance). (paragraphs 14-17).

Taxation Policy

4. The Memorandum recommends that, given the overall budget targets and the need to secure a successor agreement to P2000, the scale of the personal tax cuts should be provisionally fixed at £350 million in each of 2000, 2001 and 2002. As regards Corporation Tax a further reduction in the rate of 4% is provided for each year so as to deliver a new single rate of 12½% by 2003. The details of the tax changes will be put before Government in the run up to the Budget. (paragraphs 18-20).

Expenditure

5. The Minister's assessment of no-policy-change plus room in 2000 to meet the expenditure items he considers essential to the maintenance of social consensus, points to an

annual increase in total net current expenditure of 4.4%, including debt service costs. Consequently, savings will have to be made relative to his assessment. The Minister proposes that the annual increase in net current voted expenditure should be limited to 5¾% over the period 2000-2002 in order to meet the Government's commitment to limit overall net current expenditure growth, including debt service costs, to 4% per annum. (paragraphs 21-24).

Annex 1

Detailed Budgetary Parameters

2000-2002

	1999	2000	2001	2002
General Government Surplus (% GDP) **Exchequer Surplus** (%GNP)	2.9 2.9	3.0 1.9	3.1 2.2	2.9 2.2
Total Net Current Expenditure (consistent with 4% limit)	15,530	16,025	16,665	17,325
Net Voted Current Expenditure Targets (consistent with 4% limit)		12,919	13,667	14,414
Exchequer Voted Capital Expenditure (£m)	2,406	2,595	2,777	2,943
Provisional Personal Tax Package (£m) (£350 m gross full year cost each year)	581	350	350	350
Corporate Tax Package (% reduction)	4%	4%	4%	4%
Pension Pre-Funding Provision (£m)	-	582	628	676

Aggregate Parameters 2003-2006

	2003	2004	2005	2006
General Government Surplus (% GDP)	2.7	2.8	3.0	3.2
Exchequer Surplus (% GNP)	2.2	2.5	2.7	3.0
Total Net Current Expenditure	18,020	18,740	19,490	20,270
Voted Capital	3,120	3,307	3,505	3,716
Pension Pre-Funding	724	774	828	886

F43/1/99

Office of the Minister for Finance
30 June, 1999

SECRET

Memorandum for the Government
Economic and Budgetary Projections
and Budget Strategy 2000 - 2006

I. Decision Sought

1. The Minister for Finance asks the Government to

(i) decide to introduce the 2000 Budget on 1 December 1999;

(ii) decide that the 2000, 2001 and 2002 Estimates and Budget be prepared within the aggregates set out in Annex 1,

(iii) decide that the 2000, 2001 and 2002 Estimates be prepared on the basis of the following targets for net current voted expenditure which are consistent with the Government's commitment to a 4% annual average growth in total net current expenditure;

2000: £12,919m
2001: £13,667m
2002: £14,414m

(iv) decide that the voted capital expenditure for 2000, 2001 and 2002 be no greater than £2,595m, £2,777m and £2,943m respectively;

(v) agree the targets for the budgetary parameters for the period 2003 to 2006 also set out in Annex 1.

2. The Minister asks his colleagues to note that he will be publishing, with the 2000 Budget, multi-annual figures for the main budgetary aggregates for 2000 to 2002. Financial envelopes for Departmental spending in 2001 and 2002 will be published with the 2000 Revised Estimates Volume next year. In addition, in this Memorandum an analysis is presented of the budgetary parameters out to 2006 in the context of the National Development Plan currently being prepared. The Minister will bring a Memorandum to Government shortly setting out detailed proposals for the Plan.

II. Update on 1999

3. Economic and budgetary performances in 1999 have been even better than anticipated on Budget day. In response to stronger growth in domestic demand, tax revenues have been growing faster than expected. In terms of current supply expenditure, slippage on some items is partially offset by savings elsewhere, leaving the net expenditure aggregates approximately £170 million above published targets. This would bring the increase in overall net current expenditure in 1999 to 4.8% which would imply a significant breach of the Government's 4% target. Accordingly, while latest assessments point to a General Government Surplus of 2.9% of GDP this year, considerably better than projected at Budget time, the Minister would remind his colleagues that all possible measures necessary to limit expenditure in 1999 to meet the commitment on current expenditure in *An Action Programme for the Millennium* must be actively considered. The Minister has concluded that it is imperative that corrective action be taken in 1999 to address the identified excesses on current expenditure and he intends to submit a Memorandum shortly with his proposals in this regard.

The foregoing assessment of the 1999 budgetary outlook does not take prospective Telecom Eireann flotation receipts into account. The utilisation of the resources from the Telecom sale is the subject of a separate Memorandum..

III. Policy Framework

4. The Minister would ask his colleagues to note that the central policy goal of the budget strategy he proposes is to maintain a strong growth performance over the coming period in order to enhance living standards, increase employment and reduce social exclusion on a basis which will be sustainable over the long term. In this context, the key aims of budgetary policy for 2000 and beyond are:

A **to maintain the competitiveness of the economy**

- by continuing to enhance investment in public infrastructure through the National Development Plan, broadly in line with the requirements identified by Departments, so as to sustain strong economic growth, despite reduced EU funding;
- by preparing the ground to secure a competitive successor agreement to Partnership 2000 through continuing to foster social partnership;

B **to maintain investor confidence in the Government's management of budgetary policy**

- with respect to the longer term, by beginning now to provide for the fundamental budgetary costs of ageing and by continuing to reduce Government debt;
- with regard to the shorter term, by running substantial surpluses in order to minimise inflationary pressure and risks of overheating and by continuing to meet our budgetary obligations under the Stability and Growth Pact.

The economy can continue to grow strongly over the medium term given an appropriate approach to competitiveness and budgetary policy. To achieve economic growth at or close to its potential rate of 4½ % (GNP) the budgetary stance must prioritise investment over day-to-day spending. The Minister's recommendations are designed to give the highest priority to investment. His recommendations allow for significant growth in Departmental current expenditure (though tight control must be kept in this area to avoid adding unduly to domestic demand and inflationary pressures in an economy already growing at full potential), and leave room for tax reductions while maintaining a surplus on the Budget consistent with ongoing strong economic growth. He considers that this balanced approach is the best means of supporting further economic expansion. A discussion of medium term growth potential is contained in Annex 2.

Government Investment and the National Development Plan

5. The Minister's budgetary strategy covers the entire period of the National Development Plan, 2000-2006. Budgetary parameters out to 2006 are included in order to provide the necessary framework to develop and finalise the National Development Plan, subject to these parameters. The Minister will bring a Memorandum to the Government shortly setting out detailed proposals for the Plan.

6. The Agenda 2000 negotiations resulted in an allocation to Ireland of some £3.4 billion in Structural and Cohesion Funds (including headage payments) over the period 2000-2006. Taking account of the major reduction in EU Structural and Cohesion Funds and of the Government decision of 14 April last (S.132/28/10/0002) which indicated that the Plan should address national priorities, the Minister proposes that the scope of the Plan should cover a wider range of activities than previous plans. The key investment priorities underpinning the Plan will be ***public physical infrastructure***; ***employment*** including education, training and active labour market measures; targeted ***productive investment*** with an increased emphasis on research and development; and ***regional development***.

7. The Minister recognises that public infrastructure must be significantly improved if Ireland is to sustain relatively strong economic growth into the future. He is fully committed

to providing the necessary resources to this end. The aggregate totals of his proposals for the National Development Plan in 1999 prices are set out below.

Proposed National Development Plan

	Total	Current	Capital
National Development Plan	33,260	12,783	20,477
of which			
Exchequer	28,268	12,783	15,485
Non-Exchequer	3,342	-	3,342
PPP	1,650	-	1,650

8. These proposals amount to an increase in the order of 13.2% per annum in real terms over similar expenditures in 1999. They largely satisfy the requirements identified by Departments and external evaluators to meet our development needs in the medium term.

9 This proposed increase is all the more impressive when account is taken of the reduction in structural funds - borrowing for capital purposes will grow by 50% in 2000 over 1999. In addition, the investment sector of the economy (particularly the construction sector) is operating at close to capacity - an increased availability of contractors with their own labour from abroad may be necessary. To increase investment further would run a serious risk of "overheating" whereby increases in capital spending would be reflected in higher prices rather than increases in the volume of infrastructural improvement. Building costs are already rising at a worrying pace - estimated at 8% in the ESRI's latest Economic Commentary.

Social Partnership and maintaining competitiveness

10. The system of social partnership has delivered low inflation, wage moderation linked to reductions in the tax burden, and improved public finances over the past decade. By improving competitiveness and raising private sector profitability to international norms, they have been the key to employment growth. The social partnership agreements have also shown that pay moderation is crucial to increases in real take-home pay. In EMU pay moderation across the whole economy (private and public sector) is even more crucial for competitiveness and employment. In the past both interest rate and, in exceptional circumstances, exchange rate changes were used to influence demand and help secure low inflation and maintain competitiveness. In EMU, Ireland's monetary policy is determined by the European Central Bank having regard to monetary conditions across the Euro zone as a whole. Exchange rate policy is no longer available at the national level to cushion even part of any shocks to Ireland's competitiveness. The adjustment burden falls principally on private sector action, supplemented by fiscal policy and structural adjustment measures - and, to the extent that these are insufficient, the burden will fall on employment. Future pay agreements

must take account of this. Both resource allocation and taxation policy must be pitched in a way which will make the maximum contribution to supporting the sustainable development of the economy, including addressing social priorities. This will be of critical importance to the whole future of the Social Consensus process.

Long Term Demographic Challenge

11. The Minister considers that sustained confidence in budgetary policy also requires us to have due regard to longer term issues, particularly those associated with the ageing of the population. Ireland has a much lower proportion of over-65s than our EU partners, with the benefit of correspondingly lower Exchequer outgoings on pensions and health care. A *conservative* estimate of the budgetary benefit of reduced social welfare and public service pension and health-care costs due to the relative youthfulness of our population at this juncture is 3½ % of GNP[1]. In effect, if the age-profile of Ireland's population today approximated that of our EU partners (which it will by the middle of the next century), on present policies and despite recent strong economic growth the budget would actually show a deficit of the order of ½ % of GNP.

12. To sustain confidence to the maximum extent in budgetary management, the Minister therefore proposes that provision to "pre-fund" a part, at least, of our future pension liabilities be included in the budgetary framework to 2006. This will demonstrate to the international community, and to potential investors in the economy in particular, that Ireland is keenly aware of the budgetary problem which "ageing" represents, and is positively addressing the issue. Accordingly, the Minister recommends that an annual provision of 1% of GNP for pre-funding should be accommodated within the budgetary framework. A provision for "ageing" of 1% of GNP would represent only a limited step towards tackling the major long-term problem which "ageing" presents, but would nevertheless be seen as a significant step in this direction.

Contingency Provision

13. In order to take account of economic "shocks" and other risks which cannot be foreseen at this stage, a contingency provision has been made in the budgetary arithmetic in 2001 to 2006. Examples of the risks envisaged are slower growth and variability in tax buoyancy, interest costs and exceptional once-off costs such as Hepatitis C or Army Deafness claims. No provision is necessary for the first year of the forecast as the degree of uncertainty is much less than for the later years. In 2001 and 2002 the provisions are in line with those made in

[1] The NPPI Report found that financing Social Welfare pensions wholly from PRSI would require a doubling of the pension-related element of PRSI (implying under-financing of more than £1 billion annually); the IPT Report on Public Service pensions indicated a shortfall of some £200 million in Pay-as-you-go outlays as compared with the actuarial cost of Public Service pensions; tentative estimates of the impact of ageing on health expenditure are in the region of a further £1bn.

the 1999 Budget for 2000 and 2001. For the years 2003 to 2006 as uncertainty increases, the contingency provision increases progressively to a level of 1.8% of GNP.

IV. Overall Budget Targets 2000 -2006

14. Having regard to the foregoing assessment of the economic and budgetary policy environment, the Minister proposes to adopt budgetary targets which will be seen to be appropriate given the need to sustain sufficient confidence to support the projected rate of economic growth over the period, and to begin to address society's longer-term challenges. Critically, these targets leave sufficient resources available

- to meet the Exchequer costs of the £33 billion National Development Plan (in 1999 prices);
- to underpin social-partnership as the basis for achieving a competitive development of incomes;
- to afford room for net Departmental current expenditure to grow at 5¾% per annum on average; and
- to provide for annual provisional personal tax packages of the order of £350 million.

15. Having made the forgoing provisions and bearing in mind that economic growth as projected would keep the economy operating close to the limits of its capacity, **the Minister recommends that the Government should adopt General Government Surplus and Exchequer Surplus targets for 2000-2006 as follows:**

	1999	2000	2001	2002	2003	2004	2005	2006
GG Surplus[2] Target (% of GDP)	2.9	3.0	3.1	2.9	2.7	2.8	3.0	3.2
Exchequer Surplus Target (% of GNP)	2.9	1.9	2.2	2.2	2.2	2.5	2.7	3.0

16. These projections take account of

- **an envelope for total net current expenditure including debt service, increasing at 4% a year.** The Minister's assessment of no-policy-change plus room to meet the expenditure items he considers essential to the maintenance of

[2] In line with ESA accounting conventions the above assumes that 2/3rds of the cost of pre-funding will not affect the GGBalance

social consensus, points to an annual increase in net current expenditure of **4.4%.** Consequently, savings will have to be made relative to this assessment. The Minister intends to keep to the Government's 4% commitment - which would, nevertheless, permit net voted current expenditure to grow at an average annual rate of about 5¾%.

- **an envelope for voted capital expenditure increasing at 6.4% a year on average with an increase of 7.9% in 2000**, coming on top of the **66%** increase in the past three years and supplemented by PPP expenditure.
- **provisional personal tax packages each year costing £350 million in a full year,**
- **a 4% per annum reduction in the standard rate Corporation** Tax each year to 2003; and indexation of excise duties,
- **a significant fall in EU receipts** and
- **GNP growth** of 5¾% for 2000, 5¼ % for 2001, 5% for 2002 and an average of 4½ % 2003-2006.
- **a general contingency** provision which progressively increases to reflect greater uncertainty further into the future
- **a pre-funding provision** for ageing of 1% of GNP (1/3rd of which affects the GGBalance).

The Minister is seeking the Government's agreement to these Budget targets.

17. Under the terms of the Stability and Growth Pact, we are required, inter alia, to set out our budgetary targets and assumptions for the next three years and these budgetary targets should be consistent with our position in the economic cycle. The Minister asks his colleagues to note that he again intends to publish the updated Irish Stability Programme covering the 2000 to 2002 period, as part of the 2000 Budget day documentation.

V. Detailed Budgetary Targets 2000-2002

Taxation Targets

18. The projections allow provisionally for a full year package of £350 million in personal tax changes and an annual reduction of 4% in the standard rate of corporation tax in each of the years 2000-2002.

19. The Minister considers that it would not be advisable to provide for personal tax packages similar in size to that of the 1999 Budget (£580 million). In 2000, in advance of the negotiation of a successor agreement to Partnership 2000, he proposes to provisionally adopt a figure of £350 million. The Minister considers that it would be tactically inappropriate to exceed this level of provision before finalising a successor agreement. The Minister would emphasise that in the context of any successor agreement to P2000, efforts will have to be made to ensure that any tax reliefs given in the 2000 Budget are specifically linked to further

wage moderation and taken into account in the negotiations with the social partners. The Minister will bring his detailed proposals on the tax front for 2000 before the Government in the run up to the Budget. These will include further possible claw backs of personal and business reliefs or other revenue raising measures in the business area to help fund the Corporation Tax rate reductions.

20. As regards 2001 and 2002, the personal tax packages will have to be reviewed in the light of the outcome of negotiations on a successor to Partnership 2000. Having regard to tactical prudence in the negotiation of a new national agreement and the likelihood that a higher figure would necessitate significant, offsetting increases in other aspects of taxation, the Minister considers that that it would be inappropriate to target anything greater than a full year cost of £350 million for these years in this projection.

Expenditure Targets

21. Taking account of his no-policy-change assessment of net current expenditure and including those expenditure items he considers essential to the maintenance of social consensus, the Minister projects net current expenditure as follows:

	2000	2001	2002
Central Fund Services	3,105	2,998	2,912
Net Voted Current Expenditure *(no-policy-change, including provision for post P2000 pay and NDP provisions)*	12,966	13,615	14,234
add: Net amounts required to meet the costs of Social Inclusion and other Budget initiatives.[3]	106	267	433
Net Voted Current Expenditure	13,072	13,882	14,667
Total Current Expenditure	16,177	16,880	17,579
Increase off 1997 base	*4.4%*	*4.4%*	*4.4%*

These figures indicate an average annual increase in total net current expenditure of 4.4% using a 1997 base, including debt service and other Central Fund services. Net voted current expenditure increases at an average annual rate of 6.4% over the period 2000 to 2002.

22. The Minister wishes to point out to the Government that this increase of an average of 4.4% would breach the commitment given in the Programme for Government to *"limit net current spending growth to 4%, which is broadly equivalent to the 2% growth in real terms*

[3] These figures represent the cumulative costs of the measures taken

agreed to Partnership 2000....... and to reduce overall Government spending as a share of national output." **The Minister proposes that the annual increase in net voted current expenditure should be sufficiently limited over the period 2000-2002 in order to meet the Government commitment to limit overall net current expenditure growth to 4% per annum and proposes net voted current expenditure targets as follows:**

	2000	2001	2002
£m	**12,919**	**13,667**	**14,414**

These targets will require cuts from the net voted current expenditure projections in paragraph 21 above of

	2000	2001	2002
£m	**153**	**215**	**253**

These targets will afford room for net voted current expenditure to rise by an average of 5¾% per annum over 2000-2002. The Department of Finance will shortly be issuing an Estimates circular requesting detailed spending proposals for 2000 and outline expenditure proposals for 2001 and 2002. The circular will request that the Departments' proposals are in accordance with this target.

23. In relation to **capital spending** the Minister considers, having examined the proposals submitted by Departments on our investment needs for the purposes of the National Development Plan, that the overall gross voted Exchequer Capital provision should grow at around 6.4% per annum in order to meet that investment need over the period to 2002 - this is on top of the increase of 66% already taking place over the three years to end-1999 and will mean that Exchequer Voted capital expenditure will have increased by over 150% in the ten year period 1997 to 2006.

Estimates circular

24. The Minister will issue shortly an Estimates circular requesting Departments to supply expenditure estimates for 2000 and proposals for financial envelopes for 2001 and 2002 consistent with the targets in this Memorandum. Information about the policy background to Departmental demands will be sought in the Estimates circular and in the discussions on estimates in the autumn. To the extent that specific initiatives are to be contemplated in some key areas which would involve a breach of the expenditure targets proposed in this Memorandum, these would have to be offset by corresponding reductions in non-priority areas. The Minister's proposals to the Government on the final 2000 allocations and the financial envelopes for 2001 and 2002 will take account of these policy priorities. These proposals will also be consistent with the year-by-year allocations in the National

Development Plan. These year by year allocations will be agreed for inclusion in the text of the Plan after the Government decision on the seven year aggregate size of the plan and the breakdown of this aggregate by programme.

VI. Impact of Proposed Budgetary Strategy

25. The Budget strategy proposed by the Minister for Finance will keep the Budget in overall surplus, on the basis of the stated assumptions, out to 2006. The strategy adopted will

- keep the economy on a sustainable growth path consistent with successful participation in EMU;
- ensure adequate investment levels are maintained and further increased to facilitate growth in the longer term despite the fall off in EU funding;
- make a beginning in addressing demographic factors and a significant contribution to debt reduction; and
- meet our commitment under the Stability and Growth Pact.

The detailed assumptions underpinning these projections, including those relating to the National Development Plan, are set out in Annex 2 to this Memorandum.

VII. 2000 Budget Timetable

26. The 1999 Budget was presented on 2 December, 1998. The Minister considers that 1 December should be chosen as the date for the 2000 Budget and he proposes to notify the Whips of this date. A timetable setting out the requirements to meet this deadline is included as part of Annex 2 and the Minister would ask his colleagues for their co-operation in keeping to this calendar.

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Detailed Budgetary Parameters
2000-2002

	1999	2000	2001	2002
General Government Surplus (% GDP) Exchequer Surplus (% GNP)	2.9 2.9	3.0 1.9	3.1 2.2	2.9 2.2
Total Net Current Expenditure (consistent with 4% limit)	15,530	16,025	16,665	17,325
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Provisional Personal Tax Package (£m) (£350 m gross full year cost each year)	581	350	350	350
Corporate Tax Package (% reduction)	4%	4%	4%	4%
Pension Pre-Funding Provision (£m)	-	582	628	676

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General Government Surplus (% GDP)	2.7	2.8	3.0	3.2
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Total Net Current Expenditure	18,020	18,740	19,490	20,270
Voted Capital	3,120	3,307	3,505	3,716
Pension Pre-Funding	724	774	828	886

Annex 2

Assumptions and Projections

1. Introduction

1.1 This annex sets out the projections upon which the 2000 Budget Strategy is based. It deals with the

- economic outlook 2000 - 2006
- projections for receipts and expenditure,
- the derivation of the Budget targets including those for the expenditure aggregates, and
- the budgetary timetable.

The projections will be reviewed further in the Autumn in advance of the Budget.

2. Economic Outlook

2.1 The evidence available to date suggests that 1999 is another very good year for the Irish economy and that if the right mix of fiscal restraint and wage moderation is followed the outlook beyond 2000 can remain favourable.

2.2 It is assumed that the Irish economy will expand at its *full* potential growth rate - estimated at 4.5% (GNP) - over the period to 2006. This estimate is based on prospective growth in the labour force and the probable evolution of labour productivity over the period. However, *it crucially assumes appropriate behaviour by all economic actors;* consistent with keeping inflation low and maintaining international competitiveness and thus with encouraging sufficient productive investment to fully employ the growing labour force and to exploit the rising productivity potential. It also assumes that the budget will remain in surplus while strong growth continues and that infrastructural bottlenecks will be tackled.

2.3 The Department of Finance estimates that the labour force will expand by about 1.5% annually over the period 2002-2006. This estimate, although considerably slower than the growth of about 3 per cent experienced since 1993, is broadly comparable to the ESRI's latest projections. On the basis that appropriate economic and budgetary policies will be pursued, however, the economic growth projection assumes that employment will grow at a slightly faster rate than the labour force, bringing the rate of unemployment well below 5 per cent by 2006, at which point, international experience strongly suggests, scope for further significant employment gains will be severely limited.

2.4 The Department of Finance assumes that annual growth in labour productivity will average 3% per cent from 2000 to 2006. While this represents a slowdown compared with the 1990s, if achieved it will be considerably better that the 2%-2¼% normally experienced across the EU as a whole. The projected slower labour force growth will lower Ireland's capacity to absorb further FDI while recent increases in average education levels within the Irish labour force indicate that the pace of increase in educational standard will also be less in the future, slowing productivity growth from its recent, high rate.

2.5 Combining these assumptions about employment growth and labour productivity prospects and given appropriate behaviour by economic actors generally through the period to

2006, annual GDP growth rates of about 5% for the period 2002-2006 are attainable (an average of about 4.5% in GNP terms).

2.6 The main features of the detailed economic forecast for the period 1998-2006[4] are as follows:

	1999	2000	2001	2002	2003	2004	2005	2006
GDP	6.7	6.4	5.9	5.3	5.1	5.0	4.9	4.8
GNP	6.0	5.7	5.3	4.9	4.7	4.6	4.7	4.6
Inflation (CPI basis)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Unemployment Rate (LFS Basis) %	6.8	6.3	5.9	5.6	5.2	4.8	4.6	4.4
Employment (Average change) (000s)	32	27	29	29	26	24	26	27

3. Budgetary Outlook

3.1 The outlook for the main budgetary aggregates and a detailed assessment of the individual aggregates is summarised as follows:

	1999	2000	2001	2002	2003	2004	2005	2006
General GovernmentSurplus % of GDP	2.9	3.0	3.1	2.9	2.7	2.8	3.0	3.2

[4] Economic projections for the three years 1999-2001 will be published on Budget day

(rounding may affect totals)	2000	2001	2002
Central Fund	3,105	2,998	2,912
Net Voted Current Expenditure *	12,919	13,667	14,414
Net Current Expenditure	**16,025**	**16,665**	**17,325**
Tax Revenue	19,298	20,621	21,940
Non Tax Revenue	339	332	334
Total Current Revenue	**19,637**	**20,953**	**22,274**
CURRENT SURPLUS	**3,613**	**4,289**	**4,949**
(% of GNP)	6.2	6.8	7.3
Gross Voted Capital	2,595	2,777	2,943
Non-Voted Capital	93	103	106
Less Capital A-in-As	-108	-112	-115
Total Exchequer Capital	**2,580**	**2,768**	**2,935**
Capital Resources	**672**	**713**	**586**
CAPITAL DEFICIT	**-1,908**	**-2,055**	**-2,348**
CONTINGENCY		200	400
PRE-FUNDING	582	628	676
DEBT REDUCTION	**1,123**	**1,407**	**1,524**
(% of GNP)	1.9	2.2	2.2
Gen. Govt. Surplus (% GDP)	**3.0**	**3.1**	**2.9**

**** Consistent with 4% limit***

3.2 **Central Fund** projections are based on current interest and exchange rates. The overall provisions are:

	1999	2000	2001	2002
£m	3,410	3,105	2,998	2,912

The Debt service estimates are based on those submitted by the NTMA adjusted downward by £100 million to reflect better performance during 1999. The figures include full accrual of interest on small savings in order to reflect the full liability of the Exchequer in this regard. This requirement flows from the introduction of the new accounting conventions under new European standards (ESA 95).

3.3 **Net Voted Current Expenditure** projections for 2000 to 2002 give total expenditure figures above those which are required to achieve the Government's commitment to limit current spending to 4%. Net Voted Current Expenditure Targets (consistent with 4% limit) are

	2000	2001	2002
£m	12,919	13,667	14,414

The Minister has produced estimates of the cost of maintaining the existing level of services, plus provision for post-P2000 pay and the additional costs associated with the NDP. This no-policy-change assumption does not take account of any future additions to spending either through expansion in existing services or the introduction of new services. The Minister therefore considers that the projection must take realistic account of the net Exchequer costs of social inclusion and other Budget day expenditures and the impact of the NDP proposals. These projected expenditure figures have the effect of breaching the 4% target for current expenditure and will have to be cut back, in order to meet the Government's commitment to a 4% average annual increase in overall net current expenditure.

