The National Recovery Plan

2011-2014

BAILE ÁTHA CLIATH
ARNA FHOILSIÚ AG OIFIG AN tSOLÁTHAIR
Le ceannach díreach ón
OIFIG DHÍOLTA FOILSEACHÁN RIALTAIS,
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nó trí aon díoltóir leabhar.

DUBLIN
PUBLISHED BY THE STATIONERY OFFICE
To be purchased directly from the
GOVERNMENT PUBLICATIONS SALE OFFICE
SUN ALLIANCE HOUSE, MOLESWORTH STREET, DUBLIN 2,
or by mail order from
GOVERNMENT PUBLICATIONS, POSTAL TRADE SECTION,
UNIT 20 LAKESIDE RETAIL PARK, CLAREMORRIS, CO. MAYO
(Tel: 01 – 6476834 or 1890 213434; Fax: 094 - 9378964 or 01 – 6476843)
or through any bookseller.

(Prn. A10/1705) Price €15.00

Overview and Summary

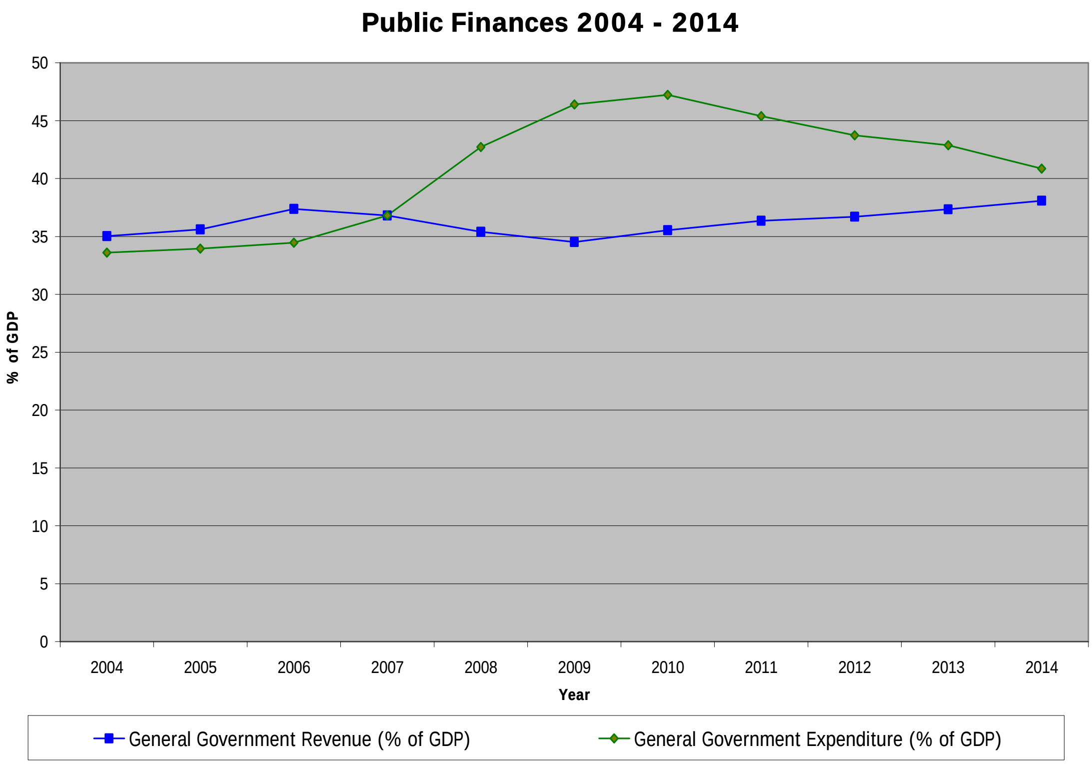
This Plan provides a blueprint for a return to sustainable growth in our economy. It sets out in detail the measures that will be taken to put our public finances in order. It identifies the areas of economic activity which will provide growth and employment in the next phase of our economic development. It specifies the reforms the Government will implement to accelerate growth in those key sectors.

Reducing the budget deficit will not, by itself, solve our economic difficulties. We must build on our strong export performance by improving our competitiveness. We must enhance our productive capacity by maintaining investment in key infrastructure projects and in education. We must remove barriers to employment and ensure that those who have lost their jobs are retrained and are ready to take up employment as the labour market recovers. This Plan sets out the key reform measures the Government will take to return our economy to a sustainable medium-term economic growth path.

The Plan will help dispel uncertainty and reinforce the confidence of consumers, businesses and of the international community. The tax and expenditure measures contained in this Plan will negatively affect the living standards of citizens in the short-term. But postponing these measures will lead to greater burdens in the future for those who can least bear them, and will jeopardise our prospects of returning to sustainable growth and full employment.

Over the last two and a half years, we have responded promptly to the deterioration in the public finances. In five separate adjustment packages, savings and revenue-raising of around €14.6 billion on a full year basis have already been achieved. As a result our public finances have stabilised with an underlying deficit of 11.7% of GDP in 2010 compared with an implied uncorrected deficit of 20% of GDP. Notwithstanding the size of the adjustment, our economy has performed better this year than had been forecast at the end of 2009, with GDP growth expected to be marginally positive as opposed to a contraction of 1.3% which had been predicted this time last year.

Unfortunately, lower than