The estimates of NPC and Budget Day add-ons are:

	2000	2001	2002
Net Voted Current Expenditure (no-policy-change, including provision for post P2000 pay and NDP provision)	12,966	13,615	14,234
add: Net amounts for social inclusion and other Budget day improvements	106	267	433
Net Voted Current Expenditure	13,072	13,882	14,667
Targets consistent with 4% limit	12,919	13,667	14,414
Cuts Required	**153**	**215**	**253**

The projections for 2003 to 2006 are based on the Department of Finances view of no-policy change and include additional resources for post P2000 pay, social inclusion and other Budget day improvements in each of the years. The current expenditure projections also have to accommodate the ongoing current costs of PPP projects.

3.4 **Tax Revenue** projection takes account of an assumed £700 million outturn improvement in 1999. The overall tax receipts are:

	1999	2000	2001	2002
£m	18,035	19,298	20,621	21,940

Annual income tax packages amounting to £350m in a full year are provisionally assumed. Full indexation of excises is provided for. It is also assumed that CT rates will be reduced by 4% each year to 2003 thereby achieving the target rate of 12.5% by 1/1/2003. The projections for 2003 to 2006 assume that the overall tax yield will be held constant at the 2002 level as a proportion of GDP.

3.5 **Non-Tax Revenue** receipts are:

	1999	2000	2001	2002
£m	390	339	332	334

The projections for 2003 to 2006 assume that non tax revenue will grow in line with the CPI i.e. 2% per annum.

3.6 **Gross Voted Capital Expenditure** overall provisions are:

	1999	2000	2001	2002
£m	2,406	2,595	2,777	2,943

The projections to 2002 (and to 2006) are based on the Department of Finance estimates of the cost of meeting the requirements of the National Development Plan and allows non-plan expenditure to increase at a comparable rate.

3.7 **Non-Voted Capital Expenditure overall** provisions are:

	1999	2000	2001	2002
£m	52	93	103	106

The provisions for 2000 cover all known costs. For the years 2003 to 2006 the outlays are increased at 5% per annum.

3.8 **Capital Resources** overall receipts are:

	1999	2000	2001	2002
£m	992	672	713	586

3.9 **Contingency** provision has been made against risks to the budgetary position in 2001 and 2002 which cannot be foreseen at this stage. Examples of the risks envisaged are variability in tax buoyancy, interest costs, changes in growth rates and exceptional once-off costs on the expenditure side such as Hepatitis C or higher Army Deafness claims. These are in line with the provisions made in this year's Budget presentation for the last two years of the forecast. No provision is necessary for the first year of the forecast as this takes account of all known probabilities. For the years 2003 to 2006 the contingency increases progressively to a level of 1.8% of GNP in 2006.

4. Timetable for 2000 Budget

In order to deliver the 2000 Budget on 1 December 1999 the following timetable will have to be strictly adhered to.

July
Early July - Circular to Departments to prepare detailed expenditure plans for 2000 and financial envelopes for 2001 and 2002, based on aggregate targets approved by Government.

August
Mid August - Deadline for Departments' replies to Circular. Official/Ministerial bilateral on Estimates.

September
Early September - Minister for Finance updates Government on revised economic and budgetary outlook and budgetary targets for 2000/2002.

October
Early/Mid October - Final round of Ministerial bilateral. End October - Government approval of Estimates

November
Early November - Final Government decisions on pre-Budget position, i.e. Abridged Estimates Volume and Summary Public Capital Programme for 2000. Publish *Abridged Estimates Volume and Summary Public Capital Programme 2000* by Mid-November.
5 November - Minister for Finance finalises detailed proposals on taxation 2000-2002 and post-Budget spending 2000-2002.
15-19 November - Ministerial/Cabinet Sub-Committee discussions.
23 November - Government Approval of Budget Day measures.
26 November - Publish *White Paper on Receipts and Expenditure*

December
Budget Day: Wednesday 1 December.

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- 1 JUL 1999
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Office of the Minister for Finance
30 June, 1999

S405/4/99

SECRET
Memorandum for the Government
2000-2002 No-policy-change Expenditure Projections

Decision sought

1. The Minister for Finance requests the Government to approve the "no-policy-change" [NPC] projections for 2000, 2001 and 2002 of the cost of the existing 1999 level of services shown by Vote Group in Appendix 1 [current] and Appendix 2 [capital]. This decision involves approval of the Finance costings in one case where those costings differ from those of a spending Department - see para. 3 below.

NPC projections 2000-2002

2. Discussions on Departments' projections of the cost of maintaining the existing level of services have taken place between the Department of Finance and other Departments. Ministerial bilaterals were held in a number of cases also.

3. Agreement has not been reached in the case of the Department of Foreign Affairs. That Department does not agree with the amounts proposed by the Department of Finance for expenditure on Overseas Development Aid. The Department of Foreign Affairs considers that the projection for ODA should be drawn up on the basis that Ireland's overseas aid should reach 0.45% of GNP by 2002 in line with manifesto commitments. The Department of Finance figures are included in the attached Appendix 1. The Department of Finance proposals are in accordance with the agreement reached in November, 1998 between the Ministers for Finance and Foreign Affairs.

4. Agreement on the projections has been reached with other Departments, subject, in some cases, to the qualifications set out in the general note herewith.

5. The projections do not take account of the medium-term impact of large scale 1999 over-runs on the Health and Children Vote or of any savings measures which might be agreed by the Government to offset over-runs. The Minister for Finance is circulating a memorandum for the Government on measures to offset the emerging 1999 over-run. The no policy change projections for Vote Groups may require review in the light of any Government decision on foot of that memorandum.

General note

Current expenditure

General

In order to provide a realistic view of the prospective 2000-2 expenditure position, a prudent provision has been made for possible non-pay costs in those years. This includes provision for additional current costs arising under the new National Development Plan, and for Budget day spending on social inclusion.

Education and Science

The Minister for Education and Science considers that the maintenance of teacher numbers at existing levels should be dealt with in the context of existing levels of service. However, due to time constraints he is willing to accept the approach to this matter in the NPC projections proposed by the Minister for Finance.

Health and Children

The NPC projections for 2000 have been agreed between the Minister for Finance and the Minister for Health and Children. The figures for Health and Children for 2001 and 2002 are based on Finance's view of NPC. The Minister for Health and Children considers that these figures do not reflect the specific costs attaching to Government decisions on phased programmes such as cancer, cardiovascular health, etc. It is the Department of Health and Children's view that the Finance figures do not properly reflect the costs of court decisions, legislation, demographic pressures, medical inflation and the roll forward costs of developments in previous years.

Capital expenditure

Department of Public Enterprise

The NPC projections for the Department of Public Enterprise do not include provision for additional public transport investment proposals. Additional public transport investment is included in the proposed National Development Plan. No provision has been made in the no-policy-change projections for increased subsidies to CIE in respect of additional buses and suburban rail rolling stocks as there is no policy decision to provide such operational subsidies.

As regards rail safety, a study is currently underway on the contribution which CIE property sales may make to the programme. Further, rail safety will be part of the mainline rail allocation which is included in the proposed National Development Plan. The proposed no-policy-change figures recognise the commitment in the Government's proposals to provide substantial Exchequer funding for rail safety [£138m] over 3 years and may fall to be revised in the light of the above considerations.

The Department of Public Enterprise has prepared proposals for new annual gross expenditure of some £27m [both current and capital] on energy efficiency measures to meet Kyoto commitments and the commitment in the Government programme to develop a sustainable energy policy. These proposals have not yet been considered by Government, and are therefore not included in the proposed no-policy-change projections. Provision for measures to promote energy efficiency is included in the proposed National Development Plan.

Environment and Local Government

The projections for Environment and Local Government include provision for an expanded Local Authority housing programme over the four years 2000-2003 from 16,200 to 22,000 houses. The cost of the expanded programme is £248m in 2000, £322m in 2001 and £350m in 2002. They also include an additional £35m provision for an expanded scheme for water and sewerage services in rural towns and villages over the three years 2000 to 2001.

Appendix 1

N -Policy-Change Projections - 2000

Voted current expenditure VOTE / DEPARTMENT Doc: Mab2000\SOP2406	Gross £000	A-in-As £000	Net £000
TAOISEACH	47,389	1,175	46,214
FINANCE	560,063	56,262	503,801
PUBLIC ENTERPRISE	152,030	13,371	138,659
JUSTICE, EQUALITY AND LAW REFORM	878,521	20,282	858,239
ENVIRONMENT & LOCAL GOVERNMENT	403,541	14,543	388,998
EDUCATION & SCIENCE	2,746,696	219,732	2,526,964
MARINE & NATURAL RESOURCES	72,697	11,719	60,978
AGRICULTURE & FOOD	738,608	332,281	406,327
ENTERPRISE, TRADE & EMPLOYMENT	668,418	14,220	654,198
TOURISM, SPORT & RECREATION	80,293	3,402	76,891
DEFENCE	619,150	20,040	599,110
FOREIGN AFFAIRS	215,442	500	214,942
SOCIAL, COMMUNITY & FAMILY AFFAIRS	5,270,095	2,343,796	2,926,299
HEALTH & CHILDREN	3,647,892	582,421	3,065,471
ARTS, HERITAGE, GAEL. & THE ISLANDS	209,396	78,729	130,667
TOTAL	16,310,231	3,712,473	12,597,758
ADMINISTRATIVE BUDGET CONTINGENCY	30,000		30,000
OTHER NON-PAY	297,000	4,000	293,000
OVERALL TOTAL	16,637,231	3,716,473	12,920,758

No-Policy-Change Projections - 2001

Voted current expenditure VOTE / DEPARTMENT Doc: Mab2000\SOP2406	Gross £000	A-in-As £000	Net £000
TAOISEACH	41,257	1,100	40,157
FINANCE	571,455	57,178	514,277
PUBLIC ENTERPRISE	152,919	10,280	142,639
JUSTICE, EQUALITY AND LAW REFORM	884,514	20,414	864,100
ENVIRONMENT & LOCAL GOVERNMENT	408,908	15,041	393,867
EDUCATION & SCIENCE	2,775,360	214,475	2,560,885
MARINE & NATURAL RESOURCES	70,300	10,097	60,203
AGRICULTURE & FOOD	740,125	352,824	387,301
ENTERPRISE, TRADE & EMPLOYMENT	680,093	14,260	665,833
TOURISM, SPORT & RECREATION	77,947	5,705	72,242
DEFENCE	631,600	18,000	613,600
FOREIGN AFFAIRS	231,013	500	230,513
SOCIAL, COMMUNITY & FAMILY AFFAIRS	5,475,016	2,430,546	3,044,470
HEALTH & CHILDREN	3,861,623	601,421	3,260,202
ARTS, HERITAGE, GAEL. & THE ISLANDS	213,055	80,121	132,934
TOTAL	16,815,185	3,831,962	12,983,223
ADMINISTRATIVE BUDGET CONTINGENCY	31,000		31,000
OTHER NON-PAY	558,000	104,000	454,000
OVERALL TOTAL	17,404,185	3,935,962	13,468,223

Appendix 1 contd.

N -Policy-Change Projections - 2002

Voted current expenditure

VOTE / DEPARTMENT Doc: Mab2000\SOP2406	**Gross** **£000**	**A-in-As** **£000**	**Net** **£000**
TAOISEACH	34,180	1,065	33,115
FINANCE	579,978	57,303	522,675
PUBLIC ENTERPRISE	154,871	10,553	144,318
JUSTICE, EQUALITY AND LAW REFORM	891,961	20,548	871,413
ENVIRONMENT & LOCAL GOVERNMENT	415,672	15,315	400,357
EDUCATION & SCIENCE	2,802,677	214,857	2,587,820
MARINE & NATURAL RESOURCES	70,624	9,173	61,451
AGRICULTURE & FOOD	752,374	355,107	397,267
ENTERPRISE, TRADE & EMPLOYMENT	687,523	14,330	673,193
TOURISM, SPORT & RECREATION	79,249	3,698	75,551
DEFENCE	593,775	9,850	583,925
FOREIGN AFFAIRS	235,709	500	235,209
SOCIAL, COMMUNITY & FAMILY AFFAIRS	5,673,570	2,522,346	3,151,224
HEALTH & CHILDREN	4,077,312	621,421	3,455,891
ARTS, HERITAGE, GAEL. & THE ISLANDS	216,034	81,601	134,433
TOTAL	17,265,509	3,937,667	13,327,842
ADMINISTRATIVE BUDGET CONTINGENCY	32,000		32,000
OTHER NON-PAY	829,000	209,000	620,000
OVERALL TOTAL	18,126,509	4,146,667	13,979,842

2000 - 2002 NPC Projections
Voted Capital Expenditure

Vote	NPC 2000 £000's	NPC 2001 £000's	NPC 2002 £000's
Vote 3. Taoiseach	13,500	0	0
Vote 4. Ordnance Survey	1,700	1,750	2,000
Vote 5. C.S.O.	558	436	436
Vote 6. Finance	20,477	353	340
Vote 9. Revenue	10,040	8,000	7,000
Vote 10. OPW	107,893	96,816	81,543
Vote 19. Justice, Equality & Law Reform.	3,082	1,356	1,421
Vote 20. Garda Siochana	16,398	8,096	8,239
Vote 21. Prisons	28,183	28,685	30,352
Vote 22. Courts	11,700	9,410	9,598
Vote 25. Environment	1,048,775	1,108,927	1,153,229
Vote 26. Office of Minister for Education	75,642	642	642
Vote 27. First Level Education	53,775	32,326	34,265
Vote 28. Second Level & Further Education	51,272	42,688	45,250
Vote 29. Third Level & Further Education	86,127	76,021	69,088
Vote 30. Marine & Natural Resources.	110,862	104,146	105,477
Vote 31. Agriculture & Food.	114,242	88,152	89,821
Vote 32. Public Enterprise	182,862	190,051	126,691
Vote 33. Health & Children.	195,000	195,000	200,000
Vote 34. Enterprise , Trade and Employment	245,492	236,596	234,455
Vote 35. Tourism, Sport & Recreation.	30,794	22,533	23,881
Vote 36. Defence	36,125	17,250	14,310
Vote 38. Foreign Affairs	1,500	2,395	2,395
Vote 40. Social , Community & Family Affairs	5,900	6,100	5,180
Vote 42. Arts, Heritage, Gaeltacht & Islands.	79,114	77,284	77,589
Vote 43 National Gallery	3,750	1,750	750
Vote 41. Arts Council	3,500	3,500	3,500
Total Gross Voted Capital	2,538,263	2,360,263	2,327,452
Appropriations in Aid			
Vote 25. Environment	6,251	4,590	4,432
Vote 30. Marine & Natural Resources	56,732	63,437	57,407
Vote 31. Agriculture & Food	31,013	46,094	43,147
Vote 36. Defence	50	50	50
Vote 34. National Gallery	0	1,000	0
Total A- in- A	94,046	115,171	105,036
Total Net Voted Capital	2,444,217	2,245,092	2,222,416

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Mr. Gearóid Mullaney

An Roinn Airgeadais
Department of Finance

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7 July 1999

Taoiseach
To see please. My note yet to issue .. also refers.
[initials] 5/7/99
[The Strategy suggested is similar to the note of the Agenda]

RECEIVED
-5 JUL 1999

Frank Murray
Secretary General to the Government

Dear Frank

The agenda for the Government meeting on Wednesday next, 7 July, has a number of inter-related items from the Minister for Finance viz:

- Economic and Budgetary Projections and Budget Strategy 2000-2006
- No-policy-change Expenditure Projections 2000-2002
- [redacted]
- Budget Strategy for Ageing Group: Report.

The following suggestions on how these items might be handled at Government may be helpful for you and the Taoiseach.

The key document is the Memorandum on Economic and Budgetary Projections and Budget Strategy 2000-2006. It is suggested that it would be useful to focus on this first to provide an overall context for the other items. The Memorandum proposes that the emphasis in budgetary policy should be put on public investment through the National Development Plan, beginning to provide now for the budgetary costs of ageing, continuing to run substantial surpluses while strong growth lasts to minimise inflationary pressures, while preparing the ground for a successor agreement to Partnership 2000. It sets out proposed expenditure and tax parameters for the period to 2006.

The other documents are part of the building blocks for achieving the suggested budgetary strategy and should be considered in that context.

The no-policy-change expenditure projections provide an input into the preparation of the 2000-2002 budgets. They are largely agreed with Departments and are an essential background to the preparation of the Estimates.

[redacted]

The final two documents relate to the proposal in the Budget Strategy memorandum for pre-funding of part of future social welfare and public service pensions. The Aide Memoire on the report of the Budget Strategy for Ageing Group sets the scene on why this is needed and recommends that a start should now be made, including the use of asset sales. [redacted]

It is suggested that following this order in the discussions, which is in any event the order in which they appear on the Government agenda, might give a logical sequence to this inter-related set of documents.

Yours sincerely

Paddy Mullarkey

P H Mullarkey
Secretary General

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S180/20/10/0247

21 Iúil, 1999.

An Rúnaí Príobháideach
An tAire Airgeadais

SECRET

I am to refer to the memorandum ref. F43/1/99 dated 30 June, 1999, submitted by the Minister for Finance and to inform you that, at a meeting held today, the Government

(1) decided to introduce the 2000 Budget on 1 December, 1999;

(2) decided that the 2000, 2001 and 2002 Estimates and Budget be prepared within the aggregates set out in Annex 1 to the memorandum;

(3) decided that the 2000, 2001 and 2002 Estimates be prepared on the basis of the following targets for net current voted expenditure which are consistent with the Government's commitment to a 4% annual average growth in total net current expenditure;

2000: £12,919m
2001: £13,667m
2002: £14,414m

(4) decided that the voted capital expenditure for 2000, 2001 and 2002 would be no greater than £2,595m, £2,777m and £2,943m respectively, subject to any adjustments to be agreed in the context of the discussions on the National Development Plan and on the basis that the finalisation of expenditure take account of consideration by the Taoiseach, Tánaiste and Minister for Finance of an allocation for social inclusion in the negotiation of the successor to Partnership 2000; and

(5) agreed the targets for the budgetary parameters for the period 2003 and 2006 also set out in Annex 1, subject to any adjustments to be agreed in the context of the discussions on the National Development Plan.

Frank Murray
Ard-Rúnaí an Rialtais

(10)

S180/20/10/0247 35. **ECONOMIC AND BUDGETARY PROJECTIONS & BUDGET STRATEGY 2000 - 2006**

Following consideration of a memorandum dated 30 June, 1999 submitted by the Minister for Finance

(1) it was decided to introduce the 2000 Budget on 1 December, 1999;

(2) it was decided that the 2000, 2001 and 2002 Estimates and Budget be prepared within the aggregates set out in Annex 1 to the memorandum;

(3) it was decided that the 2000, 2001 and 2002 Estimates be prepared on the basis of the following targets for net current voted expenditure which are consistent with the Government's commitment to a 4% annual average growth in total net current expenditure:

2000: £12,919m
2001: £13,667m
2002: £14,414m

(4) it was decided that the voted capital expenditure for 2000, 2001 and 2002 would be no greater than £2,595m, £2,777m and £2,943m respectively, subject to any adjustments to be agreed in the context of the discussions on the National Development Plan and on the basis that the finalisation of expenditure take account of consideration by the Taoiseach, Tánaiste and

Minister for Finance of an allocation for social inclusion in the negotiation of the successor to Partnership 2000; and

(5) agreement was given to the targets for the budgetary parameters for the period 2003 to 2006 also set out in Annex 1, subject to any adjustments to be agreed in the context of the discussions on the National Development Plan.

12

S180/20/10/0248

21 Iúil, 1999.

An Rúnaí Príobháideach
An tAire Airgeadais

I am to refer to the memorandum ref. S405/4/99 dated 30 June, 1999, submitted by the Minister for Finance and to inform you that, at a meeting held today, the Government approved the "no-policy-change" projections for 2000, 2001 and 2002 of the cost of the existing 1999 level of services shown by Vote Group in Appendix 1 [current] and Appendix 2 [capital].

Frank Murray
Ard-Rúnaí an Rialtais

13

S180/20/10/0248 36. **NO-POLICY-CHANGE EXPENDITURE PROJECTIONS 2000-2002**

Following consideration of a memorandum dated 30 June, 1999, submitted by the Minister for Finance approval was given to the "no-policy-change" projections for 2000, 2001 and 2002 of the cost of the existing 1999 level of services shown by Vote Group in Appendix 1 [current] and Appendix 2 [capital] of the memorandum.

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Office of the Minister for Finance

Ref: EPD 12/25/99 30 **June, 1999**

Aide Memoire for Government

Report of the Budget Strategy for Ageing Group

RECEIVED
- 1 JUL 1999

Background

1.1 This Aide Memoire is submitted for the information of the Government as a background to the formulation of policy in relation to ensuring the Exchequer's future ability to maintain pensions and other key services in the decades ahead notwithstanding the "ageing" of Ireland's overall population and the major increase in numbers of public service pensioners which are inevitable in the next century.

1.2 The Aide Memoire summarises the analysis and conclusions of a working group - the Budget Strategy for Ageing Group - which the Minister established within his Department earlier this year, with a remit:

> "To bring forward specific proposals, in the light of present and prospective substantial budget surpluses, designed to ease the longer-term budgetary burden of the Exchequer's liability for (a) social welfare and (b) public sector employee pensions implicit, respectively, in the prospective ageing of the general population and of public servants"

1.3 A copy of the report of this working group is attached as an appendix to this Aide Memoire.

Key Recommendations

2.1 The key recommendations of the Group are as follows:

- annual provisions should be made from general budgetary resources of 1 per cent of GNP, to *part* pre-fund the substantial costs of "ageing" facing the Exchequer over the medium-to-longer term, beginning with an allocation of £520 million (€660.26 million) in 1999;
- a **Social Welfare Pension Reserve Fund** should be established, and the larger part of this provision, £320 million (€406.32 million), should be assigned thereto in 1999; and
- a **Public Service Pension Fund** should be established, and the remainder of this provision, £200 million (€253.95 million), should be assigned thereto in 1999.
- in addition to the foregoing annual provisions from general budgetary resources, a very substantial part of all Exchequer receipts[1] from future privatisations of state

[1] net of the cost of discharging any associated Exchequer liabilities, for example in the Telecom case, the cost of the Exchequer's accrued liability for Telecom--and An Post--pensions in respect of pre-1984 service.

bodies, beginning with a very substantial part of the net proceeds of the forthcoming Telecom Eireann disposal, should be allocated to pre-fund these future Exchequer liabilities.

The Implications of Ageing for the Exchequer

3.1 In Ireland, today, there is one person aged 65 or over for every 5 persons of working age. Demographic projections indicate that, by the middle of the next century, this ratio will rise above 1 pensioner for every two persons of working age. In addition, because the public service expanded rapidly through the 1970's, numbers of public service pensioners are set to rise appreciably over the next two decades. Therefore, if current levels of pension provision are to be broadly maintained, the burden on the workforce of providing pensions to support those who have retired will rise very substantially over the next several decades.

3.2 There is a strong, positive correlation between age and need for health services. Given this correlation, demographic projections indicate that a substantial increase in Exchequer health-related outlays is also inevitable in the decades ahead, if health service provision is to be broadly maintained as the population ages.

3.3 Based on the "Actuarial Review of Social Welfare Pensions" Report, the ongoing work of the Commission on Public Service Pensions, and its own assessment of the implications of ageing for health service costs, the working group sought to establish the order of magnitude of the extra costs falling on the Exchequer by mid-century, to *broadly maintain the current level of pension and health service provision as the population ages.* Based on projections for the next 60 years, it is estimated that Exchequer costs will rise by 7 % of GNP by the middle of the next century if the current level of pension and health service provision is broadly maintained as the population ages - a cost equivalent to about one sixth of the tax burden, or about half of all current non-pay public expenditure apart from Social Welfare pensions.

3.4 The Group also considered how rapidly the extra cost-burden would arise. About 1% of this 7% of GNP increase in Exchequer outlays arises over the next decade; ageing costs are set to rise most rapidly over the following two decades, exceeding 5% of GNP by 2030.

3.5 To further illustrate the implications for the Exchequer of ageing, the Group estimated the cost of meeting the foregoing increases by spreading the burden of these extra pension and health service costs equally over the period to the middle of the next century. It estimated that 3½ % of GNP would have to be set aside annually, beginning in 1999, in order to place an equivalent burden on taxpayers each year to mid-century.

The Budgetary Challenge

4.1 Several alternative approaches could be pursued to ensure the Exchequer's ability to broadly maintain prevailing pensions and health service provision over the next fifty years.

- The Group first considered whether it might be plausible to rely on longer term economic growth to provide the budgetary resources with which to meet the extra costs posed by "ageing". Demographic projections indicate that labour force growth, and hence economic growth and growth in tax resources available to fund rising

Exchequer costs, will be slow through the period when ageing costs rise most rapidly. The Group concluded that reliance on future growth to "solve the ageing problem" would lead to significant budgetary pressures in the future.

- The Group also considered the alternative of putting aside the "windfall" gains from asset sales to "pre-fund" (all or part of) the increase in the Exchequer's pension/health costs. The Group calculated, however, that the total proceeds of all possible asset sales would only cover 10% of the increase over 1999 levels in pension and health costs which "ageing" is set to impose on the Exchequer. Accordingly, the Group concluded that <u>significant</u> "pre-funding" from ongoing budgetary surpluses would be vital in addition to use of "windfall" gains, if the Exchequer is to be positioned to broadly maintain current levels of pension/health service provision in the decades ahead.

- A third possible alternative would be to set aside savings on debt-interest which will arise as national indebtedness relative to GNP declines (in response to ongoing budgetary surpluses). This approach could make a major contribution to alleviating the "ageing" burden. The Group estimated that, if the budget remains in broad balance over the decades ahead, and if the amount by which Exchequer interest payments falls below 3¼ % of GNP--the level estimated for 2001, the last year of the current Stability Programme--were allocated each year to "pre-fund" ageing, those savings could offset 60%-70% of "ageing" costs to mid-century. However, this approach would require a fundamental change from the present basis for control of public current expenditure, which the Group considered to be outside its remit to propose.

4.2 The budgetary challenge might be summarised as follows. The approach of funding "ageing" costs from longer term economic growth raises the prospect of potentially serious budgetary problems in the longer term. Asset sales alone can make only a modest contribution to the Exchequer costs of "ageing". It is critical, therefore, if adequate public pensions and health services for the pensioners of the coming century are to be assured, to pre-fund, at least in part, the Exchequer costs of "ageing" from ongoing budgetary surpluses. Specific annual provisions should be allocated from general budgetary resources to partially "pre-fund" the costs of ageing which the Exchequer will have to bear if the government is to ensure a capacity to broadly maintain current pension and health service provision in the future to a growing population of over-65's.

<u>Recommendations</u>

5.1 The Group could not identify a satisfactory basis for a "Fund" to support future health service provision for growing numbers of elderly. It concluded, therefore, that pre-funding should be directed towards Social Welfare and Public Service pensions costs. Pre-funding should be even-handed as between all pensioners. The Group calculated that the extra burden falling on the Exchequer for Social Welfare pensions--over the period to mid-century--will be about twice that for Public Service pensions. Therefore, it considered that any resources allocated to pre-fund "ageing" costs should be assigned approximately 2:1 to support future provision of Social Welfare pensions.

5.2 As outlined in paragraph 2.1, the specific recommendations of the Group were that:

- annual provisions should be made from general budgetary resources of 1 per cent of GNP, to *part* pre-fund the substantial costs of "ageing" facing the Exchequer over the medium-to-longer term, beginning with an allocation of £520 million (€660.26 million) in 1999;

- a **Social Welfare Pension Reserve Fund** should be established, and the larger part of this provision, £320 million (€406.32 million), should be assigned thereto in 1999; and

- a **Public Service Pension Fund** should be established, and the remainder of this provision, £200[2] million (€253.95 million), should be assigned thereto in 1999.

The Group estimated that pre-funding on this scale will meet about 30%, only, of the extra pension and health costs which "ageing" will impose on the Exchequer over 1999 expenditure levels if current service-levels are to be maintained as the population ages in the decades ahead. For this reason, although it recognised that there are many other potential demands on privatisation receipts, it also recommended that:

- in addition to the foregoing annual provisions from general budgetary resources, a very substantial part of all Exchequer receipts[3] from future privatisations of state bodies, beginning with a very substantial part of the net proceeds of the forthcoming Telecom Eireann disposal, should be allocated to pre-fund these future Exchequer liabilities.

The Group went on to note that, even if *all* privatisation receipts were allocated to pre-fund "ageing" together with the annual allocation it proposed, these two sources would be sufficient to fund about 40%, only, of the extra pension and health costs which the Exchequer will face over the decades ahead. On this account they further recommended that:

- the annual payments to the two Funds be established as nondiscretionary budget items, to be met each year regardless of economic, budgetary or other circumstances;

- there be periodic reviews of the actuarial position of both Funds *and* an associated, automatic requirement to adjust either the amount of annual funding assigned to, or the basis on which draw-down may be made from, each Fund *consistent with the outcome of each actuarial review of the long-term viability of the Funds.*

Finally, because of the enormous Exchequer liabilities associated with "ageing", the Group attached great urgency to beginning a process of pre-funding. Recognising that it will take time to make precise arrangements for such Funds, and to legislate for their establishment, the

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[2] This allocation may not appear to be the 2:1 ratio proposed by the Group. The introduction of PRSI for public servants means that, over time, an increasing proportion of public servants' pensions will be payable in the form of Social Welfare pension. The Group therefore expects that the allocations needed to "pre-fund" in respect of public service pensions will diminish (as a share of GNP), yielding the suggested 2:1 ratio over time.

[3] net of the cost of discharging any associated Exchequer liabilities, for example in the Telecom case, the cost of the Exchequer's accrued liability for Telecom--and An Post--pensions in respect of pre-1984 service.

Group recommend the early establishment of an Extra-Budgetary Fund, to hold the 1999 "ageing" allocations pending establishment of the two proposed Funds.

Other Pre-Funding Studies

5.3 In the National Pensions Policy Initiative report "Securing Retirement Income", published last year, the Pensions Board recommended that "steps should be taken now to establish an explicit mechanism to fund, at least partially, the prospective substantial growth that is projected to occur in social welfare old age pensions, if they grow in line with real earnings". As part of its response to the report, the Government established an Interdepartmental Working Group, including representation from the Pensions Board, to consider in detail the implications of the pre-funding proposal. While this Group has yet to finalise its deliberations, it is probable that it will support a pre-funding approach towards meeting future social welfare pensions costs. The Minister does not intend that detailed proposals would be put before the Government until the Group has reported.

5.4 In the case of public service pensions also, the Minister does not intend to bring detailed proposals to the Government until the Final Report of the Commission on Public Service Pensions has been received and considered. The Commission, which includes representatives of unions, employers and the pension industry, is currently in the process of agreeing its recommendations following a three-year long examination of public service pension issues. It is expected to present its Final Report to the Minister in the autumn.

Implications for Irish commitments under the Stability & Growth Pact

6.1 A key concern in pre-funding is that, when payments are made from the accumulated funds, they should not affect the General Government balance (GGB) at that time. The Group understands that, in the case of the proposed Social Welfare Pension Reserve Fund, the GGB will be affected when payments are made *from* the Fund, but not when payments are made into it. It understands that, in the case of the Public Service Pension Fund, making payments into it will reduce the General Government surplus, and that the GGB will ***not*** be affected when the Fund makes payments to pensioners. It is proposed, given the importance of the GGB, that these understandings should be confirmed with Eurostat before finalising arrangements for the Funds.

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Report of the Budget Strategy for Ageing Group

1 Remit of the Budget Strategy for Ageing Group

1.1 *Terms of reference*

By decision of 1 February, 1999 the Management Advisory Committee established a Working Group with the following terms of reference:

> "To bring forward specific proposals, in the light of present and prospective substantial budget surpluses, designed to ease the longer-term budgetary burden of the Exchequer's liability for (a) social welfare and (b) public sector employee pensions implicit, respectively, in the prospective ageing of the general population and of public servants"

1.2 *Relationship with work of other Groups on these Issues*

Two other Groups are undertaking work with implications for the pre-funding of pensions--the "Working group on Pre-Funding of Social Welfare Pensions" and the "Commission on Public Service Pensions". In this context, the role of the Budget Strategy for Ageing Group is to bring forward proposals quickly which could assist decision-making in the context of the prevailing substantial budgetary surplus and the prospect, in 1999, of major privatisation receipts, *but without prejudice to the possible findings of either of the foregoing Groups.*

2 Recommendations

2.1 *Specific Recommendations*

We recommend that:

- annual provisions should be made from general budgetary resources of 1 per cent of GNP, to *part* pre-fund the substantial costs of "ageing" facing the Exchequer over the medium-to-longer term, beginning with an allocation of £520 million in 1999;
- a **Social Welfare Pension Reserve Fund** should be established, and the larger part of this provision, £320 million, should be assigned thereto in 1999; and
- a **Public Service Pension Fund** should be established, and the remainder of this provision, £200 million, should be assigned thereto in 1999.

We estimate that pre-funding on this scale will meet about 30%, only, of the extra pension and health costs which "ageing" will impose on the Exchequer over 1999 expenditure levels if current service-levels are to be maintained as the population ages in the decades ahead. For this reason, although we recognise that there are many other potential demands on privatisation receipts, we also recommend that:

- in addition to the foregoing annual provisions from general budgetary resources, a very substantial part of all Exchequer receipts[1] from future privatisation's of state bodies,

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[1] net of the cost of discharging any associated Exchequer liabilities, for example in the Telecom case, the cost of the Exchequer's accrued liability for Telecom--and An Post--pensions in respect of pre-1984 service.

beginning with a very substantial part of the net proceeds of the forthcoming Telecom Eireann disposal, should be allocated to pre-fund these future Exchequer liabilities.

Even if *all* privatisation receipts were allocated to pre-fund "ageing", we estimate that these, together with the annual allocation we propose, would be sufficient to fund about 40%, only, of the extra pension and health costs which the Exchequer will face over the decades ahead. On this account we further recommend that:

- the annual payments to the two Funds be established as nondiscretionary budget items, to be met each year regardless of economic, budgetary or other circumstance;
- there be periodic reviews of the actuarial position of both Funds *and* an associated, automatic requirement to adjust either the amount of annual funding assigned to, or the basis on which draw-down may be made from, each Fund *consistent with the outcome of each actuarial review of the long-term viability of the Funds.*

2.2 Recommended Time-Scale for Action

Because of the enormous Exchequer liabilities associated with "ageing", we attach great urgency to beginning a process of pre-funding. We have recommended that a significant start be made this year, because of the scope which is implicit in the prevailing budget surplus and the imminent flotation of Telecom Eireann. However, making precise arrangements for the Funds which we propose, and legislating for their establishment, will take time. Hence, we recommend the early establishment of an Extra-Budgetary Fund, to hold the 1999 "ageing" allocations pending establishment of the two proposed Funds.

3 The burden for the Exchequer posed by "ageing"

3.1 *AMOUNT of Exchequer age-related Liabilities accrued to date*

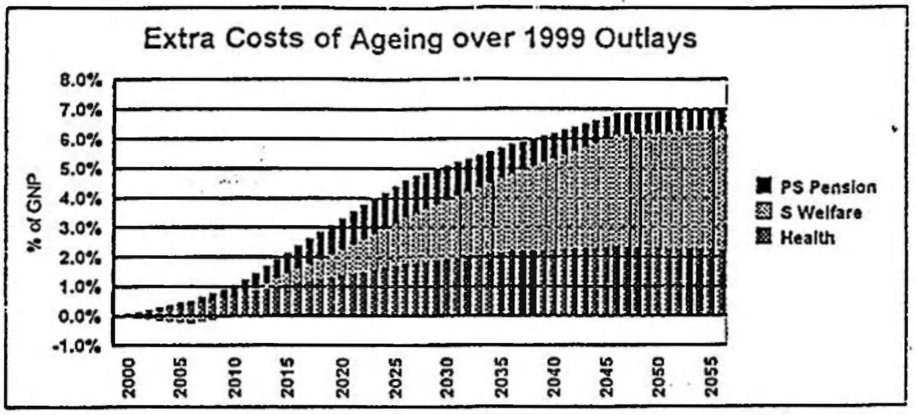
3.1.1 In very simple terms, based on--unavoidably tentative--projections for the next 60 years, we estimate that the Exchequer cost of broadly maintaining the current level of pension and health service provision, taking account of the ageing of the population, will rise by about 7% of GNP. Put another way, the increased costs associated with ageing are equivalent to a one-sixth increase in the level of taxation--for example, by more than doubling all excise duty rates--or a reduction in other Government non-pay expenditure by mid-century, from its current level of about 11% of GNP to less than 5% of GNP.

3.1.2 This arises because key Exchequer liabilities, at present, are unfunded. The Irish Pensions Trust (IPT) Report "Actuarial Review of Social Welfare Pensions (1997) indicates that, if the 1997 pension-to-average earnings ratio were kept constant, the pension-related element in PRSI contributions would have to be more than doubled simply to meet the cost of existing and future Social Welfare pensions to 2056. Liabilities in respect of existing public service pensioners and of the accrued service of serving staff were estimated at £20 billion in 1997 by IPT (Report to the Commission on Public Service Pensions). Ageing will also crucially affect health service costs. We (tentatively) estimate that the cost of maintaining prevailing levels of health service for the extra numbers of elderly forecast in latest demographic projections will rise to about 2¼ % of GNP by 2040 and will remain in that level to 2056.

3.2 *WHEN ageing costs will impact on the Exchequer*

Based on the work of the two Reports cited and our own calculations, we have estimated how quickly the extra costs of Social Welfare and Public Service pensions and of providing standard health services for the increasing elderly population may arise. The incidence of the increased Exchequer burden is illustrated in Figure 3.2 below. Over the next decade "ageing" will pose a need to raise Exchequer Non-Capital Supply Services outlays by 1% of GNP to maintain these three services. Ageing costs will rise most rapidly over the following two decades, exceeding 5% of GNP by 2030. By 2056, maintaining Social Welfare & Public Service pensions in line with earnings for the increased numbers of elderly, and providing them with standard health services, will cost the Exchequer 7% of GNP more than in 1999.

<u>*Figure 3.2*</u>



3.3 *RELATIVE SIZE of the different "ageing" burdens*

3.3.1 We believe that the relative size of the burden which the Exchequer will have to meet in terms of higher social welfare and public service pension costs, and higher health service costs, is a key consideration in arriving at a pre-funding decision. We therefore sought to estimate the extra Exchequer costs posed by each item <u>on a common basis</u>. To do so, we posed the question "what (approximate) share of GNP would have to be set aside, each year to 2056, in order to equalise the impact on the budget over this period of the <u>extra</u> Social Welfare Pensions, Public Service Pensions and Health Service costs, respectively, arising from ageing compared with the current share of GNP spent by the Exchequer on these services". We estimate[2] that, beginning in 1999:

- an annual provision of more than 1.4% of GNP would be required to meet <u>extra</u> Social Welfare pension outlays to 2056 because of growing numbers of Social Welfare pensioners relative to likely numbers of PRSI contributors;

- an annual provision of 0.7% of GNP would be required to meet <u>extra</u> Public Service pension outlays to 2056 because of growing numbers of Public Service pensioners;

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[2] We retained the assumptions of the IPT studies cited in 3.1 with adjustment to (i) a common earnings assumption (4% p.a. over the longer run) and (ii) a common assumption about the yield which would be earned on funds set aside to meet future costs (a 6% nominal return annually through to 2056).

- an annual provision of close to 1.4% of GNP would be required to meet extra Health Service costs to 2056 because of the increasingly "elderly" profile of the population in the years ahead.

3.3.2 In effect, we estimate that 3½ % of GNP would have to be set aside annually in order to equalise the burden of "ageing" on the Exchequer over the period to 2056--*provided* that the pre-funding policy was initiated *this year* (a later start would require higher provisions). The Exchequer would need to continue to make pre-funding payments until 2021, when the pension and health costs of the increase in pensioners above 1999 numbers may reach 3½ % of GNP. Thereafter--as numbers of pensioners continue to rise--the Exchequer would make net withdrawals from the funds already built up. Net withdrawals would increase until, in 2056, a final withdrawal of approximately 3½ % of GNP would exhaust the funds accumulated in earlier years.

3.4 ***What happens AFTER 2056 ?***

We wish to draw special attention to the post-2056 position underpinning the foregoing. In 2056 the extra 7% of GNP cost of ageing (relative to 1999) facing the Exchequer would be met as to 3½ % from general Exchequer (tax) resources, combined with a 3½ % of GNP drawdown from the funds accumulated in earlier years. The funds accumulated in earlier years would be exhausted at that stage, leaving a 3½ % of GNP gap in the public finances in the following year. *In effect, even pre-funding at 3½ % of GNP will not meet the full long-run burden which ageing will pose for the Exchequer.*

4. Alternatives to pre-funding

4.1 ***The main alternatives***

We considered possible alternatives to beginning, now, to pre-fund "ageing" from general Exchequer resources. One possible alternative would be to set aside windfall resources as they arise--notably, from privatisation. A second would be to finance "ageing" costs from the fruits of economic growth as those arise in the future. We cannot recommend either course. Neither offers a genuine prospect of ensuring prevailing levels of income-security or health care to future generations of elderly.

4.2 ***Revenue from Asset Sales can meet a small part, only, of the costs of "ageing"***

We made a rough estimate of the market value of the main commercial state bodies which could conceivably be privatised. If *all* of the main commercial state bodies were privatised we estimate--very tentatively--that the Exchequer could receive some £8 billion, net[3], from asset sales in the next few years. If *all* such proceeds were allocated to pre-fund "ageing", we estimate that they would meet just 10 % of the extra Exchequer costs which will arise to 2056. Even allowing for wide margins of error in the foregoing "valuation", we conclude that the income which the State may generate from asset sales falls *far* short of the amount needed to provide the extra pensions/health services which demographic developments foreshadow.

4.3 ***Financing "ageing" from future economic growth also seems problematic***

A decision to finance the service expansion related to ageing from future economic growth would lead to significant budgetary pressures in the future. Demographic projections point to broadly static numbers in the working age cohort over the period 2016 to 2036--indeed, the

[3] after discharge of Exchequer liabilities related to the state bodies concerned, for example pensions in relation to pre-vesting date (pre-1984) service of Telecom staff

working age population may begin to decline from 2026. This implies that economic growth can scarcely exceed 2% annually over that period (provided by productivity growth, in the absence of an expansion in the labour force). While, over that period, this rate of economic growth could support the increase in public services necessitated by ageing without increasing the tax burden, the share of other Government expenditure as a % of GNP would fall. Accordingly, we conclude that relying on future growth alone would lead to budgetary problems in due course.

4.4 *Financing "ageing" from future savings on debt-service costs is also problematic*

A third possible alternative would be to set aside savings on debt-interest which will arise as national indebtedness relative to GNP declines (in response to ongoing budgetary surpluses). While such an approach could make a major contribution to alleviating the "ageing" burden[4], it would require a fundamental change from the present basis for control of public current expenditure. We did not consider it within our remit to propose such a change.

4.5 *Conclusion--there must be pre-funding*

In summary, we conclude that asset sales alone can make only a modest contribution to the Exchequer costs of "ageing". We find that the approach of funding "ageing" costs from longer term economic growth raises the prospect of potentially serious budgetary problems in the future. We viewed consideration of a further possible alternative, the interest savings route, as falling outside our remit. Accordingly, we believe that it is critical, to ensure adequate public pensions and health services to the pensioners of the coming century, to begin, now, to pre-fund the Exchequer costs of "ageing" from ongoing budgetary surpluses.

5. <u>Key issues in the choice of pre-funding proposals</u>

5.1 *Impact of Proposals on Budget*

5.1.1 The primary objective of pre-funding is to protect future pensions by taking steps to diminish the pressures implicit in the ageing of the population on future budgets. In this context it is relatively straightforward to structure the **Social Welfare Pensions Reserve Fund** and the **Public Service Pensions Fund** which we propose in a manner that will be effective in protecting the budgetary position as measured by the traditional EBR. From an EBR viewpoint, payments into such funds over the coming years would reduce the surplus, while later drawdowns from such funds (when the demographic bubble hits) would protect the budgetary position at that time.

5.1.2 However, for EU purposes--including the assessment of compliance with the Stability & Growth Pact--the relevant measure is the General Government Balance (GGB). In this respect, the treatment of the **Social Welfare Pensions Reserve Fund** and of the **Public Service Pensions Fund** which we propose is complex. Our interpretation is illustrated in Table 5.1.2, and is explained in following paragraphs.

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[4] If the budget (after taking pre-funding payments into account) remained in broad balance over the decades ahead, and the amount by which Exchequer interest payments fell below 3¼ % of GNP--the level estimated for 2001, the last year of the present Stability Programme--were allocated each year to pre-fund "ageing", those savings could offset 60%-70% of "ageing" costs to 2056.

TABLE 5.1.2

Treatment of Payments to/Withdrawals from Funds for EBR and GGB purposes

	EBR	GGB
SW Pension Reserve Fund		
- Payments into Fund	Counted as expenditure	Ignored
- Drawdowns from Fund	Counted as receipts/reduce Exchequer expenditure	Ignored (full pensions expenditure counted)
Public Service Pen. Fund		
- Payments into Fund	Counted as expenditure	Counted as expenditure
- Drawdowns from Fund	Counted as receipts/reduce Exchequer expenditure	Counted as receipts/reduce Gen. Gov't expenditure

5.1.3 Our interpretation of the relevant accounting convention (ESA 95) is that a **Social Welfare Pensions Reserve Fund** will be treated as part of the Government sector regardless of the terms on which it is established[5]. Thus, payments into such a Fund, when made, will not be treated as expenditure in calculating the GGB and so will not reduce the present GGB surplus: and later withdrawals to meet SW pension costs, when made, will not be regarded as receipts and so will not improve the GGB at that time. In effect, ESA95 accounting rules mean that social welfare pension costs are always recorded on a Pay-As-You-Go basis regardless of the funding arrangements in place. Accordingly, establishing a Social Welfare Pensions Reserve Fund will not make any *direct* contribution to protecting the future GGB position. It will, however, have a beneficial effect on the longer-run GGB to the extent that allocating resources to such a Fund constrains other expenditure in the nearer term.

5.1.4 On the other hand, provided it is properly structured, payments into a **Public Service Pensions Fund** should count as expenditure for purposes of calculating Ireland's GGB, while the future use of the accumulated resources of the Fund to meet the public service pension costs for which it is established will directly assist the GGB. For this type of fund to be successful from a GGB perspective, however, it must be a properly constituted pension fund operating under the normal conditions which apply for pension funds generally. For example, the obligation to make payments into the fund must be permanent; the level of contribution to the fund must be determined on an actuarial basis; there must be an independent investment mandate for the management of the resources of the fund, etc.

5.1.5 Given the importance of the issue, we recommend obtaining confirmation of this interpretation from Eurostat before finalising arrangements for the Funds we propose.

5.2 ***Impact on perceptions of the need to prepare for ageing***

We believe that the impact of possible options on public perceptions about the implications of "ageing" is also a critical consideration. The more a pre-funding approach enhances public awareness about the major challenge which ageing poses to the sustainability of policies, or requires policy-making to take the impact of ageing fully into account in framing policy developments, the better. Thus, we have preferred options which require an appropriate increase in the Exchequer contribution to a Social Welfare Pensions Reserve Fund or Public

[5] This view has been confirmed by the Central Statistics Office.

Service Pensions Fund as an inevitable consequence of any improvement in SW or PS pension arrangements.

5.3 *Public Acceptability*

We believe it vital that pre-funding should be demonstrably even-handed in terms of seeking to secure the ability of the Exchequer to meet the range of its age-related liabilities. Thus, we have structured our approach to part-fund future Social Welfare and Public Service pension liabilities broadly in proportion to the size of those respective liabilities.

5.4 *Equity among the aged*

We believe that pre-funding should *not* discriminate among different classes of aged persons. Thus, we have *not* structured our proposals to favour particular classes of Social Welfare or Public Service beneficiary (say, local authority staff in the Public Service case, or widow(er)s or invalidity pensioners in the Social Welfare case).

5.5 *Profile of impact on Exchequer/GG Balance*

As already indicated, the cost of "ageing" is set to rise by 7% of GNP over the next half-century. The greatest budgetary pressure, we estimate, will arise in the decade from 2020 to 2030. The annual rate of increase in the Exchequer's "ageing" costs will then be high; because the working-age population will be in decline, economic growth potential--thus, the extra tax resources becoming available from growth--will be low; and the extra savings becoming available each year from lower debt-service will be small. We have therefore structured our proposals so that the Funds can begin to offset budgetary pressures during this period.

5.6 *Vital characteristics of any Fund(s) established*

We wish to emphasise a number of critical points which must inform the legislative provision for the Funds which we propose:

- It must be established that pre-funding is a nondiscretionary commitment, to be met each year regardless of economic, budgetary or other circumstance--there must be sustained, annual payments into the Funds, once established;

- Recourse to the Funds must be limited to the specific purposes for which they are established, and must occur only in accordance with "trigger mechanisms" (as outlined in Sections 7 & 8) which should also be specified in law;

- There must be a requirement for periodic review of the actuarial position of both Funds *and* an associated, automatic requirement to adjust either the amount of annual funding assigned to, or the basis on which draw-down may be made from, each Fund *consistent with the outcome of each actuarial review.*

6. **Proposals**

6.1 *Amount of Pre-Funding*

6.1.1 We foresee very substantial difficulties in meeting the costs of "ageing" from the fruits of ongoing growth in the medium-to-longer term. We believe that it is vital, therefore, to use the opportunity of prevailing strong growth and budgetary surpluses to address the issue. However, as we noted in 3.3.2 foregoing, 3½ % of GNP would have to be set aside annually, from 1999, in order to distribute the burden which "ageing" poses for the Exchequer equally across the full period to 2056 . We do not consider this to be a practicable proposition in the context even of the prevailing budgetary position. But the costs of "ageing" are so substantial, we believe, that a major initial effort to address them should be made in the current favourable circumstances.

6.1.2 We take the view that an amount not less than 1% of GNP (£520 million in 1999) should be allocated from normal budgetary resources *each year beginning in 1999*, to pre-fund future Exchequer liabilities associated with ageing. Our recommendation is based on the following pragmatic considerations:

- ageing *is* inevitable; as shown in 3.3, its funding requirement is extremely large; any significantly smaller pre-funding allocation would underplay the seriousness of the ageing challenge for the Exchequer, and its potential adverse consequences for the elderly of the next century;

- the budgetary surplus foreseen this year (of the order of 2% of GNP), and that in prospect for the next several years if economic growth does not slow unduly below its potential rate of 4%-5%, provides ample room for a provision of this amount while (i) continuing to meet our commitment on the budgetary balance under the Stability & Growth Pact and (ii) enabling substantial extra resources to be devoted to furthering the objectives at which the National Development Plan will be aimed;

- a provision of this order, we believe, is the minimum necessary to enable at least a part of the subsequent payments out of the funds [that directed to Public Service pensions, as outlined in 5.1.3] to benefit the General Government Balance and thus to assist Irish compliance with the Stability & Growth Pact requirements in the years when ageing costs are high.

6.2 *Assignment of funds set aside*

6.2.1 We have not been able to identify a basis for pre-funding the health costs attributable to ageing which would display the characteristics at 5.6. For this reason, we concluded that the goal of pre-funding should be to address the implications of ageing for Social Welfare and Public Service pension costs. Of course, actions which reduce the future burden of Social Welfare and Public Service pensions costs will have the effect of freeing-up resources in the longer run which could be used, then, to support the required extra health service provision.

6.2.2 We recommend that pre-funding to address these two purposes should reflect the relative size of the longer-term Exchequer burden which they pose. As outlined in 3.3 above, the long-run cost to the Exchequer of extra Social Welfare pensions is estimated to be approximately double the long-run cost of extra Public Service pensions. Accordingly, the Group recommends that any pre-funding decided upon should be apportioned in an approximately 2:1 ratio in favour of Social Welfare pensions.

6.2.3 We outline our proposals for a **Social Welfare Pensions Reserve Fund** and a **Public Service Pensions Fund** in Sections 7 and 8. We envisage that approximately £320 million of the total recommended 1999 pre-funding allocation of £520 million should be devoted to the Social Welfare fund and £200 million to the Public Service fund. While these initial allocations give a smaller proportion to Social Welfare pensions than the 2:1 allocation we recommend earlier, we anticipate that the allocation required for our recommended **Public Service Pensions Fund** will decline slightly (as a share of GNP) and that, over time, our recommendations will lead to pre-funding allocations in a broadly 2:1 ratio in favour of Social Welfare pensions.

6.3 As set out in Section 7 of this Report, we estimate that pre-funding Social Welfare pension costs with an annual allocation of the order of $^2/_3$% of GNP will enable the Exchequer's net liability for Social Welfare pensions to be "capped" at approximately 4.3% of GNP. [The NPPI Report contemplated a "cap" at 3% of GNP, in the context of stronger (average annual) pre-funding].

6.4 As set out in Section 8 of this Report, we estimate that pre-funding Public Service pension costs with an annual allocation of the order of $^1/_3$% of GNP will enable the Exchequer's liability for post-retirement increases in public service pensions *in respect of future service* to be fully met from the proposed Public Service Pensions Fund. This would bring the peak period of the Exchequer's public service pensions liability forward to about the year 2024 from 2027--when, demographic developments suggest, economic growth may be particularly slow and thus least able to support an increasing burden of "ageing".

6.5 In our view, the aim should be to increase pre-funding over time, in order to reduce the 4.3% "cap" at which payments from the proposed Social Welfare Pensions Fund might be made, and to bring the peak year of Public Service Pensions outlay further forward--both by assignment to the Funds of (part of) the proceeds of privatisation as they become available and, if it appears necessary in light of subsequent actuarial review, by subsequently raising the above recommended annual provisions.

7 Specific proposals for a Social Welfare Pension Fund

7.1 *Need for a Social Welfare Pensions Reserve Fund - 1997 IPT Actuarial Review*

7.1.1 The main findings of this 1997 assessment, covering the period 1996-2056, were that:

- if the June 1997 pension rates were indexed to prices over the period to 2056,[6] total pension payments plus administration expenses would decline as a share of estimated GNP from 4.8% in 1996 to 2.6% in 2056, with the Exchequer contribution falling from 1.6% of GNP to less that 0.5% over the same period.

- if, on the other hand, the June 1997 rates were indexed to earnings growth (assumed to be 2% p.a. higher than prices) over the period to 2056, total pensions outgoings would rise, as a share of estimated GNP, from 4.8% in 1996 to 8% in 2056 and the level of Exchequer contribution needed to support these payments would rise to 5.8% of GNP by 2056.

- if the June 1997 rates were indexed to earnings growth and Social Welfare pensions costs were to be fully funded from PRSI contributions, the pension-related element of the PRSI contribution would require to be more than doubled *(at an extra cost to workers and employers in 1999 of considerably more than £1 billion)*. [Further

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[6] this would imply a reduction in the maximum rate of personal pension as a percentage of average earnings from an estimated 28.3 per cent in 1996 to 8.6 per cent in 2056

improving pension payment rates, say, to 34 per cent of average earnings as recommended in the NPPI Report, would exacerbate the position significantly.]

7.1.2 Since 1997, a number of developments will have impacted on the scenarios contained in the Actuarial Review. Chief among these are:

- the significant pension rate increases granted in the 1998 and 1999 Budgets consistent with the Government's commitment to raise the old age contributory pension to £100 per week in 2002 (from June, the rate will be £89 per week as compared to £78 per week in July 1997). These improvements will have increased both overall pensions costs and the level of resources needed to meet them.

- a stronger economic and employment growth performance than was anticipated at the time of the Review, yielding, inter alia, a higher level of PRSI income than had been projected. These developments will have increased the amount of resources available to meet pension costs.

7.1.3 It would require a further actuarial review to calculate the precise impact of these changes over the long term. The Group is satisfied, however, that these developments are broadly offsetting and thus that the underlying picture disclosed by the 1997 Actuarial Review in terms of the trend and magnitude of costs and resources required remains valid. Its salient message is that <u>even to broadly maintain the current pension levels will prove exceptionally onerous</u>.

7.1.4 We do not believe that reliance on raising PRSI rates would be consistent, at this stage certainly, with the economy's employment and development needs given the size of increase required. We have shown, in 4.3, why it would be unrealistic to assume that the Exchequer could fill the gap from the fruits of future growth--the rising cost of SW pensions would be a massive burden on the public finances when growth is constrained by an essentially static labour force.

7.1.5 We estimate that an annual budgetary provision of the order of 1.4% of GNP, beginning in 1999, would be required to fully pre-fund the *extra* Social Welfare outlays over the period to 2056 arising from the prospective increase in numbers of SW pensioners to enable the broad maintenance of current pension relativities. In our view, the enormity of the initial <u>extra</u> cost involved--annual contributions of £700m--rules out full funding of social welfare pensions as a realistic option in the context of the prevailing budget surplus and the need for even-handedness as between Public Service and Social Welfare pensioners.

7.2 ***Possibilities explored***

7.2.2 Since full funding of social welfare pensions is not a practical proposition, we reviewed a range of options which would <u>partially fund</u> future social welfare pension obligations. We considered a range of possibilities short of full coverage of the pensioner population, but concluded that it would be more equitable to embrace all social welfare pensioners within any pre-funding action, rather than a select sub-group. We therefore concluded that a "reserve fund" option is the optimum approach towards assuring income security to social welfare pensioners in the face of the demographic pressures in prospect.

7.3 *Proposal for a SOCIAL WELFARE PENSIONS RESERVE FUND*

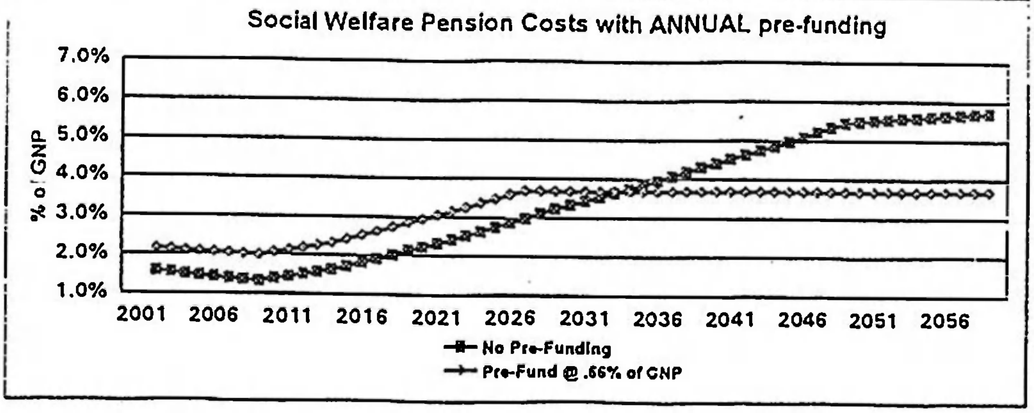
We therefore propose the establishment of a Social Welfare Pensions Reserve Fund aimed at bridging a considerable part of the gap between pension costs and PRSI contributions which will emerge if the prevailing pensions-to-earnings relativity is to be broadly maintained. Because of the size of the potential problem, the ultimate size of the reserve fund will have to be correspondingly large. Furthermore, as differences of a very few years in the time of establishment of the Fund will make enormous differences in either the required size of annual Exchequer injection to the Fund (or in the relief it could ultimately provide to a hard-pressed Exchequer when the "ageing" burden is high) we recommend that a first allocation be made in 1999. We recommend an allocation of £320 million this year, with an accompanying commitment to allocate approximately $^2/_3$ % of GNP to the Fund in each succeeding year.

[It will be useful, here, to distinguish between the different types of pre-funding which are most commonly discussed. The NPPI Report recommended the establishment of a *Reserve or Equalisation Fund* for Social welfare pensions, *as we do here*. This involves the transfer of monies into a Fund for a specified period. When the costs of pensions exceed a specified proportion of national income, withdrawals can be made from the Fund and so as to reduce the Exchequer cost of pension provision at that time. The *Reserve Fund* approach seeks to equalise or smooth the impact of a rising burden of costs over a known period of time--rather than attempting to fund all future costs, whenever arising. Thus, a Reserve Fund is different from a formal pension fund as traditionally understood. The latter involves defined benefit terms, and is based on contributions determined by the actuary to be sufficient to fully fund the benefits promised to the contributors to/beneficiaries of the scheme].

7.4 *Trigger mechanism*

We recommend that an actuarial assessment be commissioned to establish a "trigger" which would determine when payments might be made *from* the Social Welfare Pensions Reserve Fund, on the basis of the recommended annual payments into the Fund. We envisage that the "trigger" will be a limit--expressed in terms of GNP--on the size of the Exchequer's contribution to bridge the gap between total pension costs and PRSI revenue. As indicated in 7.1.1 foregoing, net Exchequer costs of social welfare pensions--assuming broad maintenance of the current pension/economy-wide earnings relativity--could rise to 5.8% of GNP through the decades ahead. We estimate that a fund as proposed might be consistent with a ceiling on net Exchequer Social welfare costs of about 3.7% of GNP. Thus, when the pension costs/PRSI revenue gap rose to, say, 4% of GNP, an amount equivalent to 0.3% of GNP would be paid out of the Fund to support social welfare pensions spending. The impact of this proposal on the future profile of Social Welfare pensions costs (inclusive of pre-funding payments) is shown in Figure 7.4 following.

Figure 7.4



7.5 **Review mechanism**

7.5.1 The Social Welfare Pensions Reserve Fund would be in existence for many decades. Over such a long period both policies and economic conditions, particularly growth rates and investment returns, change. In order to maintain the financial integrity of the fund in the face of such unknowns, we envisage a regular series of actuarial reviews as a central feature of our proposal. The objective of such reviews would be to validate the "trigger" set in the latest actuarial review, or, if developments since then warranted:

- to determine the change in annual allocation to the fund which is needed if the "trigger" is to remain unchanged despite those developments; or

- to determine a new "trigger" if annual allocations to the fund are to remain unchanged, despite those developments.

7.5.2 As in the review carried out as part of the NPPI process, the main elements of these exercises would be assumptions regarding population and labour force developments, economic growth, the evolution of payment rates and social insurance contribution income. The Government has already decided that actuarial reviews of social welfare pensions should be conducted at five-yearly intervals--in course of which the opportunity could be taken to review the "trigger" then in force.

7.5.3 Such reviews would, of course, require to be underpinned by a discipline of making consistent annual Exchequer payments into the fund and adjusting these payments in response to the reviews' findings. We recommend that payments into the fund should be accorded the status of an additional Vote, to be included in the annual budget arithmetic as a matter of course.

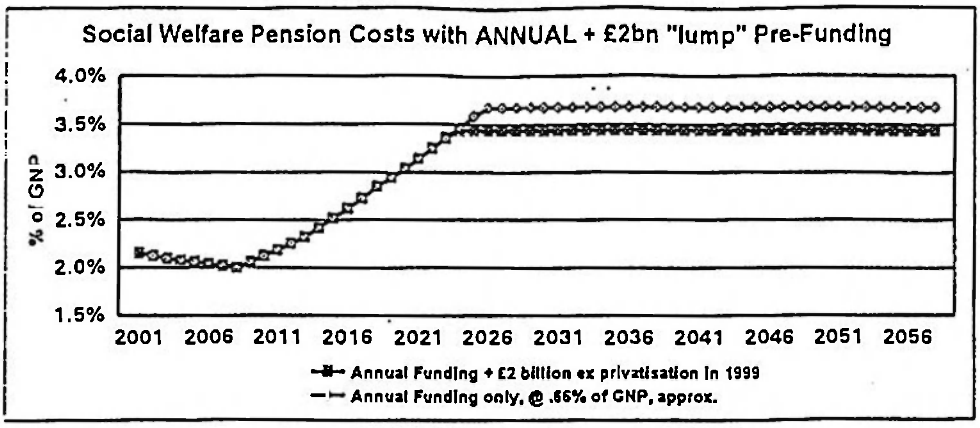
7.6 ***"Topping-up" the Social Welfare Pensions Reserve Fund from windfall income***

7.6.1 A fund established on the basis of annual payments of the order of $^2/_3$% of GNP, as indicated, will reduce peak Exchequer net social welfare pension costs by a limited amount, only. In our view, the sheer size of the demographically-driven increase in costs of social welfare plus public service pensions, and health services--7% of GNP above 1999 levels by the 2030's--warrants stronger preparatory action.

7.6.2 We believe that provision to assure the income security of the elderly through the next century warrants a high priority among the many competing claims for use of prospective privatisation receipts. We recommend that a very substantial share of all privatisation proceeds which may accrue should be devoted to pre-funding "ageing" costs, to be shared as deemed appropriate between the Social Welfare Pensions Reserve Fund and the Public Service Pensions Fund.

7.6.3. To illustrate the potential value of such lump-sum injections, we estimate that a £2 billion allocation, made in 1999, would reduce the 3.7% "trigger" foregoing by approximately ¼ % of GNP, bringing the maximum share of GNP which would need to be devoted to social welfare pensions below 3½ % of GNP. The impact of such an allocation on the future profile of Social Welfare pensions costs (inclusive of pre-funding payments) is shown in Figure 7.6 following.

Figure 7.6



8 Specific proposals for a Public Service Pension Fund

8.1 *Need for a Public Service Pensions Fund - 1997 IPT Actuarial Review*

In 1997 Irish Pensions Trust carried out a review of the long term costs of public service pensions on behalf of the Commission on Public Service Pensions. The main findings of this review were:

- the amount of benefit outgo for the overall public service was projected, in constant 1997 price terms, to more than double by 2012 and to almost quadruple by the year 2027;
- benefit payments were expected to remain relatively static as a proportion of GNP for the 10 years to 2007 and then to increase steadily from 1.6% to 2.4% of GNP in approximately 30 years' time.

8.2 *Possibilities explored*

8.2.2 We first considered the possibility of fully funding public service pensions. If a formal pension fund on private sector lines were established for public servants, the initial annual funding rate would be 19% of pensionable pay or £780m at 1997 salary rates. Over time this rate would decline to 16% of pensionable pay (or £650m at 1997 salary rates) as the proportion of public servants on full PRSI rather than modified PRSI increases. The past service liabilities of public service pension schemes are of the order of £20bn - about £13bn for the accrued service of serving members and £7.1bn for current pensioners - almost equivalent to the current value of all pension funds in Ireland. Clearly the amount required to establish a fund capable of meeting all past pension liabilities - £20 bn - is impracticable. As an alternative approach, a gradual move to full funding of public service pensions would require an annual contribution of £780 million in 1997 terms *plus the* continuation, albeit at a declining rate, of the current Pay-as-you-go pension payments. In our view, the enormity of the extra cost involved under the latter scenario also rules out full funding of public service pensions as a realistic option.

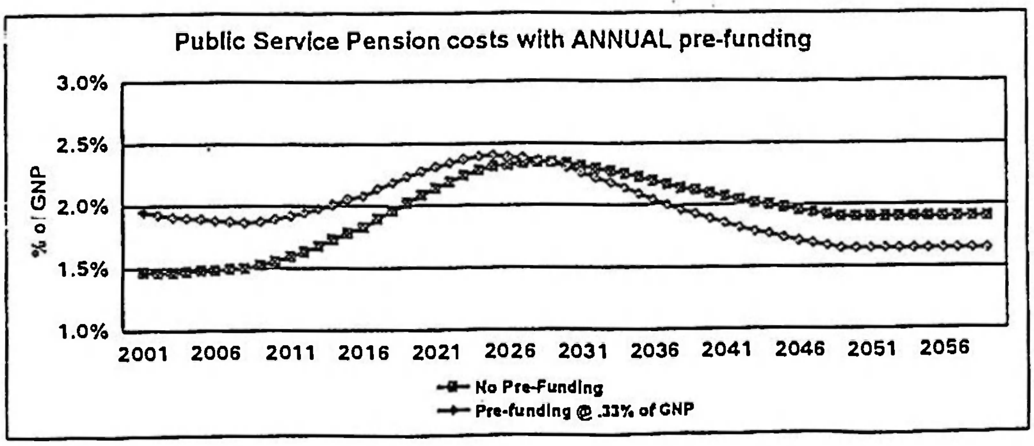
8.2.2 Since full funding of public service pensions is not a practical proposition, we concluded that the optimum course of action would be to fund some specific aspect of those terms. We therefore considered a range of options which would partially fund future public service pension obligations. We considered (a) the establishment of a reserve fund earmarked to meet the excess of public service pensions costs over a set proportion of GNP, (b) the pre-funding of specified categories of public servants (e.g. local authority staff), and (c) the pre-funding of specified elements of pension (e.g. post-retirement increases in pensions) for all public service pensioners. We ruled out the reserve fund option because we believe it unlikely that such a fund could be structured, within the ESA95 accounting conventions, to assist Ireland to meet the Stability & Growth Pact commitment when "ageing" costs are high. We preferred c-type options over b-type ones because it seems to us more equitable to embrace all public service pensioners within any pre-funding action, rather than a select sub-group.

8.3 ***Fund to provide for pension increases--by annual allocations from the Budget***

8.3.1 A major component of the cost of public service pensions is that pensions in payment are increased by reference to the increases in pay of serving staff. We concluded that a fund to meet the cost of these pensions increases should be established. Without wishing to second guess the final recommendations of the Commission on Public Service Pensions - which includes public service management, union and pensions industry representatives- it appears that this approach would not be out of line with what the Commission is considering and may shortly recommend.

8.3.2 We estimate that payment of an annual contribution of the order of £250m (about 5% of pensionable public service pay) towards a fund, with effect from a vesting date of say, 1 January 2000, would meet the full cost of pensions increases arising in respect of pensionable service given after that date by serving staff and future entrants. Over time the contribution required should fall gradually to close to 4% of pensionable pay, as the proportion of public servants in full PRSI increases. We propose the establishment of a Public Service Pensions Fund, with an initial allocation of at least £200 million thereto in 1999, and a commitment to continue annual contributions to that Fund from next year in amounts as determined by actuarial assessment. The impact of this proposal on the future profile of Public Service pensions costs (inclusive of pre-funding payments) is shown in Figure 8.3 following.

Figure 8.3



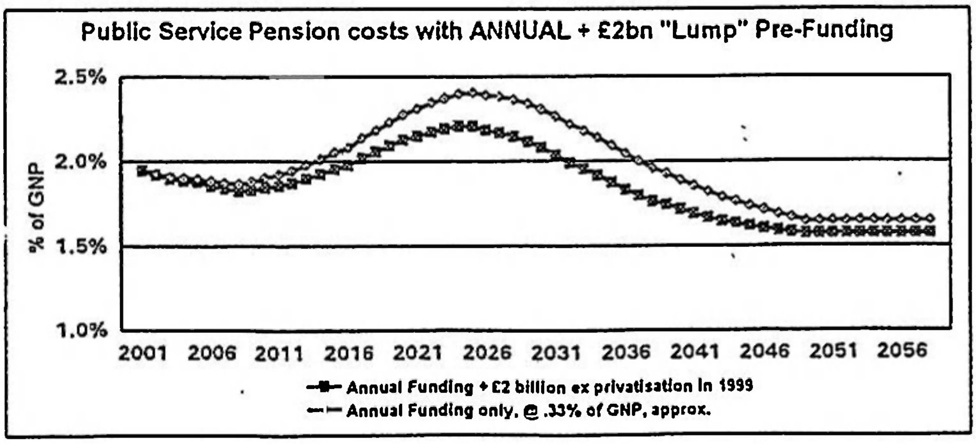
The Commission on Public service Pensions has asked pension consultants IPT to carry out an actuarial costing of pre-funding public service pensions increases

8.4 *"Topping-up" the Public Service Pensions Fund from windfall income*

8.4.1 A fund as proposed in the preceding paragraph would not cover the cost of future pensions increases in respect of either the current cohort of pensioners or of the service already given before vesting day by serving staff (the liabilities for these increases are estimated at £1.3 billion in respect of current pensioners and £3.5 billion for serving staff). This fund would therefore have little impact on the State's pay-as-you-go commitments during most of the peak period of pension costs (2015-2035). The impact would indeed be negative at the beginning of that period since the cost of the annual contribution to the fund, together with the pay-as-you-go costs less the outgo from the fund, would exceed the pay-as-you-go cost which would have arisen if no fund had been established. As Figure 8.3 shows, the Exchequer's overall burden of public service pensions would continue to rise in the coming decades. The fund would only start to reduce that burden by around the year 2027 when the outgo from the fund would be greater than the annual contribution being paid.

8.4.2. A lump sum injection of £3.5 bn - viz. the pre-vesting date cost of pensions increases for serving staff - would have a major, beneficial, impact on the pattern of public service pensions expenditure. It would begin to reduce the burden of public service pensions by the year 2015 rather than 2027 i.e. the outgo from the fund would start to exceed the annual contribution in 2015 rather than 2027. A lump-sum allocation of this order does not, however, seem a practical possibility at this time. Accordingly, we illustrate the potential value of such lump-sum injections--as we did in the Social Welfare case--by reference to a £2 billion allocation, made in 1999. Such an injection, we estimate, would reduce the peak level of public service pension costs to 2.2% of GNP, and bring the peak forward to about 2022--as shown in Figure 8.4.

<u>Figure 8.4</u>



8.4.3 A decision to proceed with pre-funding of public service pensions increases would have a number of advantages. The annual amounts needed are in line with what we see as being affordable. Moreover such a fund would meet the current requirements of the European System of Accounts. Even more important, it would allow flexibility to Government to also pay occasional lump-sum amounts into the fund - either from the proceeds of privatisation or from unanticipated budget surpluses- in respect of past service in line with normal pension funding arrangements, with a view primarily to reducing the exchequer burden of public service pensions over the longer term.

Report of the Budget Strategy for Ageing Group

Signed:

Chair: **C O'Loghlin, Assistant Secretary, B&ED**

Members: **J McGovern, Assistant Secretary, PSMD**

M Murphy, Principal Officer, PSMD

D Bergin, Principal Officer, PED

J Mooney, Principal Officer, PED

B Ryan, Principal Officer, B&ED

C. O'Mahony, Assistant Principal, Finance Div'n

R. Watt, Assistant Principal, B&ED

28 May, 1999

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S180/20/10/0247

21 Iúil, 1999.

An Rúnaí Príobháideach
An tAire Airgeadais

I am to refer to the aide memoire ref. EPD 12/25/99 dated 30 June, 1999, submitted by the Minister for Finance and to inform you that, at a meeting held today, the Government noted the contents of the Report of the Budget Strategy for Ageing Group.

Frank Murray
Ard-Rúnaí an Rialtais

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S180/20/10/0247 59. **BUDGET STRATEGY FOR AGEING GROUP: Report**

Following consideration of an aide memoire dated 30 June, 1999, submitted by the Minister for Finance, the contents of the Report of the Budget Strategy for Ageing Group were noted.

Dé Máirt, 21 Meán Fómhair, 1999.		**10:30 a.m.**	**Seomra Comhairle**
09.	ECONOMIC AND BUDGET DEVELOPMENTS WHICH POSE CONCERN	Airgeadais	Aide Memoire dated 16/09/99
14.	2000 EXPENDITURE ESTIMATES	Airgeadais	Aide Memoire to be circulated at meeting

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EPD/31/1/99

Office of the Minister for Finance

16 September, 1999

SECRET

Aide Memoire for the Government

Economic and Budget Developments which pose concern

Purpose of Aide Memoire

1. The Minister for Finance wishes to inform the Government of his mounting concern at certain developments which in his view, if sustained, seriously threaten Ireland's ability to maintain the economic and social progress which has been achieved in recent years. His key concerns relate to:

- price increases which imply substantially faster inflation in Ireland than elsewhere, and faster than in the Euro area in particular;
- increases in construction costs far above general inflation, which both diminish the value to be obtained from infrastructural investment and threaten to further undermine the acceptability of wage moderation;
- earnings increases, and ongoing demands for still stronger earnings increases, which threaten to substantially undermine our competitiveness;
- identified
- growing signs of widespread, unrealistically high, expectations among the public;
- these expectations being mirrored in the huge Estimates demands submitted by Ministers; and to
- the perception among many foreign analysts and investors that the Irish economy is heading for trouble if the boom is let rip.

2. The Minister believes that the considerations set out in this Aide Memoire require to be taken fully into account in framing the major decisions with which the Government will be faced in coming weeks - on the National Development Plan, on Budget 2000 and budgetary parameters for 2001 & 2002, and on the course of Social Partnership after P2000. They require to be taken into account, he believes, if the basis for solid economic and social progress over the period ahead is not to be put at serious risk. These major decisions cannot be considered and taken in isolation; their prospective cumulative effect has to be kept in mind, and priorities within and between them have to be determined accordingly

Policy Framework for sustaining Economic and Social Progress

3. The Minister noted in his Memorandum of 30 June, 1999 "Economic and Budgetary Projections and Budget Strategy 2000-2006" that the central goal of his strategy is to maintain a strong growth performance over the coming years, in order to further enhance living standards, increase employment and reduce social exclusion on a basis which will be sustainable over the longer term. The key policy requirements remain as indicated then, namely:

A **to maintain the competitiveness of the economy**

- by continuing to enhance public infrastructure as necessary to support strong growth - through the National Development Plan
- by securing a competitive evolution of costs beyond Partnership 2000 - desirably through a competitive successor agreement to Partnership 2000 based on continued social partnership,

B **to maintain investor confidence in the economy also by maintaining confidence in the Government's management of budgetary policy**

- with respect to the longer term, by beginning now to provide for the fundamental budgetary costs of ageing and by continuing to reduce Government debt;
- with regard to the shorter term, by running substantial surpluses in order to minimise inflationary pressure and risks of overheating and by continuing to meet our budgetary obligations under the Stability and Growth Pact.

Economic Developments which put Economic Stability at risk

4. ***Price increases which imply substantially faster inflation in Ireland than elsewhere, and faster than in the Euro area in particular***

4.1 The headline rate of consumer price inflation (CPI) has declined significantly in recent months - from 3.2% in August, 1998 to 1.4% in August last. This "improvement", however, masks an underlying picture which is worrying.

4.2 The slowing in the rate of CPI increase reflects the fall in interest rates on our entry into EMU and a benign trend in import prices (because of exchange rate movements in 1997/98 and a decline in world commodity prices until recently). It does *not* indicate an easing in the pace of *domestic* cost increases. Inflation in the services sector - where costs reflect domestic developments - *rose* from 3.5% to 4.7% over the same period. This compares with inflation of less than 2 % in the services sector for the EU-11 as a whole in the year to July last.

4.3. The EU Harmonised Index of Consumer Prices (HICP) confirms a strong *relative disimprovement* in Ireland's inflation over the recent past. On the HICP basis Irish inflation in 1997 was 0.4% *lower* than the EU-11 average. In the year to August last, however, prices here rose 1.3% *faster* than the EU-11 average. More worrying, this relative disimprovement occurred despite our greater dependence on imports which, in the light of benign import prices, should have led to a relative *improvement*.

4.4 Looking forward, current forecasts are that Irish inflation may continue to run 1½% or more above the EU-11 average through next year--assuming that no further pick-up in the pace of cost/pay developments takes place. In light of ongoing price and pay developments, the Minister believes that this assumption may well prove optimistic. He is deeply concerned at the prospect that Irish inflation might more substantially outpace that of our EMU partners, leading to a loss of competitiveness which would seriously undermine the capacity for continued economic and social progress--and would exacerbate the major adverse impact on the economy of any significant weakening of (currently strong) Sterling which might occur.

5. ***Increases in construction costs far ahead of general inflation, which both diminish the value to be obtained from infrastructural investment and threaten to further undermine the acceptability of wage moderation***

5.1 Building and construction price increases have risen very considerably in recent years - from 4% in 1995 to 10¼% in 1997 and more than 11½% in 1998. While inflation in house-building costs has been most marked (rising from 4½% in 1995 to almost 16% in 1998), inflation also picked up in the other categories of construction (from 3½% to 5% for roadworks and from 3½% to 7½% for other construction). Latest indications are that tender prices in construction are now running some 8-12% above those of a year ago.

5.2 The significant uptick in construction costs partly reflects developments in labour costs. Earnings data indicate that the annual rate of increase in *hourly wages* in the sector rose from 5½% in 1995 to 9% in 1998. Recent developments (crane drivers/scaffolders) suggest little, if any, amelioration in 1999.

5.3 It also appears to incorporate a widening of margins. Rising margins, in the Minister's view, reflect the strong increase in building demand of recent years. The volume of building output last year was 80% above its 1994 level. The further increase in volume in prospect this year (perhaps 12½%) does not suggest any easing of margins. In this context the Minister would emphasise that--despite some evidence of a slowdown--house prices are still rising *far* faster than prices more generally, and *far* faster than any rate of earnings increase which could be acceptable from a competitiveness standpoint.

5.4 Inflation in construction costs raises a fundamental issue in the context of the next *National Development Plan*. The Minister accepts that it is critical to deal with infrastructural bottlenecks, particularly in the transport area, in order to sustain economic growth at a high level; that meeting housing needs within a desirable timeframe would imply keeping housing output around its present level; and that progress on social objectives more generally also implies substantial ongoing public capital expenditure in other areas. He is equally conscious, however, that any substantial addition to prevailing high building demand risks pushing prices up further - thus reducing the value to be obtained from public capital expenditure generally.

6. ***Earnings increases, and ongoing demands for still stronger earnings increases, which threaten to substantially undermine our competitiveness***

6.1 There are growing signs of *uncompetitive* wage inflation. Per capita employee *earnings* rose by 1½% among the EU-11 in 1998. By comparison, in Ireland building sector earnings rose by 5½% last year, public service earnings by 5¼%, industrial earnings by close to 4¾% and earnings in the financial sector by close to 3½%. If sustained, such differentials would pose major competitive problems in a very short time.

6.2 There is little sign of a prospective easing. While hourly rates of pay in construction rose by as little as 2½% in the year to March last, this does not incorporate the settlements effected during the summer. Hourly wages in industry rose by 5½% in the year to March last, and (weekly) earnings in the financial sector by 4.7%. It seems beyond doubt that private sector wages are rising considerably faster than envisaged under the pay terms of P2000, inter alia under the pressure of rapidly-growing demand for workers in the context of relatively low, and declining, unemployment.

6.3 The Government is already well aware of the latest developments in public sector pay --problems involving nurses, bus workers, DART drivers etc.--and has agreed a strategy for handling these issues.

6.4 It is evident that wage inflation in the private sector, the serious problems with public service pay, the tensions that exist between both sectors (with each perceiving the other as having fared better) and the clear signs of unrealistic expectations among workers generally will make it extremely difficult to negotiate an acceptable successor to Partnership 2000.

7 ***Growing signs of widespread, unrealistically high, expectations***

Use

7.1 **Pay Expectations:** Ministers will readily recognise that the sheer size of many of the pay claims advanced this year, whether in the public sector or, for example, by certain of the craft unions in construction, are quite inconsistent with developments in competitor countries.

7.2 **Expectations about future tax relief:** In his 30 June Memorandum, the Minister suggested a provisional figure for tax relief of the order of £350 million (full-year cost) annually over the period of a possible new social partnership programme--mindful of the need not to add unduly to demand pressures in the economy. While there can be argument at the margins of this figure--especially if, in return, adequate income moderation could be secured for several years ahead--it is becoming increasingly clear to the Minister that public expectations are for a much higher figure. Indeed, the leaking of the £350 million led to public demands for a multiple of his suggested figure. The addition to economic demand this would represent, and the implications of such extra demand for wage formation, could not be consistent with securing a continuation of our economic progress to date--regardless of what order of relief the budget position might permit.

7.3 **Expectations about current spending:**

7.3.1 It has clearly proved difficult to contain public current spending thus far this year. Despite providing for an increase in this year's net Supply spending over the 1998 outturn as **high as 10%**, an excess of £185 million now appears likely--taking into account the latest assessment of the nurses' deal and the Garda package--**pointing to an 11.6% increase in net current Supply outlays over 1998 if no further savings are made.**

7.3.2 The Estimates demands which he has received from Departments re-emphasise the high level of expectations which is taking hold. Demands for next year exceed the current expenditure totals decided by the Government on 20 July [adjusted to a pre-budget basis] by £1 billion. On a pre-budget basis they seek an increase in net Supply service spending over the projected 1999 outturn of 12.1%--and effectively propose a huge breach of the Government's 4% limit on net current spending. This would point to an increase of the order of 14% on a post-budget basis--and even more if the demands for a budget-day package go beyond the levels of recent years.

7.4 **Expectations about Capital spending:**

7.4.1 Latest information indicates a potential net overrun this year of £170 million on capital spending. If no further savings emerge, the outturn will show an increase of 25% over 1998, as against the 17% shown in the Revised Estimates.

K 7.4.2 The Estimates demands which he has received exceed the limit set by the Government on 20 July last by £1117 million. The Minister acknowledges the importance to economic growth of further developing our infrastructure, and that the capital targets then adopted were set subject to final consideration and agreement. The demands received, however, imply an increase of the order of 52% over the projected 1999 outturn. Such demands ignore capacity constraints in the construction sector and the associated price pressures which are already evident: **They are seriously inconsistent with getting good value for money from public capital spending, and are also inconsistent with facilitating moderation in wage developments in that sector.** Use

7.5 **Recent tax buoyancy creates no scope for a higher <u>volume</u> of public services:** High expectations are understandable against the background of ongoing strong tax buoyancy. The Minister now anticipates that tax revenue in 1999 will be some £250 million above the level anticipated in his Memorandum of 30 June. However, inflation in construction costs is also significantly higher than assumed at that time. This extra revenue--even if it carries through *in full* into future years--will scarcely offset the higher cost of implementing the proposals in the National Development Plan which higher construction inflation implies.

The Strategic Requirements now

8. The decisions which Government must face in the weeks ahead, it appears to the Minister, involve several key issues:

- On **pay** the Government must follow through on the strategy agreed for dealing with public sector pay demands, not least to limit the risk of stimulating non-competitive private sector wage demands. Preserving solid economic growth requires that pay increases be consistent with maintaining Irish competitiveness in a fixed-currency environment.
- On **Budget 2000** a balance must be struck between meeting public demand for unrealistically high increases in spending/reductions in taxation *and risking further overheating with the inflation/loss of competitiveness which that would imply.* Preserving solid economic growth requires the maintenance of investor confidence that budgetary management will contain inflationary threats--which, in current circumstances, requires continued, strong budget surpluses.
- On **priorities within overall public spending**, a balance must be struck between adequately tackling key bottlenecks which promise to inhibit growth, *and providing further tax relief or expanding public services which--while eminently desirable in social or other terms--are less relevant to realising our growth potential.* Preserving the capacity for solid economic growth requires the highest priority to be given, within acceptable budget parameters, to enhancing key business infrastructure.
- On **net current expenditure**, in the Minister's view there is no option but to firmly respect the 4% limit, even though it involves cutbacks from the estimate of **no policy change** expenditure. Failure to adhere to this constraint which (having regard to the ongoing decline in debt-service costs) is seen internationally as a very loose limit, would further threaten overseas confidence in Irish budgetary management.
- On **priorities within overall current Supply spending**, a balance must be struck between providing adequately for further progress in social cohesion *and undue expansion of other elements of public current spending including the public pay bill.* Sharing the fruits of economic progress fairly requires a high priority to be given to advancing social cohesion.

9. The Minister cannot emphasise enough the serious implications which would flow from a further unwinding of the hitherto satisfactory competitive development of the economy. **It is evident from past experience--here and abroad--that, once lost, the moderation which has underpinned that satisfactory development cannot be quickly regained.** Especially in the fixed-currency regime which now obtains, a wage/price spiral--even of limited dimension-- promises a significant period of difficulty on export-markets, prolonged loss of investor confidence, a sustained slowdown in economic and employment growth and, worst of all, prolonged inability to carry social progress further.

(21)

Aide Memoire from Minister for Finance on Economic and Budget Developments

Taoiseach

From Paddy Teahon

The Aide Memoire begs the question "Is there a credible way forward?"

I believe it important to put on the Government record in this connection the outcome of the meeting between Taoiseach, Tánaiste and Minister for Finance with ICTU and IBEC last week, especially the final paragraphs x - x attached.

The Government might agree that action is a consequence necessary in four areas

1 - in the near-term dealing with potential industrial disputes in particular in the bus drivers and nursing areas

2 - the forthcoming NESC Strategy

3 - consultation on the National Development Plan

4 - a new framework for managing public service pay

The Government might agree that follow up action now be co-ordinated by Taoiseach, Tánaiste and Minister for Finance.

If you agree, we will arrange an early meeting for you with Tánaiste and Minister for Finance. I believe also that you should deliver a high profile speech on the "The Situation is not good - The Government will act resolutely - There is a credible way forward Theme". We will produce a draft.

Extract from Press Release

employers, employees and others to address on a shared basis, underpinned by industrial harmony, the structural changes and social challenges which we face as a society.

The meeting with ICTU agreed that social partnership is only possible in a climate of trust, based on the honouring of commitments. It was further agreed that, in the present context, developments in any part of the public service cannot be viewed in isolation, but will have direct implications for pay and conditions generally, through established relativities. This reinforces the importance of developing a new framework for the management of public service pay in it's entirety.

It was also agreed with ICTU that the future of social partnership could evolve to support a continuing improvement in living standards, keeping the benefits of a high value-added, high income and socially inclusive economy. It was agreed that discussions on the shape of a renewed model of social partnership, to succeed Partnership 2000, would continue. These would include the shaping of a consensus through the forthcoming NESC Strategy Report, the radical investment programme to be set out in the National Development Plan, and the continuing talks on a new framework for managing public service pay. The development of such a model would only be possible if the transition from the present Programme, Partnership 2000, is managed successfully. In that context, the Government has requested the ICTU to use it's good offices to encourage the full honouring of the industrial peace clause of the Partnership 2000.

13 September 1999

23

S180/20/10/0247

21 Meán Fómhair, 1999.

An Rúnaí Príobháideach
An tAire Airgeadais

SECRET

I am to refer to the aide memoire ref. EPD/31/1/99 dated 16 September, 1999, submitted by the Minister for Finance concerning the economic and budget developments which pose concern and to inform you that, at a meeting held today, the Government

(1) noted the contents of the aide memoire;

(2) agreed that, in seeking to find a credible way forward, action is necessary in four areas

   (a) dealing with potential industrial disputes in particular in the bus drivers and nursing areas,

   (b) the forthcoming NESC Strategy,

   (c) consultation on the National Development Plan, and

   (d) a new framework for managing public service pay; and

(3) agreed that the Taoiseach, Tánaiste and Minister for Finance should meet at an early date to co-ordinate this action.

Frank Murray
Ard-Rúnaí an Rialtais

S180/20/10/0247 12. **ECONOMIC AND BUDGET DEVELOPMENTS WHICH POSE CONCERN**

Following consideration of an aide memoire dated 16 September, 1999, submitted by the Minister for Finance concerning the economic and budget developments which pose concern

(1) the contents of the aide memoire were noted;

(2) it was agreed that, in seeking to find a credible way forward, action is necessary in four areas

(a) dealing with potential industrial disputes in particular in the bus drivers and nursing areas,

(b) the forthcoming NESC Strategy,

(c) consultation on the National Development Plan, and

(d) a new framework for managing public service pay; and

(3) it was agreed that the Taoiseach, Tánaiste and Minister for Finance should meet at an early date to co-ordinate this action.

(25)

Oifig an Aire Airgeadais
20 September, 1999

S211/1/99

SECRET
Aide-Memoire for the Government
2000 Expenditure Estimates

1. The Minister for Finance wishes to advise the Government of the present position in relation to the 2000 Estimates for current and capital expenditure on the basis of the demands submitted by Departments.

2. On 21 July, the Government, in endorsing the Minister's proposed Budget strategy, agreed the following limits on post-Budget Departmental expenditure:

Table 1 - Expenditure limits

£m.	2000	2001	2002
Net Voted Current Expenditure	12,919	13,667	14,414
Voted Capital Expenditure	2,595	2,777	2,943

The limits for net voted current expenditure approved by the Government in July are consistent with the commitment in its Programme to limit the growth in net current expenditure, including Central Fund Services, to 4% per annum on average using 1997 as the base year. The approved limits for capital expenditure implied an increase of 11.3% in 2000 over the 1999 estimate and an annual average rate of growth of 6.4% over 2000-2002. These capital spending limits were consistent with the general budgetary parameters proposed to and endorsed by the Government.

3. The Estimates demands have now been received from all Departments. These demands exceed the expenditure limits decided by the Government in July by a huge margin as follows:

Table 2 - Excess demands : Gap between Departments' demands and expenditure limits

£m.	2000	2001	2002
Net Current Voted Expenditure:	997	1,111	1,453
Voted Capital Expenditure	1,121	1,063	1,020

Current Expenditure

4. **The demands for net voted current expenditure, if conceded, would imply an increase in 2000 of 12.1% in pre-Budget (AEV) net voted current expenditure over the projected 1999 outturn as compared with a post-Budget increase of 5.8% implied by the limits decided in July.**

5. The limits for net voted current expenditure were lower than the projected cost in 2000-2002 of providing the existing level of services. The Government was advised in July that a reduction of £153m. in the projected "no-policy-change" costs in 2000 would be required to hold current spending within the limit proposed.

6. While assessments are still continuing, it appears that the "no-policy-change" projection of total net current expenditure will have to be revised substantially upwards. This would increase the scale of cuts beyond the £153m. figure indicated in July. Among the relevant factors are:

- the extra cost arising from the pay increases for Nurses and Gardai estimated provisionally at £60m. in 2000;
- the impact at individual Vote level of the latest assessment of the reductions in EU structural funds post-2000 [in July, the impact of reduced EU receipts on current Departmental appropriations-in-aid was assumed to be less than the latest figures, based on the Departmental demands, indicate.]; and
- a possible shortfall from the July estimate of EU receipts on the Agriculture Vote (under examination at present)

In addition to the above, there has also been a significant increase in the estimated cost of Central Fund Services in 2000. The latest estimate indicates an increase of £177m. in Central Fund expenditure compared to the figure used in determining the expenditure limits. Central Fund Services spending counts towards the Government's 4% limit. An increase in Central Fund Services expenditure implies, all else being equal, an equal reduction in voted expenditure.

Although it is not possible, in advance of detailed examination and discussions with Departments, to quantify the overall effect of these factors, it is clear that the £153m. "no-policy-change" cuts requirement estimated in July must be increased.

Capital Expenditure

7. The Government agreed a limit in July of £2,595m. for voted capital expenditure in 2000. The demands received from Departments amount to £3,716m., an increase of about 50% on the projected outturn for 1999. An increase of this order would be grossly excessive. The Government should avoid adding to the serious inflationary pressures already evident in the construction sector to which the rapid increases in voted capital spending in recent years has contributed.

Spending and budgetary policy

8. Increases in Government spending on the scale demanded by Departments would completely undermine the Government's budgetary and economic strategy. Sustaining the current economic success requires that budgetary policy does not contribute excessively to demand in the economy. Adherence to the 4% limit on current spending and adopting a prudent approach to capital spending are absolutely essential even though this will require significant reductions below the "no-policy-change" level on current spending and elimination of demands above that level. If this is not achieved, policy on taxation will be severely constrained.

9. The Minister wishes to make clear to his colleagues that the Estimates campaign now underway for the years 2000-2002 will be conducted on the basis that the limits agreed by the Government last July for current and capital expenditure in each of the years 2000-2002 will be adhered to. The Minister also points out that, in view of the scale of the cuts needed to meet the Government's limit on current expenditure, he must reserve the right to examine all expenditure, including, if necessary, that in the National Development Plan.

Estimates timetable

10. The timetable for agreeing the 2000 Estimates is extremely tight. Budget day is 1 December and the Minister intends to publish the Estimates no later than 11 November, the date on which they were published last year. The time available to consider and agree the Estimates is very short. The Minister intends to hold bilateral meetings with other Ministers at the earliest opportunity and he wishes to make clear that these will be conducted strictly on the basis set out in paragraph 9 above. The Minister asks for the co-operation and support of his colleagues in this.

Attached:

Table 1	:	Net Voted Current Expenditure - 1999 projected outturn, 2000 NPC and 2000 Demands.
Table 2	:	Voted Capital Expenditure - 1999 projected outturn, 2000 NPC and 2000 Demands.

i..t Voted Current Expenditure

Table 1

VOTE Group Doc: 2000est\aldmem	1999 Proj. Outt.* £000	2000 NPC** £000	% increase NPC/1999	2000 Demand*** £000	% Increase Demand/ 1999
TAOISEACH	34,375	46,214	34.4%	48,173	40.1%
FINANCE	489,543	503,801	2.9%	527,470	7.7%
PUBLIC ENTERPRISE	138,413	138,659	0.2%	157,528	13.8%
JUSTICE, EQUALITY AND LAW REFORM	854,233	858,239	0.5%	960,342	12.4%
ENVIRONMENT & LOCAL GOVERNMENT	372,734	388,998	4.4%	424,024	13.8%
EDUCATION & SCIENCE	2,398,157	2,526,964	5.4%	2,831,512	18.1%
MARINE & NATURAL RESOURCES	62,043	60,978	-1.7%	60,978	-1.7%
AGRICULTURE & FOOD	388,978	406,327	4.5%	639,437	64.4%
ENTERPRISE, TRADE & EMPLOYMENT	608,354	654,198	7.5%	758,366	24.7%
TOURISM, SPORT & RECREATION	102,953	76,891	-25.3%	139,118	35.1%
DEFENCE	545,010	599,110	9.9%	588,275	7.9%
FOREIGN AFFAIRS	187,749	214,942	14.5%	248,663	32.4%
SOCIAL, COMMUNITY & FAMILY AFFAIRS	2,770,689	2,926,299	5.6%	2,922,087	5.5%
HEALTH & CHILDREN	3,134,746	3,065,471	-2.2%	3,234,886	3.2%
ARTS, HERITAGE, GAEL. & THE ISLANDS	123,945	130,667	5.4%	150,431	21.4%
TOTAL	12,211,922	12,597,758	3.2%	13,691,290	12.1%

* The 1999 projected outturn is based on the overruns outlined in the Minister for Finance's Memorandum for the Government "1999 current expenditure - measures to offset emerging excesses", of 9 July, 1999, the Government decision of 21 July, (S180/20/10/0248) approving cuts of £55.326m. and additional expenditure overruns in 1999 in respect of pay increases for the nurses and the Gardaí.

** NPC figures as approved by the Government on 21 July, 1999 (S180/20/10/0248)

*** Demands as submitted by Departments in formal response to Department of Finance Confidential Circular 3/99 of 16 July, 1999.

ɔted Capital Expenditure

TABLE 2

Vote	Proj. Outturn 1999 £000's	NPC 2000 £000's	% Increase NPC/ 1999 Outturn	Demand 2000 £000's	% Increase Demand / 1999 Outturn
Vote 3. Taoiseach	14,200	13,500	-5%	13,500	-5%
Vote 4. Ordnance Survey	1,720	1,700	-1%	2,000	16%
Vote 5. C.S.O.	770	558	-28%	558	-28%
Vote 6. Finance	2,055	20,477	896%	20,477	896%
Vote 9. Revenue	9,950	10,040	1%	10,825	9%
Vote 10. OPW	172,893	107,893	-38%	130,667	-24%
Vote 16. Civil Service Commission	250	0	-100%	100	-60%
Vote 19. Justice, Equality & Law Reform	6,097	3,082	-49%	21,370	251%
Vote 20. Garda Siochana	26,860	16,398	-39%	37,840	41%
Vote 21. Prisons	30,982	28,183	-9%	31,842	3%
Vote 22. Courts	13,261	11,700	-12%	26,912	103%
Vote 25. Environment	960,905	1,087,775	13%	1,389,134	45%
Vote 26. Office of Minister for Education	75,642	75,642	0%	393,792	421%
Vote 27. First Level Education	59,033	53,775	-9%	60,914	3%
Vote 28. Second Level & Further Education	92,000	51,272	-44%	80,000	-13%
Vote 29. Third Level & Further Education	46,397	96,127	107%	172,000	271%
Vote 30. Marine & Natural Resources	120,158	110,862	-8%	110,862	-8%
Vote 31. Agriculture & Food	118,263	114,242	-3%	135,938	15%
Vote 32. Public Enterprise	144,927	158,862	10%	382,756	164%
Vote 33. Health & Children	170,000	195,000	15%	195,000	15%
Vote 34. Enterprise , Trade and Employment	242,449	269,492	11%	293,940	21%
Vote 35. Tourism, Sport & Recreation	38,236	42,794	12%	63,102	65%
Vote 36. Defence	18,600	36,125	94%	38,175	105%
Vote 38. Foreign Affairs	2,790	1,500	-46%	3,250	16%
Vote 40. Social , Community & Family Affairs	9,000	5,900	-34%	5,900	-34%
Vote 41. Arts Council	3,500	3,500	0%	4,000	14%
Vote 42. Arts, Heritage, Gaeltacht & Islands	78,983	79,114	0%	87,782	11%
Vote 43 National Gallery	263	3,750	1326%	3,850	1364%
Vote 44. Flood Relief	173	0		0	
Vote 45. Year 2000 Computer Fund	40,000	0		0	
Total Gross Voted Capital	2,500,357	2,599,263	4%	3,716,486	49%
Appropriations in Aid					
Vote 25. Environment	11237	6,251	-44%	7,491	-33%
Vote 30. Marine & Natural Resources	55609	56,732	2%	56,732	2%
Vote 31. Agriculture & Food	46347	31,013	-33%	14,361	-69%
Vote 36. Defence	50	50	0%	50	0%
Total A- in- A	113,243	94,046	-17%	78,634	-31%
Total Net Voted Capital	2,387,114	2,505,217	5%	3,637,852	52%

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Aide Memoire on 2000 Expenditure Estimates

Taoiseach

from Paddy Teahon

The Aide Memoire shows increases [Table 1] for the Taoiseach's Vote Group of <u>Demand</u> 40.1% and <u>NPC</u> 34.4%.

The high increase is significantly accounted for by a combination of

-	Moriarty Tribunal	+£6.5m X
-	Millennium	+£2.4m
-	A contingency provision for the North-South Ministerial Council	+£1.5m

Excluding these three items, the increases would be <u>Demand</u> 9.9% <u>NPC</u> 4.2%

P Teahon

Noted by Taoiseach & Amendment (X above) @ Govt. today 21/9/99

(28)

S180/20/10/0248

21 Meán Fómhair, 1999.

An Rúnaí Príobháideach
An tAire Airgeadais

SECRET

I am to refer to the aide memoire ref. S211/1/99 dated 20 September, 1999, submitted by the Minister for Finance and to inform you that, at a meeting held today, the Government noted the present position in relation to the 2000 Estimates for current and capital expenditure on the basis of the demands submitted by Departments.

Frank Murray
Ard-Rúnaí an Rialtais

S180/20/10/0248 13. **2000 EXPENDITURE ESTIMATES**

Following consideration of an aide memoire dated 20 September, 1999, submitted by the Minister for Finance, note was taken of the present position in relation to the 2000 Estimates for current and capital expenditure on the basis of the demands submitted by Departments.

30

Dé Máirt, 12 Deireadh Fómhair, 1999. **10:30 a.m.** **Seomra Comhairle**

11. ESTIMATES 2000 - Present Position Airgeadais Memorandum to be circulated at meeting.

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Oifig an Aire Airgeadais
12 October, 1999

S211/1/99

Memorandum for the Government
Estimates 2000 - present position

Summary and proposal

1. The Minister for Finance,

[a] wishes to advise the Government that, following his bilateral meetings with Ministers on their Departments' Estimates proposals, Departmental demands for 2000 remain unacceptably high; and

[b] seeks Government agreement that Ministers should review immediately their latest Departmental demands, current and capital, and identify further substantial reductions. The guideline for the review is that total demands for current spending should be reduced by £504m or 4% and capital spending by £785m or 23%. The results of this review should be conveyed to the Department of Finance by Thursday, 14 October at the latest. The Minister will report to the Government on 19 October.

Background

2. In his aide-memoire of 20 September, the Minister informed the Government that there was a huge margin between demands from Departments for spending, current and capital, in 2000 and the limits decided by the Government on 21 July as part of its decision on the budgetary aggregates 2000-2002. The margin has been reduced in the Minister's bilateral discussions with other Ministers, but it is still unacceptably high.

Results of bilaterals

3. The gap between Departments' demands and the limits decided by the Government is now £504m, current, and £785m, capital.

£m	Gap before bilaterals	Reductions agreed at bilaterals	Gap after bilaterals
Net voted current expenditure limit	1,175	671	504
Gross voted capital	1,125	340	785

In order to close the gap, the percentage reductions required off post-bilateral demands are 4% for current spending and 23% for capital spending.

Next steps

4. The Minister acknowledges that Ministers have made significant efforts to reduce their Departments' spending demands. However, publication of the 2000 Estimates on the basis of the demands as they now stand would lead to serious criticism of the Government's budgetary and expenditure policies. There would be a substantial addition to total demand in an economy which is already against supply constraints.

5. The following table shows the recent growth in current and capital expenditure in recent years and that in prospect if present demands were agreed to:

Net voted current spending	Net voted current spending	Gross voted capital
1997 outturn	8.5%	9.0%
1998 outturn	5.8%	26.3%
1999 outturn	11.4%	24.1%
2000 demands after bilaterals	9.3%	37.0%

Note: the current expenditure figure for 2000 includes £227m in respect of Budget day spending, the amount decided by the Government in July.

6. The increase in voted current expenditure in 2000 shown in the table would lead to an annual average increase in net current spending over the 1997 outturn of 5.1% [post Budget 2000], as against the Government's Programme commitment to hold the increase to 4%.

7. In view of the importance of holding current spending to the July limits, the Minister for Finance must therefore ask all Ministers to review their Departments' demands and identify reductions amounting to 4% off current spending demands and 23% off capital spending demands. The Minister requests that the results of this review be conveyed to his Department by Thursday, 14 October at the latest so that he can report to the Government on 19 October.

Timetable for the finalisation of the Estimates and the NDP

8. The Minister will report to the Government on 19 October on the results of the review of Departmental spending demands. The Minister aims to publish the Abridged Estimates Volume before mid-November. To do this, agreement on the Estimates allocations by Vote Group would be required by Tuesday, 26 October. A Memorandum submitting a proof of the Volume would be sent to the Government for its meeting on 2 November, with the aim of presenting the Estimates to the Dail and publishing them during the week beginning 8 November. The 1999 Volume was published on 12 November, 1998. Under Standing Orders, the Estimates must, if Budget day is to be on 1 December, be presented to the Dail not later than 22 November.

9. It is necessary to ensure that the Estimates for 2000 and the NDP are fully consistent. This can only be done when the 2000 Estimates allocations have been finally decided. The Minister therefore proposes to present a Memorandum to the Government on the NDP at the same time, 2 November, as the Memorandum on the publication of the Estimates Volume.

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S180/20/10/0248

12 Deireadh Fómhair, 1999.

An Rúnaí Príobháideach
An tAire Airgeadais

I am to refer to the memorandum ref. S211/1/99 dated 12 October, 1999, submitted by the Minister for Finance and to inform you that, at a meeting held today, the Government

(1) noted that, following the bilateral meetings of the Minister for Finance with Ministers on their Departments' Estimates proposals, Departmental demands for 2000 remain unacceptably high;

(2) agreed that Ministers should review immediately their latest Departmental demands, current and capital, and identify further substantial reductions, on the basis that the guideline for the review is that total demands for current spending should be reduced by £504m or 4% and capital spending by £785m or 23%;

(3) agreed that the results of this review should be conveyed to the Department of Finance by Thursday, 14 October at the latest; and

(4) noted that the Minister will report to Government on 19 October.

Peter Ryan
Rúnaí Cúnta an Rialtais

34.

S180/20/10/0248 7. **ESTIMATES 2000 - Present Position**

Following consideration of a memorandum dated 12 October, 1999, submitted by the Minister for Finance,

(1) it was noted that, following the bilateral meetings of the Minister for Finance with Ministers on their Departments'

Estimates proposals, Departmental demands for 2000 remain unacceptably high;

(2) it was agreed that Ministers should review immediately their latest Departmental demands, current and capital, and identify further substantial reductions, on the basis that the guideline for the review is that total demands for current spending should be reduced by £504m or 4% and capital spending by £785m or 23%;

(3) it was agreed that the results of this review should be conveyed to the Department of Finance by Thursday, 14 October at the latest; and

(4) it was noted that the Minister will report to Government on 19 October.

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FORLÍONTACH

Dé Máirt, 19 Deireadh Fómhair, 1999. **10:30 a.m.** **Seomra Comhairle**

10. ESTIMATES 2000 Certified Urgent	Airgeadais	Memorandum dated 19/10/99

(1)

S211/1/99

Oifig an Aire Airgeadais
19 October, 1999

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Memorandum for the Government
Estimates 2000 - Proposed allocations current and capital

Summary and proposed decision

1. The Minister for Finance,

[a] wishes to advise the Government that sufficient proposals for reductions on their demands have not been put forward by Ministers in the review requested by the Government in its decision of 12 October [S80/20/10/0248]; and, accordingly,

[b] the Minister requests the Government to agree,

[i] the additional measures required to reduce the latest Departmental estimates demands proposed in Appendix A [current] and B [capital],

[ii] the resulting current and capital expenditure allocations for 2000 proposed in Appendix C [current] and D [capital] and

[iii] the preparation by the Department of Finance, in conjunction with Departments, of the Abridged Estimates Volume for 2000 based on the measures and allocations at [i] and [ii] above.

Background

2. In his Memorandum for the Government of 12 October, the Minister indicated that, after bilateral discussions with Ministers, the gap between Departments' demands and the limits decided by the Government in July was £504m on current, [4% of demands] and £785m on capital [23% of demands].

3. The Minister estimated that, if the demands as they stood on 12 October were conceded, net voted current spending would rise by 9.3% in 2000 [post-Budget] and that the annual average increase in ***net current spending would be 5.1% [post-Budget], as against the Government's Programme commitment to hold that increase to 4%.*** The increase in capital expenditure in 2000 would be 37%.

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4. The Minister pointed out that increases on this scale would call the Government's budgetary and expenditure policies into question, especially as they would add significantly to the already strong inflationary pressures affecting the economy which, when combined with prospective Budget day tax and expenditure increases and with increased wage expectations in the context of a possible successor to Partnership 2000, constitute a serious threat to the continued competitiveness of the economy as a whole. **Ministers will be aware of the recent ESRI Medium-Term Review 1999-2005 which pointed to the need to ensure a tight fiscal policy over the next two years.**

Review of spending demands
5. On foot of the Minister's Memorandum of 12 October, the Government decided that Ministers should review their latest Departmental spending demands for 2000, current and capital, with the aim of reducing current and capital demands by 4% and 23% respectively.

6. Two Ministers have proposed reductions:

[i] The Minister for Arts, Heritage, Gaeltacht and the Islands has proposed reductions of £9.3m [current] and £2.4m [capital] on her Department's demands, which are conditional on agreement to total allocations, current and capital, for her Department's Votes [including the Arts Council] higher than the Minister for Finance can agree to;

[ii] The Minister for Environment and Local Government has proposed a reduction of £4m on the provision demanded for Traffic Management measures [capital]. The Minister for Finance has accepted the proposal; it is included in Appendix B and D.

Reductions on demands still required to meet targets
7. In the absence of proposals by Ministers to reduce sufficiently their Departmental spending demands, the Minister for Finance proposes measures to secure 2000 expenditure allocations which are closer to the Government's targets.

8. As a compromise, the Minister proposes that the present Departmental spending current expenditure demands should be reduced by £243m and those for capital spending by £313m, or roughly half the gap between demands and the limits decided by the Government in July. Allocations decided on this basis will be substantially above the July limits. The Minister proposes the compromise to assist in reaching an agreement. It is essential that Ministers agree to frame their 2000 Estimates on the basis of these new limits and do not seek to breach them.

Current expenditure
9. If the 2000 Estimates are prepared on the basis of the measures and the allocations proposed, current expenditure will be £222m above the level decided in July. This will lead to a increase in net voted current expenditure of 7% [post-Budget] over the 1999 outturn. The average annual increase in net current spending over the 1997 outturn would be 4.5% [post-Budget 2000] as against the Government's Programme commitment to keep the increase to 4%.

10. Expenditure in 2001 and 2002 will also be above a level consistent with the 4% limit on a no-policy-change basis. This information will become known at Budget time when projections of the budgetary position for 2001 and 2002 will be published, following the practice for the past two years.

11. On the basis of the Minister's proposed measures and allocations, current expenditure in 2000 would be below the level of spending needed in 2000 to maintain the level of services provided in 1999, even though the proposed allocations are in excess of the Government's 4% limit.

12. The current expenditure allocations proposed for 2000 make no provision for any additional costs arising next year if pay increases for Nurses and Gardai are not paid in 1999. Provision has been made for payment in 1999 of £100m to Nurses and £55m to Gardai. If this is deferred to 2000, current spending will increase by £155m.

Capital expenditure

13. With the Minister's compromise, capital expenditure in 2000 would be £383m above the level decided by the Government in July and capital expenditure would increase by 21% over the emerging 1999 outturn.

Summary

14. The following table summarises the position:

Current and capital spending limits

£m	July decided limit	Compromise proposal
Net voted current expenditure	12,592	12,814
Capital expenditure	2,599	2,982

Note: limits shown are pre-Budget

Minister for Finance's proposed reductions

15. The measures to reduce Departmental demands proposed by the Minister are set out in Appendix A [current] and Appendix B [capital]. The Minister proposes that the measures set out in Appendix A and B be applied to the Departmental demands to reduce those demands to the allocations given in Appendix C [current] and D [capital].

16. Government agreement to the Minister's proposed current and capital allocations will make it necessary to review the expenditure provisions in the National Development Plan (2000-2006) [the *total* for which has already been agreed by Government and advised to the Social Partners and Regional Authorities], in particular the year by year trend of NDP expenditure which must be set out by Operational Programme in the Plan.

Next steps - presentation to Dail and publication

17. The Minister proposes that the Department of Finance, in conjunction with Departments, prepare the Abridged Estimates Volume for 2000 based on the measures and allocations given in the Appendices. The Minister aims to present the Volume to the Dail and publish it in the week beginning 8 November, following Government approval of the proof on 2 November.

18. The Estimates for 2000 and the NDP must be fully consistent. This can only be done when the 2000 Estimates have been finally decided. The Minister therefore proposes to present a Memorandum to the Government on the NDP at the same time [2 November] as the Memorandum on the publication of the Estimates Volume.

Appendix A

Ne⁴ non-capital Supply Services

Measures proposed by the Minister for Finance to achieve reductions in 2000 Departmental Demands

Department/Vote	Proposed Measures	2000 (a) Cuts off Departmental demands above NPC	(b) Cuts off/ below NPC
H: Users/estimate/2000ests/AppA.wk4		£000s	£000s
TAOISEACH's	Subhead E Abolish Commemoration initiatives	300	
	Subhead N Millennium Celebrations - Cut additional demand	2,400	
	Total	*2,700*	*0*
FINANCE	**Superannuation Vote**	6,721	
	Department of Finance		
	Admin Budget - Reduce Demand		859
	Community Initiatives - reduce demand - NDP related		1,000
	Total	*0*	*1,859*
JUSTICE,EQUALITY & LAW REFORM	Defer proposals for video recording of Garda suspects.		3,500
	Exclude Garda Youth Diversion projects from NDP		2,000
	Exclude NDP provision for prisoner training		4,000
	Total	*0*	*9,500*
ENVIRONMENT & LOCAL GOVT.	Partnership in Local Authorities	4,100	
	Reduction in Exchequer provision for the Local Government Fund.		10,000
	National Road Maintenance (NDP issue)		1,900
	Total	*4,100*	*11,900*
EDUCATION & SCIENCE	Defer implementation of a substantial proportion (c.70%) of new NDP and policy measures contained in the E & S Demand	5,247	37,400
MARINE & NATURAL RESOURCES	B2 Coastal Radio Stations - Estimating cut (no NDP)		20
	B6 Marine Emergency Service\Lease of Vessel (no NDP)		400
	F1Marine Institute - Estimating cuts		530
	H1 Additional monies sought for NDP Fisheries harbour		570
	H4 BIM Estimating cut		20
	I2 Fisheries Conservation - estimating cuts		30
	J1 Fisheries Board - Not NDP related		670
	J6 Salmon management - estimating cut not NDP related		20
	K1 Forestry research - estimating cut - not NDP related		20
	K6 Forestry - estimating cut - not NDP related		300
	K7 Forestry research - Estimating cut - not related to NDP		140
	New Buoys - New service. Proposal not sanctioned		
	Total	*0*	*2,720*
AGRICULTURE & FOOD	Rephase expenditure on FEOGA (Guarantee) expenditure REPS, ERS and Headage to save a net £12.4m in 2000 This will lead to a net addition of £2m to the provisions for the years 2001 - 2006		12,400
PUBLIC ENTERPRISE	Cut CIE Subsidy for operating costs of new buses.	4,000	
	Seek additional A-in-A's from Regulators		750
	Reduce consultancy spend		1,000
	Total	*4,000*	*1,750*

Net non-capital Supply Services

Measures proposed by the Minister for Finance to achieve reductions in 2000 Departmental Demands

Department/Vote H: Users/estimate/2000ests/2000cuts.wk4	Proposed Measures	2000 (a) Cuts off Departmental demands above NPC £000s	2000 (b) Cuts off/ below NPC £000s
HEALTH & CHILDREN	Deferral of new developments - leaving a balance for AEV of £60m. for new development in 2000.	49,100	
DEFENCE	Estimating cut - Defence to identify measures, but likely to be Army Hearing Loss		3,000
ENTERPRISE TRADE AND EMPL.	Cut of £5m on Administration (Fas,IDA,E1 etc)		5,000
	£3m cut on k3 - Training for the unemployed.		3,000
	Vote 38 Administrative Budget	4,274	
FOREIGN AFFAIRS	Mandatory Contributions to International Org.		1,500
	Cultural Relations	590	
	Total	*4,864*	*1,500*
SOCIAL, COMMUNITY & FAMILY AFFAIRS	Abolish student Summer job Scheme - The rationale for scheme has long passed given the strong demand for student employment in the private sector.		6,000
	Back to Education Allowance - Abolish from next year. Allow no new entrants for academic year commencing 2000 - Rationale has been seriously weakened by strong employment growth. 2nd level strand can be subsumed into VTOS . Persons on 3rd level strand cannot be deemed to be educationally disadvantaged as they have completed upper 2nd level.		4,000
	Abolish Scheme of Community Support for the elderly. Over £17m has been spent on this scheme since 1996, this should have addressed the needs of the most vulnerable in terms of purchasing alarms and security systems.		5,000
	An expected drop on the Live register from 185,000 to 175,000 will result in savings of £37m		37,000
	Cap SWA Expenditure at £20m below NPC figure This will force greater prioritisation within SWA arrangements		20,000
	Total	*0*	*72,000*
ARTS,HERITAGE,GAELTACHT & THE ISLANDS.	Reduce allocation to Teilifis na Gaeilge (S/h O1)	1,000	1,000
	Reduce Parks and Wildlife expenditure (S/h S)	1,000	
	Reduce funding for Cultural Institutions (S/h C1)	500	
	Reduce National Monuments expenditure (S/h V1)		1,000
	Total	*2,500*	*2,000*
		79,232	164,029
	Overall Total		243,261

Voted Capital Expenditure

Appendix 3

Measures proposed by the Minister for Finance to achieve reductions in 2000 Departmental Demands

Department/Vote	Proposed Measures	2000 (a) Cuts off Departmental demands above NPC	(b) Cuts off/ below NPC
h:\users\pcp\as\npcmemo1.wk4		£000s	£000s
TAOISEACH's	Millenium celebrations		3,500
FINANCE	Community initiatives		1,000
OPW	Removal of projects incl. Irish College, Paris & others	22,774	
JUSTICE,EQUALITY & LAW REFORM	Courts refurbishment	5,000	
	Eliminate new capital item on courts vote (telecom. technology)		1,108
	Defer video recording of garda suspects		600
	Defer pilot phase of TETRA (gardai)	5,000	1,600
	Prisioner training (NDP item)		1,000
ENVIRONMENT & LOCAL GOVT.	National roads - NDP		40,000
	Water Services - NDP		6,000
	Waste - NDP		5,000
	Urban Renewal - NDP		3,500
	DTI - NDP		4,000
	Ballyfermot / Darndale centres		2,100
	Traffic Management - NDP (cut accepted by Minister for Environment & Local Govt.)		4,000
EDUCATION & SCIENCE	Reduce proposed policy demand across the Votes	52,000	
MARINE & NATURAL RESOURCES	Claw-back of £13m bilateral add-ons, Marine to decide where cuts will be made; Forestry - £6.62m extra cuts (the full £19.62m is NDP related)		19,620
AGRICULTURE & FOOD	Rephasing of Agriculture & Rural Development programmes in NDP		11,400
	Reduce IHA allocation		3,000
PUBLIC ENTERPRISE	Public transport - £100 million could be raised through scaling back the overall Public Transport Development programmes in 2000. Rail Safety expenditure is being maintained. LUAS costings/Sandyford PPP project may also impact on estimate following Government consideration of the matter.	100,000	
ENTERPRISE, TRADE & EMPLOY.	No further cuts proposed in view of bi-lateral reductions		
TOURISM, SPORT AND RECREATION	B2 Bord Failte Devel. Works		2,500
	C2 Recreational Facilities		1,000
	C3 Major Sports Facilities		1,300
	C6 Swimming pools		2,500
	C9 Sports & Recreation fac.		2,700
	(C9 is NDP related - £2.7m)		
DEFENCE	No cut proposed. £10m cut in bilateral brings Defence to below July NPC		
FOREIGN AFFAIRS	IT related expenditure	1,750	
ARTS,HERITAGE,GAELTACHT & THE ISLANDS.	C3 Cultural development projects	2,500	
	H2 Udaras Industry grants	1,000	
	H3 Udaras building programme	1,000	
	N2 Irish Film board	1,000	
	V1 Nat. Monuments/Historical Projects	2,300	1,200
	Arts Council	500	
		194,824	118,628
	Overall Total		313,452

2000 Estimates - Proposed Allocations

Appendix C

Non-Capital Supply Services

VOTE / DEPARTMENT (10/18/99; Doc: 2000est\appC)	Departments' demands			Proposed Reductions			Proposed Allocations		
	Gross £000	A-in-As £000	Net £000	Gross £000	A-in-As £000	Net £000	Gross £000	A-in-As £000	Net £000
TAOISEACH	45,802	1,175	44,627	2,700	0	2,700	43,102	1,175	41,927
FINANCE	608,961	66,391	542,570	8,580	0	8,580	600,381	66,391	533,990
PUBLIC ENTERPRISE	158,788	12,705	146,083	5,000	(750)	5,750	153,788	13,455	140,333
JUSTICE, EQUALITY AND LAW REFORM	935,654	25,807	909,847	9,500	0	9,500	926,154	25,807	900,347
ENVIRONMENT & LOCAL GOVERNMENT	420,611	17,543	403,068	16,000	0	16,000	404,611	17,543	387,068
EDUCATION & SCIENCE	2,839,019	189,019	2,650,000	42,647	0	42,647	2,796,372	189,019	2,607,353
MARINE & NATURAL RESOURCES	73,337	11,939	61,398	2,720	0	2,720	70,617	11,939	58,678
AGRICULTURE & FOOD	763,460	263,091	500,369	12,400	0	12,400	751,060	263,091	487,969
ENTERPRISE, TRADE & EMPLOYMENT	727,030	15,000	712,030	8,000	0	8,000	719,030	15,000	704,030
TOURISM, SPORT & RECREATION	140,520	23,791	116,729	0	0	0	140,520	23,791	116,729
DEFENCE	585,925	20,060	565,865	3,000	0	3,000	582,925	20,060	562,865
FOREIGN AFFAIRS	223,086	500	222,586	6,364	0	6,364	216,722	500	216,222
SOCIAL, COMMUNITY & FAMILY AFFAIRS	5,201,293	2,374,296	2,826,997	72,000	0	72,000	5,129,293	2,374,296	2,754,997
HEALTH & CHILDREN	3,885,052	662,921	3,222,131	49,100	0	49,100	3,835,952	662,921	3,173,031
ARTS, HERITAGE, GAEL. & THE ISLANDS	211,790	78,878	132,912	4,500	0	4,500	207,290	78,878	128,412
TOTAL	16,820,328	3,763,116	13,057,212	242,511	(750)	243,261	16,577,817	3,763,866	12,813,951

Gross Voted Capital Expenditure 2000 **Appendix D**

Vote	Departments Demand 2000 Post Bi-lateral £000's	Measures proposed to achieve reductions in 2000 demands £000's	Proposed Allocations £000's
Vote 3. Taoiseach	13,500	3,500	10,000
Vote 4. Ordnance Survey	2,000		2,000
Vote 5. C.S.O.	822		822
Vote 6. Finance	62,542	1,000	61,542
Vote 9. Revenue	10,825		10,825
Vote 10. OPW	131,667	22,774	108,893
Vote 19. Justice, Equality & Law Reform	12,170		12,170
Vote 20. Garda Siochana	31,798	7,200	24,598
Vote 21. Prisons	30,042	1,000	29,042
Vote 22. Courts	21,520	6,108	15,412
Vote 25. Environment & Local Government	1,298,527	64,600	1,233,927
Vote 26. Office of Minister for Education	95,642	52,000	43,642
Vote 27. First Level Education	83,775		83,775
Vote 28. Second Level & Further Education	100,000		100,000
Vote 29. Third Level & Further Education	134,500		134,500
Vote 30. Marine & Natural Resources	131,327	19,620	111,707
Vote 31. Agriculture, Food & Rural Developme	120,412	14,400	106,012
Vote 32. Public Enterprise	319,546	100,000	219,546
Vote 33. Health & Children.	230,000		230,000
Vote 34. Enterprise, Trade and Employment	266,470		266,470
Vote 35. Tourism, Sport & Recreation.	68,322	10,000	58,322
Vote 36. Defence	26,175		26,175
Vote 38. Foreign Affairs	3,250	1,750	1,500
Vote 40. Social, Community & Family Affairs	6,365		6,365
Vote 41. Arts Council	4,000	500	3,500
Vote 42. Arts, Heritage, Gaeltacht & Islands	86,245	9,000	77,245
Vote 43 National Gallery	3,750		3,750
Vote 44. Flood Relief	160		160
Vote 45. Year 2000 Computer Fund			
Total Gross Voted Capital	3,295,352	313,452	2,981,900

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De Céadaoin, 27 Deireadh Fómhair, 1999. **10:30 a.m.** **Seomra Comhairle**

06. ESTIMATES 2000 Airgeadais Memorandum dated 19/10/99

23.

39

S211/1/99

Oifig an Aire Airgeadais
27 October, 1999

Memorandum for the Government

Estimates 2000 - Proposed allocations current and capital

Summary and proposed decision

1. The Minister for Finance requests the Government to agree,

[i] the measures proposed in Appendices A [current] and B [capital] to reduce the Departmental demands of certain Ministers,

[ii] the current and capital expenditure allocations for 2000 set out in Appendices C [current] and D [capital] and

[iii] the preparation by the Department of Finance, in conjunction with Departments, of the Abridged Estimates Volume and Summary Public Capital Programme for 2000 based on the measures and allocations at [i] and [ii] above .

Background

2. In his Memorandum for the Government of 19 October, the Minister proposed measures to reduce Departmental spending demands by £243m. on the current side and £313m. on the capital side. The Minister pointed out that allocations decided on this basis would be substantially above the limits decided by the Government in July and would lead to an average annual increase in net current spending in 2000 over the 1997 outturn of 4.5% as against the 4% limit in the Government's Programme. On capital spending the allocations proposed would give an increase of 21% in 2000 over the emerging 1999 outturn. However, the Minister proposed these allocations as a compromise to assist in reaching agreement on the 2000 Estimates.

Further bilateral meetings

3. Following the Government meeting on 19 October, the Minister for Finance had a further series of bilateral meetings with his Ministerial colleagues to discuss the basis for achieving the allocations proposed in his Memorandum of 19 October.

4. On the basis of these bilateral meetings, expenditure reductions of £176m. on current spending and £161m. on capital spending have been agreed. Agreement on reductions was reached with ~~all Ministers except the Minister for Justice, Equality and Law Reform. In the~~ case of that Minister, the Minister for Finance proposes that the measures set out in Appendices A [current] and B [capital] be applied to reduce his Departmental demands to the allocations for that Department set out in Appendices C and D.

5. The total reductions off Departmental demands, that is, those agreed at the bilateral meetings and those proposed by the Minister in Appendices A and B, are less than the amounts proposed by the Minister in his Memorandum of 19 October, by £58m. [current] and £137m. [capital]. The 2000 Estimates allocations which result from these reductions

would be substantially above the limits decided in July - by £303m. on current spending and by £494m. on capital spending.

6. On current spending the allocations will imply an increase in net voted current expenditure of 7.8% [post-Budget] over the emerging 1999 outturn. The annual average increase in total net current spending over the 1997 outturn would be 4.7% [post-Budget 2000] as against the Government's Programme commitment to keep the increase to 4%. On capital spending the allocations will imply an increase of 21% over the emerging 1999 outturn after taking account of a proposed Supplementary Estimate of £80m. for CIE.

Measures involving the Social Insurance Fund

7. The Social Insurance Fund which is funded by PRSI contributions is currently in surplus. Measures have been identified which will transfer to the Fund costs of £67m in 2000 which would otherwise be a charge on net current voted expenditure. Another measure will reduce the income of the Fund by £15m in 2000 and reduce net current expenditure by that amount. Legislation will be required to effect these changes, details of which are given below.

8. The proposed allocation for the Department of Social Community and Family Affairs has been drawn-up on the basis of £60m. covering certain costs which will now be met from the Social Insurance Fund rather than the Exchequer; the items concerned relate to certain free schemes for contributory pensioners and some situations where persons have dual entitlement to both benefit and assistance payments.

9. The Dental Treatment Services Scheme (DTSS) is financed from the Vote for the Department of Health and Children and provides dental treatment to medical card holders. Since an estimated 300,000 medical card holders also have entitlements, due to PRSI contibutions, under the Dental Treatment Benefit Scheme operated by the Department of Social Commmunity and Family Affairs, it is intended that an amount equivalent to the value of these entitlements, estimated at £7m., will be paid towards the cost of the DTSS from the Social Insurance Fund.

10. The Apprenticeship Levy is collected by way of an additional charge of 0.25% on the PRSI paid by companies in certain designated sectors and is paid to FÁS via the Revenue and the Department of Social Community and Family Affairs. It is proposed to abolish the levy. There have been considerable difficulties with the collection of this levy which is intended to fund, in large part, the cost of apprentices' off-the-job training allowances. It is proposed to replace it with a Training Fund Levy payable by all Class A Employers. The Training Fund Levy will be charged at a rate of 0.15% on the same income base as Employer PRSI and there will be a corresponding reduction in Employer Class A PRSI contribution rates. It is estimated that proceeds of the Training Fund Levy will be about £15m in 2000 and £24m in a full year. The Levy will be collected as part of the PRSI collection process and will be paid directly to FÁS. Accordingly there will be a reduction of £15m in the estimate for the Department of Enterprise, Trade and Employment.

11. There might be criticism of these changes on the argument that they reduce the assets of the Social Insurance Fund available to finance Social Welfare benefits.

Next steps

12. The Minister proposes that the Department of Finance, in conjunction with Departments, prepare the Abridged Estimates Volume for 2000 based on the measures and allocations given in the Appendices.

Appendix A

Non-Capital Supply Services

Measures proposed by the Minister for Finance to achieve reductions in 2000 Departmental Demands in respect of those Ministers who did not agree reductions in bilateral meetings with M/Finance in week beginning 18/10/99.

Department/Vote	Proposed Measures	
H: Users/estimate/2000ests/AppA.wk4		£000s
JUSTICE,EQUALITY & LAW REFORM	Defer proposals for video recording of Garda suspects.	3,500
	Exclude Garda Youth Diversion projects from NDP	2,000
	Exclude NDP provision for prisoner training	4,000
	Total	~~9,500~~

£6m.
end - agree

17/10/99

Voted Capital Expenditure **Appendix B**

Measures proposed by the Minister for Finance to achieve reductions in 2000 Departmental Demands

Department/Vote h:\users\pcp\aa\npcmemo1.wk4	Proposed Measures	2000 (a) Cuts off Departmental demands above NPC £000s	 (b) Cuts off/ below NPC £000s
JUSTICE,EQUALITY & LAW REFORM	Courts refurbishment	5,000	
	Eliminate new capital item on courts vote (telecom. technology)		1,108
	Defer video recording of garda suspects		600
	Defer pilot phase of TETRA (gardai)	5,000	1,600
	Prisioner training (NDP item)		1,000
		10,000	4,308
	Overall Total		14,308

£6m cut agreed
[illegible] 27/10/99

2000 Estimates - Proposed Allocations

Appendix C

Non-Capital Supply Services

10/26/99

Doc: 2000est\appc1.wk4

VOTE / DEPARTMENT	Departmental Demands			Reductions agreed at Ministerial bilaterals (or agreed at Ministerial or official level before bilaterals)			Reductions proposed by M/Finance (In respect of those Ministers who did not agree to reductions at Ministerial bilaterals)			Total reductions [i.e. reductions agreed at bilaterals and reductions proposed by M/Finance]			Proposed Allocations [Departmental demands less Total Reductions]		
	Gross £000	A-in-As £000	Net £000	Gross £000	A-in-As £000	Net £000	Gross £000	A-in-As £000	Net £000	Gross £000	A-in-As £000	Net £000	Gross £000	A-in-As £000	Net £000
TAOISEACH	45,802	1,175	44,627	250	0	250	0	0	0	250	0	250	45,552	1,175	44,377
FINANCE	608,961	66,391	542,570	11,411	0	11,411	0	0	0	11,411	0	11,411	597,550	66,391	531,159
PUBLIC ENTERPRISE	158,788	12,705	146,083	1,000	750	1,750	0	0	0	1,000	750	1,750	157,788	13,455	144,333
JUSTICE, EQUALITY AND LAW REFORM	935,654	25,807	909,847	0	0	0	9,500	0	9,500	9,500	0	9,500	926,154	25,807	900,347
ENVIRONMENT & LOCAL GOVERNMENT	420,611	17,543	403,068	11,500	500	12,000	0	0	0	11,500	500	12,000	409,111	18,043	391,068
EDUCATION & SCIENCE	2,839,019	189,019	2,650,000	30,147	0	30,147	0	0	0	30,147	0	30,147	2,808,872	189,019	2,619,853
MARINE & NATURAL RESOURCES	73,337	11,939	61,398	1,000	0	1,000	0	0	0	1,000	0	1,000	72,337	11,939	60,398
AGRICULTURE & FOOD	763,460	263,091	500,369	(7,600)	20,000	12,400	0	0	0	(7,600	20,000	12,400	771,060	283,091	487,969
ENTERPRISE, TRADE & EMPLOYMENT	727,030	15,000	712,030	8,000	0	8,000	0	0	0	8,000	0	8,000	719,030	15,000	704,030
TOURISM, SPORT & RECREATION	140,520	23,791	116,729	1,992	0	1,992	0	0	0	1,992	0	1,992	138,528	23,791	114,737
DEFENCE	585,925	20,060	565,865	3,000	0	3,000	0	0	0	3,000	0	3,000	582,925	20,060	562,865
FOREIGN AFFAIRS	223,086	500	222,586	2,250	0	2,250	0	0	0	2,250	0	2,250	220,836	500	220,336
SOCIAL, COMMUNITY & FAMILY AFFAIRS	5,201,293	2,374,296	2,826,997	69,000	3,000	72,000	0	0	0	69,000	3,000	72,000	5,132,293	2,377,296	2,754,997
HEALTH & CHILDREN	3,885,052	662,921	3,222,131	15,000	0	15,000	0	0	0	15,000	0	15,000	3,870,052	662,921	3,207,131
ARTS, HERITAGE, GAEL. & THE ISLANDS	211,790	78,878	132,912	4,500	0	4,500	0	0	0	4,500	0	4,500	207,290	78,878	128,412
TOTAL	16,820,328	3,763,116	13,057,212	151,450	24,250	175,700	9,500	0	9,500	160,950	24,250	185,200	16,659,378	3,787,366	12,872,012

Gross Voted Capital Expenditure 2000

Appendix D

Vote	Departments Demand 2000 at 19/10/99 £000's	Measures agreed to achieve reductions in 2000 demands £000's	Further Measures roposed to achieve reductions in 2000 demands £000's	Total reductions in 2000 Demands	Proposed Allocations 2000 £000's
Vote 3. Taoiseach	13,500	1,000		1,000	12,500
Vote 4. Ordnance Survey	2,000			0	1,700
Vote 5. C.S.O.	822			0	822
Vote 6. Finance	62,542	1,000		1,000	61,542
Vote 9. Revenue	10,825			0	10,825
Vote 10. OPW	131,667	22,774		22,774	108,893
Vote 19. Justice, Equality & Law Reform	12,170			0	12,170
Vote 20. Garda Siochana	31,798		7,200	7,200	24,598
Vote 21. Prisons	30,042		1,000	1,000	29,042
Vote 22. Courts	21,520		6,108	6,108	15,412
Vote 25. Environment & Local Government	1,298,527	62,500		62,500	1,236,027
Vote 26. Office of Minister for Education	95,642			0	95,642
Vote 27. First Level Education	83,775			0	83,775
Vote 28. Second Level & Further Education	100,000			0	100,000
Vote 29. Third Level & Further Education	134,500			0	134,500
Vote 30. Marine & Natural Resources	131,237	8,620		8,620	122,617
Vote 31. Agriculture, Food & Rural Development	120,412	2,000		2,000	118,412
Vote 32. Public Enterprise *	293,546	54,000		54,000	239,546 **
Vote 33. Health & Children.	230,000			0	230,000
Vote 34. Enterprise, Trade and Employment	266,470			0	266,470
Vote 35. Tourism, Sport & Recreation.	68,322	8,008		8,008	60,314
Vote 36. Defence	26,175			0	26,175
Vote 38. Foreign Affairs	3,250	1,750		1,750	1,500
Vote 40. Social, Community & Family Affairs	6,365			0	6,365
Vote 41. Arts Council	4,000			0	4,000
Vote 42. Arts, Heritage, Gaeltacht & Islands	86,245			0	86,245
Vote 43 National Gallery	3,750			0	3,750
Vote 44. Flood Relief	160			0	160
Vote 45. Year 2000 Computer Fund					
Total Gross Voted Capital	3,269,262	161,652	14,308	175,960	3,093,002

* excludes £60 million from non-Exchequer sources
** excludes £80 million from non-Exchequer sources

S180/20/10/0248

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27 Deireadh Fómhair, 1999.

An Rúnaí Príobháideach
An tAire Airgeadais

SECRET

I am to refer to the memorandum ref. S211/1/99 dated 27 October, 1999, submitted by the Minister for Finance concerning Estimates 2000 - proposed allocations current and capital, and to inform you that, at a meeting held today, the Government agreed

(1) reductions of £6m, current, and £6m, capital, on the 2000 expenditure demands of the Department of Justice, Equality and Law Reform, the measures to achieve those reductions to be agreed between the Minister for Justice, Equality and Law Reform and the Minister for Finance;

(2) the current and capital expenditure allocations for 2000 set out in the attached schedules; and

(3) the preparation by the Department of Finance, in conjunction with Departments, of the Abridged Estimates Volume and Summary Public Capital Programme for 2000 based on the measures and allocations at (1) and (2) above.

Frank Murray
Ard-Rúnaí an Rialtais

2000 Abridged Estimates Allocations

Non-Capital Supply Services

10/27/99	2000 Allocations		
VOTE / DEPARTMENT Doc: 2000est\appc1.wk4	Gross £000	A-in-As £000	Net £000
TAOISEACH	45,552	1,175	44,377
FINANCE	597,550	66,391	531,159
PUBLIC ENTERPRISE	157,788	13,455	144,333
JUSTICE, EQUALITY AND LAW REFORM	929,654	25,807	903,847
ENVIRONMENT & LOCAL GOVERNMENT	409,111	18,043	391,068
EDUCATION & SCIENCE	2,808,872	189,019	2,619,853
MARINE & NATURAL RESOURCES	72,337	11,939	60,398
AGRICULTURE, FOOD & RURAL DEVELOPMENT	771,060	283,091	487,969
ENTERPRISE, TRADE & EMPLOYMENT	719,030	15,000	704,030
TOURISM, SPORT & RECREATION	138,528	23,791	114,737
DEFENCE	582,925	20,060	562,865
FOREIGN AFFAIRS	220,836	500	220,336
SOCIAL, COMMUNITY & FAMILY AFFAIRS	5,132,293	2,377,296	2,754,997
HEALTH & CHILDREN	3,870,052	662,921	3,207,131
ARTS, HERITAGE, GAEL. & THE ISLANDS	209,270	80,858	128,412
TOTAL	16,664,858	3,789,346	12,875,512

Gross Voted Capital Expenditure 2000

Vote	Allocations 2000 £000's
Vote 3. Taoiseach	12,500
Vote 4. Ordnance Survey	1,700
Vote 5. C.S.O.	822
Vote 6. Finance	61,542
Vote 9. Revenue	10,825
Vote 10. OPW	108,893
Vote 19. Justice, Equality & Law Reform	12,170
Vote 20. Garda Siochana	27,298
Vote 21. Prisons	28,542
Vote 22. Courts	21,520
Vote 25. Environment & Local Government	1,236,027
Vote 26. Office of Minister for Education	95,642
Vote 27. First Level Education	83,775
Vote 28. Second Level & Further Education	100,000
Vote 29. Third Level & Further Education	134,500
Vote 30. Marine & Natural Resources	122,617
Vote 31. Agriculture, Food & Rural Development	118,412
Vote 32. Public Enterprise	239,546
Vote 33. Health & Children.	230,000
Vote 34. Enterprise, Trade and Employment	266,470
Vote 35. Tourism, Sport & Recreation.	60,314
Vote 36. Defence	26,175
Vote 38. Foreign Affairs	1,500
Vote 40. Social, Community & Family Affairs	6,365
Vote 41. Arts Council	4,000
Vote 42. Arts, Heritage, Gaeltacht & Islands	86,245
Vote 43 National Gallery	3,750
Vote 44. Flood Relief	160
Vote 45. Year 2000 Computer Fund	
Total Gross Voted Capital	3,101,310

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S180/20/10/0248 9. **ESTIMATES 2000**

Following consideration of a memorandum dated 27 October, 1999, submitted by the Minister for Finance concerning Estimates 2000 - proposed allocations current and capital, agreement was given to

(1) reductions of £6m, current, and £6m, capital, on the 2000 expenditure demands of the Department of Justice, Equality

and Law Reform, the measures to achieve those reductions to be agreed between the Minister for Justice, Equality and Law Reform and the Minister for Finance;

(2) the current and capital expenditure allocations for 2000 set out in the attached Schedule A; and

(3) the preparation by the Department of Finance, in conjunction with Departments, of the Abridged Estimates Volume and Summary Public Capital Programme for 2000 based on the measures and allocations at (1) and (2) above.

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FORLÍONTACH

De Máirt, 02 Samhain, 1999. 10:30 a.m. Seomra Comhairle

20.	2000 Abridged Estimates Volume and Summary Public Capital Programme	Airgeadais	2/11/99

(1) (3)

S211/1/99 *Oifig an Aire Airgeadais* (44)

2 November, 1999

Memorandum for the Government

2000 Abridged Estimates Volume and Summary Public Capital Programme

Decision sought

1. The Minister for Finance requests the approval of the Government to:

[a] an amendment to its decision S180/20/10/0248 of 27 Deireadh Fomhair 1999 by the substitution of the revised schedules attached to this Memorandum for the schedules attached to that decision and

[b] the presentation to the Dáil of the 2000 Abridged Estimates and Summary Public Capital Programme volume containing the allocations set out in the schedules attached to this Memorandum, a proof of which is attached, and its subsequent general publication after correction by the Department of Finance of any errors that may remain in the proof.

The Minister for Finance proposes to present the Volume to the Dáil on Thursday, 11 November. For this to be possible, the decision sought above needs to be taken by the Government at its meeting on 2 November.

Abridged Estimates and Summary PCP

2. At its meeting on 27 October, 1999, the Government approved the 2000 current and capital expenditure allocations. The allocation approved for total net voted current expenditure was £12,875.512 million and that for gross voted capital expenditure was £3,101.310 million As a result of necessary revisions to certain Departmental allocations, details of which are given in paragraphs 3 and 4 below, the total net voted current allocation approved by the Government on 27 October is reduced by £2.317m. to £12,873.195 million and the total gross voted capital allocation is increased by £26 million to £3,127.310 million

Revisions to approved Departmental allocations

Current expenditure

3. *Finance Group:* The current allocation for Ordnance Survey (Vote 4) approved by the Government on 27 October as part of the Finance Group of Votes, inadvertently included £1.7 million which was also included in the capital allocations. To avoid a double count, the current allocation is being reduced by £1.7m.

Education and Science: As a result of estimating changes the net current allocation for the Educationand Science group of Votes is reduced by £0.617 million.

Capital expenditure

4. *Department of Public Enterprise*: The capital allocation of £239.546 million for the Department of Public Enterprise (Vote 32) approved by the Government on 27th October inadvertently omitted capital expenditure items totalling £26 million on non-CIE subheads.

These items have been included in the draft estimate for Public Enterprise included in the proof copy of the Abridged Estimates and Summary PCP volume appended to this Memorandum. The Government accordingly is requested to amend its decision S180/20/10/0248 dated 27 October by the insertion in the schedule of approved capital allocations attached to that decision of £265.546 million in place of £239.546 million as the approved 2000 capital allocation for Public Enterprise.

5. The revised 2000 current and capital allocations, incorporating these changes, are included in the schedules attached to this Memorandum. The attached proof volume has been prepared on the basis of these allocations.

2000 Abridged Estimates Allocations

Non-Capital Supply Services

11/01/99	2000 Allocations		
VOTE / DEPARTMENT Doc: 2000est\appc1.wk4	Gross £000	A-in-As £000	Net £000
TAOISEACH	45,552	1,175	44,377
FINANCE	595,850	66,391	529,459
PUBLIC ENTERPRISE	157,788	13,455	144,333
JUSTICE, EQUALITY AND LAW REFORM	930,154	26,307	903,847
ENVIRONMENT & LOCAL GOVERNMENT	409,111	18,043	391,068
EDUCATION & SCIENCE	2,808,255	189,019	2,619,236
MARINE & NATURAL RESOURCES	72,337	11,939	60,398
AGRICULTURE, FOOD & RURAL DEVELOPMENT	761,060	273,091	487,969
ENTERPRISE, TRADE & EMPLOYMENT	719,030	15,000	704,030
TOURISM, SPORT & RECREATION	138,528	23,791	114,737
DEFENCE	582,925	20,060	562,865
FOREIGN AFFAIRS	220,836	500	220,336
SOCIAL, COMMUNITY & FAMILY AFFAIRS	5,132,293	2,377,296	2,754,997
HEALTH & CHILDREN	3,877,067	669,936	3,207,131
ARTS, HERITAGE, GAEL. & THE ISLANDS	209,270	80,858	128,412
TOTAL	16,660,056	3,786,861	12,873,195

Gross Voted Capital Expenditure 2000

Vote		Allocations 2000 £000's
Vote 3.	Taoiseach	12,500
Vote 4.	Ordnance Survey	1,700
Vote 5.	C.S.O.	822
Vote 6.	Finance	61,542
Vote 9.	Revenue	10,825
Vote 10.	OPW	108,893
Vote 19.	Justice, Equality & Law Reform	11,970
Vote 20.	Garda Siochana	27,298
Vote 21.	Prisons	28,742
Vote 22.	Courts	21,520
Vote 25.	Environment & Local Government	1,236,027
Vote 26.	Office of Minister for Education	95,642
Vote 27.	First Level Education	83,775
Vote 28.	Second Level & Further Education	100,000
Vote 29.	Third Level & Further Education	134,500
Vote 30.	Marine & Natural Resources	122,617
Vote 31.	Agriculture, Food & Rural Development	118,412
Vote 32.	Public Enterprise	265,546
Vote 33.	Health & Children.	230,000
Vote 34.	Enterprise, Trade and Employment	266,470
Vote 35.	Tourism, Sport & Recreation.	60,314
Vote 36.	Defence	26,175
Vote 38.	Foreign Affairs	1,500
Vote 40.	Social, Community & Family Affairs	6,365
Vote 41.	Arts Council	4,000
Vote 42.	Arts, Heritage, Gaeltacht & Islands	86,245
Vote 43	National Gallery	3,750
Vote 44.	Flood Relief	161
Vote 45.	Year 2000 Computer Fund	
Total Gross Voted Capital		3,127,311

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S180/20/10/0248

2 Samhain, 1999.

An Rúnaí Príobháideach
An tAire Airgeadais

I am to refer to the memorandum ref. S211/1/99 dated 2 November, 1999, submitted by the Minister for Finance and to inform you that, at a meeting held today, the Government approved

(1) an amendment to its decision of 27 October, 1999 by the substitution of the revised schedules attached to the memorandum for the schedules attached to that decision and;

(2) the presentation to the Dáil of the 2000 Abridged Estimates and Summary Public Capital Programme volume containing the allocations set out in the schedules attached to the Memorandum, a proof of which was attached to the memorandum, and its subsequent general publication after correction by the Department of Finance of any errors that may remain in the proof.

Frank Murray
Ard-Rúnaí an Rialtais

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S180/20/10/0248 11. **ESTIMATES 2000**

Following consideration of a memorandum dated 2 November, 1999, submitted by the Minister for Finance, approval was given to

(1) an amendment to the Governments decision of 27 October, 1999 by the substitution of the revised schedules attached to the memorandum for the schedules attached to that decision; and

(2) the presentation to the Dáil of the 2000 Abridged Estimates and Summary Public Capital Programme volume containing the allocations set out in the schedules attached to the Memorandum, a proof of which was attached to the memorandum, and its subsequent general publication after correction by the Department of Finance of any errors that may remain in the proof.

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4 Samhain, 1999.	**10:30 a.m.**	**Whip's Office**	
01.	ESTIMATES 2000 - REVISIONS TO PAY ESTIMATES	Airgeadais	Memorandum dated 3/11/99

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S211/1/99

Oifig an Aire Airgeadais
3 November, 1999

Memorandum for the Government
Estimates 2000 - Revisions to Pay Estimates

Decision sought

1. The Minister for Finance seeks Government approval to

[a] increasing the 2000 Estimate for Vote 33 - Health and Children - by £37m above the level decided by it on 2 November to provide for the latest estimated cost of the Nurses' pay recommendation; and

[b] increasing the 2000 Estimate for Vote 20 - Garda Siochana - by £55m above the level decided by it on 2 November to cover the costs of P2000 and PCW pay increases.

Nurses' pay recommendation

2. The 2000 Estimates allocations approved by the Government in its decision of 27 October [S180/20/10/0248] included £50m for the estimated cost of the Nurses' pay increases next year. On the basis of the latest Labour Court recommendation, the cost in 2000 is now estimated at £87m, £37m more than that provided for in the agreed allocations. The Department of Health agrees.

Garda pay offer

3. The 1999 Estimates allocations provided for £35m in respect of P2000 increases to be paid to the Gardai and made no provision for the second phase of the Garda PCW settlement, estimated at £20m. However, it is now estimated that [a] no payments will be made in 1999 in respect of P2000 increases because the GRA have yet to accept P2000, and [b] that the final phase of the PCW settlement will not be paid this year because the GRA rejected the adjudication award. As a result, it will be necessary to provide an additional £55m for these payments in the 2000 Estimates. The Department of Justice agrees.

Total current expenditure 2000

4. The following table shows the changes to total net current expenditure as a result of the changes proposed by the Minister:

Net voted current spending	*2000 Estimate - £m*
Total approved by Government	12,873,195
Nurses' pay recommendation	37,000
Garda PCW/ P2000	55,000
Revised total	**12,965,195**

On the basis of the revised total, it is estimated that the annual average increase in net current spending on a pre-Budget basis will be 4.7% over the 1997 outturn.

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S180/20/10/0248

4 Samhain, 1999.

An Rúnaí Príobháideach
An tAire Airgeadais

I am to refer to the memorandum ref. S211/1/99 dated 3 November, 1999, submitted by the Minister for Finance concerning Estimates 2000 - Revisions to Pay Estimates and to inform you that, at a meeting held today, the Government approved

(1) an increase in the 2000 Estimate for Vote 33 - Health and Children - by £37m above the level decided by it on 2 November to provide for the latest estimated cost of the Nurses' pay recommendation; and

(2) an increase in the 2000 Estimate for Vote 20 - Garda Síochána - by £55m above the level decided by it on 2 November to cover the costs of P2000 and PCW pay increases.

Frank Murray
Ard-Rúnaí an Rialtais

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G25/124
4th November, 1999

S180/20/10/0248 1. **ESTIMATES 2000 - REVISIONS TO PAY ESTIMATES**

Following consideration of a memorandum dated 3 November, 1999, submitted by the Minister for Finance, concerning Estimates 2000 - Revisions to Pay Estimates, approval was given to

(1) an increase in the 2000 Estimate for Vote 33 - Health and Children - by £37m above the level decided by it on 2 November to provide for the latest estimated cost of the Nurses' pay recommendation; and

(2) an increase in the 2000 Estimate for Vote 20 - Garda Síochána - by £55m above the level decided by it on 2 November to cover the costs of P2000 and PCW pay increases.

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Dé Máirt, 23 Samhain, 1999. 10:30 a.m. Seomra Comhairle

08	ESTIMATES OF RECEIPTS AND EXPENDITURE FOR YEAR ENDING 31 DECEMBER, 2000: White Paper	Airgeadais	Memorandum to be circulated.
09.	IRELAND'S STABILITY PROGRAMME: December 1999 Update	Airgeadais	Memorandum to be circulated.
18.	"NO POLICY CHANGE" EXPENDITURE PROJECTIONS 2001-2002	Airgeadais	Memorandum dated 22/11/99

F39/9/98 PI

Oifig an Aire Airgeadais
19 November 1999

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MEMORANDUM FOR THE GOVERNMENT

Estimates of Receipts and Expenditure
for the year ending 31 December 2000

1. The Minister for Finance submits to the Government the Estimates of Receipts and Expenditure for the year ending 31 December 2000 and requests the Government to present them to Dáil Éireann in accordance with Article 28 of the Constitution. The Minister would point out that some modifications to the 1999 and 2000 figures may be required before the White Paper is presented to the Dáil on Friday 26 November.

2. The figures shown for 1999 are provisional outturns of receipts and issues because we are several weeks from the end of this year. Final outturn figures will not be available until January 2000 and these will be included in the Budget booklet which will be published early in 2000.

3. The expenditure figures (current and capital) shown for 2000 are based on the Estimates for Public Services contained in the Abridged Estimates and Summary Public Capital Programme Volume.

4. The 2000 tax revenue projections are consistent with the pre-Budget macro-economic forecast and existing tax law.

2000

ESTIMATES

OF

RECEIPTS and EXPENDITURE

FOR THE

YEAR ENDING
31 DECEMBER, 2000

Prepared by the Government and presented to Dáil Éireann in accordance with the provisions of Article 28 of the Constitution

---

BAILE ÁTHA CLIATH
ARNA FHOILSIU AG OIFIG AN tSOLÁTHAIR

Le ceannach díreach ón
OIFIG DHÍOLTA FOILSEACHÁN RIALTAIS,
TEACH SUN ALLIANCE, SRÁID THEACH LAIGHEAN, BAILE ÁTHA CLIATH 2,
nó tríd an bpost ó
FOILSEACHÁIN RIALTAIS, AN RANNÓG POST-TRÁCHTA,
4 - 5 BÓTHAR FHEARCHAIR, BAILE ÁTHA CLIATH 2,
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NOTES

1. **Basis of figures**

The figures shown for receipts and expenditure in 1999 are projected outturns and reflect present knowledge. They are subject to revision when the end-year figures become available. Fully audited details for 1999 will be available in the *1999 Finance Accounts* to be published not later than 30 September 2000.

2. **Revenue**

The estimate of revenue for 2000 is based on the tax provisions in force at present.

3. **Expenditure**

The *Estimates for Public Services (Abridged Version) & Summary Public Capital Programme 2000* (AEV), was published on 11 November 1999. The estimated expenditure figures for 2000 contained in the White Paper are consistent with those published in the AEV. However, the 1999 outturn figures for voted expenditure are different from the 1999 figures which were published in the AEV as the figures have been revised to reflect more up-to-date information.

4. **Appropriations-in-Aid (A-in-As)**

Voted expenditures are shown net of Appropriations-in-Aid (A-in-As). These are receipts which, with the agreement of the Dáil, may be retained by a Department or Office to offset expenditures instead of being paid into the Exchequer Account of the Central Fund. Details of gross voted expenditures by Departments are contained in the *Estimates for Public Services (Abridged Version) & Summary Public Capital Programme 2000*

5. **PRSI**

PRSI contributions are paid into the Social Insurance Fund (SIF) and do not form part of the revenues paid into the Central Fund as is explained in the following paragraphs.

Disbursements by the Department of Social Community and Family Affairs fall under three main categories, namely,

(a) payments out of the SIF which are related to the entitlement of persons under their insurance/PRSI/benefit record, e.g. unemployment benefit, contributory pensions etc.

(b) payments to persons who have ceased to qualify or have never qualified under their insurance/PRSI/benefit record to be paid out of the SIF, e.g. unemployment assistance, non-contributory pensions etc.

(c) other payments such as grants to organisations.

The amount voted by the Dáil to the Department of Social Community and Family Affairs is composed of payments falling under (b) and (c) above, together with any sum needed by the SIF to ensure that the total income of the fund is not less than the total sum paid out of the Fund in any year.

For most past years, an Exchequer contribution has been required to meet the shortfall on SIF, however, no Exchequer contribution has been required since 1997.

TABLE 1

TOTAL RECEIPTS AND EXPENDITURE

	Reference	**1999** £000	**2000** £000
Receipts			
Current	*Page 5*	18,832,400	20,881,400
Capital *	*Page 5*	4,515,900	1,981,100
Total		23,348,300	22,862,500
Expenditure			
Current	*Page 5*	15,538,574	16,048,595
Capital **	*Page 5*	6,710,759	4,904,225
Total		22,249,333	20,952,820
Exchequer Surplus		**1,098,967**	**1,909,680**

* *Capital Receipts include an amount of £3.667bn in 1999 which are the proceeds from the sale of shares in Telecom Eireann.*

** *Capital Expenditure includes an amount of £3.667bn in 1999 which arises in respect of*
(i) a payment to An Post and An Bord Telecom pension funds under the P&T Services Act, 1983, and
(ii) a payment to the Temporary Holding Fund for Superannuation Liabilities.

TABLE 2

DETAILS OF TOTAL RECEIPTS AND EXPENDITURE

Estimate of Receipts and Expenditure - CURRENT	Reference	1999 £000	2000 £000
Receipts			
Tax Revenue	*Note 1, Page 6*	18,382,000	20,475,000
Non-tax Revenue	*Note 2, Page 6*	450,400	406,400
Total		18,832,400	20,881,400
Expenditure			
Voted (Departmental Expenditure Voted Annually by the Dáil)	*Note 3, Page 7*	12,069,574	12,964,995
Non-voted (Non-discretionary expenditure charged directly on the Central Fund)			
Sinking Fund *	*Note 4, Page 8*	326,000	377,400
Other Non-voted Current Expenditure	*Note 4, Page 8*	3,143,000	2,706,200
Total		15,538,574	16,048,595
Surplus (Deficit) on Current Account		**3,293,826**	**4,832,805**

Estimate of Receipts and Expenditure - CAPITAL	Reference	1999 £000	2000 £000
Receipts			
Sinking Fund *		326,000	377,400
Other capital receipts	*Note 5, Page 9*	4,189,900	1,603,700
Total		4,515,900	1,981,100
Expenditure			
Voted (Departmental Expenditure Voted Annually by the Dáil)	*Note 6, Page 10*	2,460,069	3,029,562
Non-voted (Expenditure charged directly under particular legislation)	*Note 7, Page 11*	4,250,690	1,874,663
Total		6,710,759	4,904,225
Surplus (Deficit) on Capital Account		**-2,194,859**	**-2,923,125**
Exchequer Surplus		**1,098,967**	**1,909,680**

** The Sinking Fund provision is a transfer from the current account to the capital account.*

NOTES

NOTE 1. Tax Revenue

	1999 £000	2000 £000
Customs	143,000	149,000
Excise	3,125,000	3,334,000
Capital Gains Tax	343,000	384,000
Capital Acquisitions Tax	148,000	159,000
Stamp Duties	705,000	844,000
Income Tax	6,220,000	6,998,000
Corporation Tax	2,687,000	3,129,000
Value-Added Tax	4,907,000	5,465,000
Agricultural Levies	10,000	9,000
Employment and Training Levy	94,000	4,000
Total	18,382,000	20,475,000

SECRET

NOTE 2. Non-tax Revenue

	1999 £000	2000 £000
Central Bank - Surplus Income	152,400	140,000
National Lottery Surplus	121,500	125,000
Dividends	75,900	47,500
Interest on Loans		
Local Loans Fund	25,800	17,000
Other Loans	1,700	1,500
Other Receipts		
Passport and Consular Fees	17,000	19,600
Court, Land Registry Fees, Fines, etc	44,700	45,500
Miscellaneous	11,400	10,300
Total	450,400	406,400

NOTES (continued)

NOTE 3. Voted Current Expenditure

Vote No.	Service	1999 £000	2000 £000
1	President's Establishment	922	1,055
2	Houses of the Oireachtas and the European Parliament	40,422	41,512
3	Department of the Taoiseach	21,649	23,891
4	Ordnance Survey Ireland	4,755	5,491
5	Central Statistics Office	16,681	20,486
6	Office of the Minister for Finance	42,487	58,063
7	Superannuation and Retired Allowances	104,998	112,694
8	Office of the Comptroller and Auditor General	4,737	3,876
9	Office of the Revenue Commissioners	159,127	167,197
10	Office of Public Works	80,251	83,682
11	State Laboratory	3,821	3,709
12	Secret Service	500	735
13	Office of the Attorney General	5,872	6,800
14	Office of the Director of Public Prosecutions	10,247	9,936
15	Valuation Office	4,406	5,249
16	Civil Service Commission	5,553	7,604
17	Office of the Ombudsman	2,338	2,509
18	Chief State Solicitor's Office	19,498	19,347
19	Office of the Minister for Justice, Equality and Law Reform	72,155	87,550
20	Garda Slochána	537,437	644,288
21	Prisons	155,497	170,315
22	Courts	28,201	35,670
23	Land Registry and Registry of Deeds	17,318	20,739
24	Charitable Donations and Bequests	325	285
25	Environment and Local Government	376,434	391,068
26	Office of the Minister for Education and Science	120,788	138,101
27	First Level Education	796,187	841,267
28	Second Level and Further Education	922,711	979,460
29	Third Level and Further Education	603,630	660,408
30	Marine and Natural Resources	59,542	60,398
31	Agriculture, Food and Rural Development	435,215	487,969
32	Public Enterprise	136,624	144,333
33	Health and Children	3,083,875	3,243,931
34	Enterprise, Trade and Employment	596,848	704,030
35	Tourism, Sport and Recreation	82,517	114,737
36	Defence	464,400	478,065
37	Army Pensions	80,660	84,800
38	Foreign Affairs	68,166	82,611
39	International Co-operation	119,083	137,725
40	Social, Community and Family Affairs	2,733,189	2,754,997
41	An Comhairle Ealaíon	24,500	30,500
42	An Roinn Ealaíon, Oidreachta, Gaeltachta agus Oileán	93,812	95,412
43	National Gallery	2,310	2,500
	Total Voted Expenditure	12,139,688	12,964,995
	Less Departmental Balances	70,114	-
	Total Exchequer Payments towards Voted Expenditure	12,069,574	12,964,995

Departmental balances are those amounts issued from the Exchequer Account of the Central Fund for departmental spending in one year which remain unspent at year-end and are carried forward to be used in the next year. They have no effect on Departmental spending which is governed by the allocation in the Estimates for Public Services.

NOTES (continued)

NOTE 4. **Non-voted Current Expenditure**

	1999		2000	
	£000		£000	
Service of National Debt				
Interest	2,163,100		1,829,600	
Sinking Fund	326,000		377,400	
Debt Management Expenses	22,000		22,200	
Sub-total		2,511,100		2,229,200
Other Non-voted Current Expenditure				
Contribution to EU Budget	861,000		822,000	
Payments to An Post and Bord Telecom pension funds under the P & T Services Act, 1983	52,000		0	
Payments to Marathon Petroleum Ireland Ltd. under Finance Act, 1992	3,500		5,700	
Election Expenses	5,600		3,300	
Salaries and pensions for judiciary and holders of Constitutional Office and Pensions and allowances for certain members or former members of the Oireachtas	13,900		14,800	
Miscellaneous	21,900		8,600	
Sub-total		957,900		854,400
Total		3,469,000		3,083,600

NOTES (continued)

		1999	2000
NOTE 5.	**Other Capital Receipts**	£000	£000
	EU Receipts		
	Cohesion Fund	200,000	193,000
	European Regional Development Fund	288,000	212,000
	European Economic Area Financial Mechanism	4,700	2,100
	Loan Repayments		
	Annuity under the Local Loans Fund Acts, 1935 to 1987	14,000	13,000
	Other Capital Receipts		
	Sale of State Property	5,000	21,100
	Proceeds from the sale of shares in Telecom Eireann	3,667,000	1,150,000
	Miscellaneous	11,200	12,500
	Total	4,189,900	1,603,700

NOTES (continued)

NOTE 6. Voted Capital Expenditure

Vote No.	Service	1999 £000	2000 £000
3	Department of the Taoiseach	5,200	12,500
4	Ordnance Survey Ireland	1,720	1,700
5	Central Statistics Office	1,290	822
6	Office of the Minister for Finance	2,555	61,542
9	Office of the Revenue Commissioners	9,950	10,825
10	Office of Public Works	168,953	108,893
16	Civil Service Commission	250	
19	Office of the Minister for Justice, Equality and Law Reform	6,097	11,970
20	Garda Siochana	22,860	27,298
21	Prisons	21,982	28,742
22	Courts	4,861	21,520
25	Environment and Local Government	1,015,668	1,228,536
26	Office of the Minister for Education and Science	75,642	95,642
27	First Level Education	64,533	83,775
28	Second Level and Further Education	92,200	100,000
29	Third Level and Further Education	54,497	134,500
30	Marine and Natural Resources	58,765	63,770
31	Agriculture, Food and Rural Development	67,744	104,051
32	Public Enterprise	222,713	265,546
33	Health and Children	170,000	230,000
34	Enterprise, Trade and Employment	217,805	249,470
35	Tourism, Sport and Recreation	26,736	60,314
36	Defence	15,500	26,125
38	Foreign Affairs	3,290	1,500
40	Social, Community and Family Affairs	6,500	6,365
41	An Comhairle Ealaíon	3,500	4,000
42	An Roinn Ealaíon, Oidreachta, Gaeltachta agus Oileán	78,983	86,245
43	National Gallery	263	3,750
44	Flood Relief	12	161
	Year 2000 Expenditure	30,000	
	Total	2,460,069	3,029,562

NOTE 7.	Non-voted Capital Expenditure	1999 £000	2000 £000
	Loans		
	Bord Iascaigh Mhara under Sea Fisheries Acts, 1952 to 1982	0	540
	Loans under the Local Loans Fund Acts, 1935 to 1987	0	0
	Share Capital Acquired in State Sponsored Bodies		
	ICC Bank plc under the ICC Bank Acts, 1933 to 1997	0	10,000
	ACCBank	0	7,000
	SFADCo Ltd under the Shannon Free Airport Development Co. Ltd. Acts, 1959 to 1989	933	1,666
	Investments in International Bodies		
	European Bank for Reconstruction and Development Act, 1991	425	505
	Multilateral Investment Guarantee Agency Act, 1988	0	192
	Payments under the European Communities Acts, 1972 to 1986		
	ERDF and Cohesion Fund Repayments	190	1,250
	Other Capital Payments		
	Payment in respect of prefunding *	2,999,000	1,785,000
	Payments to An Post and Bord Telecom pension funds under the P & T Services Act, 1983	1,250,000	
	Issue towards the restructuring of the Voluntary Health Insurance Board	-	50,000
	Insurance Acts 1953 to 1958	19	1,200
	Miscellaneous/Other Payments under Statute	123	17,310
	Total	4,250,690	1,874,663

** It is planned that legislation to establish a temporary holding fund for pensions prefunding will be introduced in Dáil Éireann in early December 1999. Legislation to establish the fund(s) on a permanent basis will be introduced in Dáil Éireann in 2000.*

SECRET

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S180/20/10/0248

23 Samhain, 1999.

An Rúnaí Príobháideach
An tAire Airgeadais

I am to refer to the memorandum ref. F39/9/98 PI dated 19 November, 1999, submitted by the Minister for Finance and to inform you that, at a meeting held today, the Government approved the

Estimates of Receipts and Expenditure for the year ending 31 December, 2000

with a view to presenting them to Dáil Éireann in accordance with Article 28.4.3° of the Constitution, on the basis that some modifications to the 1999 and 2000 figures may be required before the White Paper is presented on Friday 26 November.

Peter Ryan
Rúnaí Cúnta an Rialtais

S180/20/10/0248 12. **ESTIMATES OF RECEIPTS AND EXPENDITURE FOR YEAR ENDING 31 DECEMBER, 2000: White Paper**

Following consideration of a memorandum dated 19 November, 1999, submitted by the Minister for Finance, the

Estimates of Receipts and Expenditure for the year ending 31 December, 2000

were approved, with a view to presenting them to Dáil Éireann in accordance with Article 28.4.3° of the Constitution, on the basis that some modifications to the 1999 and 2000 figures may be required before the White Paper is presented on Friday 26 November.

S180/20/10/0248 13. **"NO POLICY CHANGE" EXPENDITURE PROJECTIONS 2001-2002**

Following consideration of a memorandum dated 22 November, 1999, submitted by the Minister for Finance, the projected costs in 2001 and

2002 of the 2000 level of services consistent with the allocations in the 2000 Abridged Estimates and Summary Public Capital Programme shown by Vote Group in Appendix 1 (current) and Appendix 2 (capital) to the memorandum, were approved.

S180/20/10/0247 14. **IRELAND'S STABILITY PROGRAMME: December 1999 Update**

Following consideration of a memorandum dated 22 November, 1999, submitted by the Minister for Finance, the draft of *Ireland - Stability Programme, December 1999 Update* was approved, prior to its publication on Budget day and submission to the European Commission, subject to amendment by the Minister in the light of final Budget decisions.

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De Mairt, 30 Samhain, 1999. **10:30 a.m.** **Seomra Comhairle**

05. BUDGET 2000 Airgeadais Aide Memoire to be circulated.

F43/1/99

Office of the Minister for Finance
30 November 1999

SECRET
Aide-Memoire for the Government
Budget 2000

Summary

1. The Minister for Finance asks the Government to note that he has finalised his 2000 Budget within the following parameters:-

   (a) a surplus of around 1.4 % of GDP on a General Government basis;
   (b) a total tax package in excess of the provisional package of £350 million in personal taxes previously approved by the Government (S.180/20/10/0247);
   (c) total voted net current expenditure which meets the Government's 4% target
   (d) a debt/GDP ratio of 46 % by the end of 2000.

   The details of the tax package have been agreed by the Minister with the Taoiseach and the Tanaiste. As regards the expenditure measures being announced in the Budget these have been agreed as appropriate with the Taoiseach, Tanaiste and relevant Ministers.

   The Minister intends to publish a table summarising the current and capital budgets for 2000 and projections for 2001 and 2002 in his Budget documentation. The projections for 2001 and 2002 will reflect, inter-alia, the full year impact of the measures contained in the 2000 Budget and provisional tax and expenditure packages for each of these years..

Briefing by Minister for Finance

2. The Minister for Finance will brief the Cabinet on the Budget at a special breakfast meeting on Wednesday at 8.30 am.

Briefing by Officials

3. A detailed briefing on the contents of the Budget speech will be given to Ministers by senior officials of the Department of Finance at 12 noon on Wednesday in the Sycamore Room.

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S180/20/10/0247

30 Samhain, 1999.

An Rúnaí Príobháideach
An tAire Airgeadais

SECRET

I am to refer to the aide memoire ref. F43/1/99 dated 30 November, 1999, submitted by the Minister for Finance and to inform you that, at a meeting held today, the Government noted that the Minister has finalised his 2000 Budget within the following parameters

(1) a surplus of around 1.4% of GDP on a General Government basis;

(2) a total tax package in excess of the provisional package of £350 million in personal taxes previously approved by the Government;

(3) total voted net current expenditure which meets the Government's 4% target; and

(4) a debt/GDP ratio of 46% by the end of 2000.

Peter Ryan
Rúnaí Cúnta an Rialtais

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S180/20/10/0247 9. **BUDGET 2000**

Following consideration of an aide memoire dated 30 November, 1999 submitted by the Minister for Finance, it was noted that the Minister finalised his 2000 Budget within the following parameters

(1) a surplus of around 1.4% of GDP on a General Government basis;

(2) a total tax package in excess of the provisional package of £350 million in personal taxes previously approved by the Government;

(3) total voted net current expenditure which meets the Government's 4% target; and

(4) a debt/GDP ratio of 46% by the end of 2000.

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An Roinn Airgeadais
Department of Finance

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CENTRAL SECTION

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Pages: 2	**Date:**

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Message:

Edel

Some minor amendments to attached draft decision.

Sorry for the delay.

LB 3/12

DRAFT

S180/20/10/0247

1 Nollaig, 1999.

An Rúnaí Príobháideach
An tAire Airgeadais

SECRET

I am to inform you that, at a meeting held today, the Government

(1) approved the financial proposals of the Minister for Finance; and

(2) agreed that £5m would come from savings in the Estimate for the Department of Social, Community and Family Affairs ~~this year~~ for the Aids and Appliances Grants Scheme operated by the Department of Health and Children 1999

Rúnaí Cúnta an Rialtais

Uimhir Thagartha
Ref. No.

ROINN AN TAOISIGH
Department of the Taoiseach

(72)

BAILE ÁTHA CLIATH 2
Dublin 2

S180/20/10/0247

1 Nollaig, 1999.

An Rúnaí Príobháideach
An tAire Airgeadais

SECRET

I am to inform you that, at a meeting held today, the Government

(1) approved the financial proposals of the Minister for Finance for the Budget; and

(2) agreed that £5m would come from savings in the Estimate for the Department of Social, Community and Family Affairs in 1999 for the Aids and Appliances Grants Scheme operated by the Department of Health and Children.

Peter Ryan
Rúnaí Cúnta an Rialtais

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G25/129
1st December, 1999

S180/20/10/0247 1. **BUDGET 2000**

On the recommendation of the Minister for Finance

(1) approval was given to the financial proposals of the Minister for Finance for the Budget; and

(2) it was agreed that £5m would come from savings in the Estimate for the Department of Social, Community and Family Affairs in 1999 for the Aids and Appliances Grants Scheme operated by the Department of Health and Children.

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P. H's
Paper 7/12/99

Presentation of Options

	Current Position	Budget Proposal	Revised Option	Original Target Outcome	Revised Target	Alternative Target
Single Person	£14.000	£17.000	£17.000	£28.000	£28.000	£25.000
Married 1 Earner	£28.000	£28.000	£31.000	£28.000	£42.000	£39,000
Stay at home Band	*£14.000*	*£11.000*	*£14.000*	*Nil*	*£14.000*	*£14.000*
Married 2 Earners	£28.000	£34.000	£34.000	£56.000	£56.000	£50.000
2nd Earner Band	*Nil (except for PAYE Allowance)*	*£6.000*	*£3.000*	*£28.000*	*£14.000*	*£11.000*

Pros

Proposal provides for a restoration of the band available to stay at home spouses.

Preserves (though at a reduced level) the band available to spouses returning to work.

Preserves the gain available to two income earners announced in the budget.

Provides a basis for further development of individualisation based on a sharing of the band increase between stay at home spouses and those returning to the paid workforce.

Address the problem where it exists. that is at the top of the band.

Coherent from an individualisation perspective and avoids traps.

Cons

Targets the higher income earners.

Doesn't fully compensate those who would have otherwise expected a full doubling of the band (i.e. provides a £3.000 addition to the bands in place of £6.000).

Potential Associated Measures

Deliver the 70% QAA rate this year.

Increase in Personal Allowances to meet P2000+ needs in context of negotiations.

Next Year

Develop individualisation by increasing the bands on some agreed basis following consultation.

Introduce a tax credit, based on the proposed £2,000 stay at home caring allowance.

Increase PAYE allowance (as credit) to £2,000 to prevent employment or earning traps associated with the caring tax credit.

Increase Personal Tax credits in line with P2000+ negotiation outcome.

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D McC's Paper 63

7/12/99

Options

To deal with low paid issue

		Cost in Full Year
Option 1	**Increase personal allowances**	
	£100 single/£200 married	£36m
	£500 single/£1000 married	£180m
Option 2	**Increase PAYE allowance**	
	£100	£24m
	£500	£120m
Option 3	**Increase PRSI allowance**	
	£10	£23m
	£50	£115m

Extending stay-at-home spouse allowance to Social Welfare recipients

If it were considered necessary to extend the allowance to social welfare recipients, the following is an option:

- Increase the Qualified Adult Allowance to 70% now rather than over 3 years
  cost: about £50m

Pros

- Would be seen to do something for social welfare recipients as well as taxpayers

Cons

- Would still leave out lone parents
- Would go beyond those caring for children or other dependents

Extend married one-income band by £3,000

This would bring the married one-income band to £31,000, compared with £34,000 for the married two-income couple.

Cost: about £65m full year

Pros

- Would go some way to bridging the gap between one and two income married couples

Cons

- Would still leave one-income couples with lower bands than two-income couples
- Would probably not satisfy the demands being made by stay-at-home spouses
- X Would dilute the move to individualisation

Commitment in Joint Statement on Taxation June 1997

We will introduce a £2,000 per year standard-rated tax allowance for married people who stay at home to care for children (widowed and lone parents excluded) and caring for the aged and handicapped.

Costing

Assuming that the allowance would go to stay at home spouses with children generally up to Child Benefit age, the full-year cost at various levels would be:

	£m
£2,000	76
£2,500	94
£3,000	112

Extending it to stay at home spouses looking after other dependents (e.g. aged and handicapped) would cost:

	£m
£2,000	85
£2,500	107
£3,000	125

Extending it to all spouses staying at home would cost:

	£m
£2,000	115
£2,500	143
£3,000	168

Pros

- Targets stay-at-home spouses
- Meets one of the concerns about the Budget
- Fulfils one of the Government's tax commitments

Cons

- Will not give the same level of relief as for those availing fully of the wider band
- Will exclude a number of categories e.g. social welfare recipients, families with income below the exemption limit, two-income families below £28,000, elderly people
- Will not differentiate on the basis of the number of children
- Negative labour market effect as allowance would be lost when spouse takes a job outside the home
- Position of part-time people will need to be addressed

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8 Nollaig, 1999. 4:00 p.m.

01.	**BUDGET 2000: Tax relief for spouses who work in the home**	**Airgeadais**	**Memorandum dated 8/12/99**

(64)

(77.)

Oifig an Aire Airgeadais
Aide Memoire
Tax relief for spouses who work in the home

F49/167/99 8 December 1999

Decision Sought

1. The Minister for Finance seeks the approval of the Government to the introduction in the Finance Bill of an income tax allowance of £3,000 per annum at the standard rate of tax for spouses of married one income families who work in the home caring for children, the aged or handicapped persons from 6 April 2000.

Background

2. This fulfils an undertaking given by the Government in the joint statement issued on 4 June 1997 prior to the general election and will help balance the tax relief measures announced in Budget 2000 which addressed the position where both spouses were in paid employment.

Cost

3. The estimated cost of the new tax allowance is £125 million in a full year.

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S180/20/10/0247

8 Nollaig, 1999.

An Rúnaí Príobháideach
An tAire Airgeadais

I am to refer to the aide memoire ref. F49/167/99 dated 8 December, 1999, submitted by the Minister for Finance and to inform you that, at a meeting held today, the Government approved the introduction in the Finance Bill of an income tax allowance of £3,000 per annum at the standard rate of tax for spouses of married one income families who work in the home caring for children, the aged or handicapped persons from 6 April, 2000.

Peter Ryan
Rúnaí Cúnta an Rialtais

(81)

G25/132
8th December, 1999

S180/20/10/0247 1. **BUDGET 2000**

Following consideration of an aide memoire dated 8 December, 1999, submitted by the Minister for Finance, approval was given to the introduction in the Finance Bill of an income tax allowance of £3,000 per annum at the standard rate of tax for spouses of married one income families who work in the home caring for children, the aged or handicapped persons from 6 April, 2000.

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8/12/99

New £3,000 p.a. Tax Allowance for Carer Spouses in the Home

The new £3,000 standard-rated allowance

- will help over 180,000 spouses who stay at home to care for
  - children
  - aged
  - handicapped
- is worth £660 p.a. to all single income taxpayers on the standard or high rate of tax irrespective of income level
- is worth proportionately more to those on lower incomes because it is standard-rated
- re-balances the tax relief in the Budget for certain spouses who work outside the home
- more than fulfils the Government's pre-election promise to introduce a tax allowance of £2,000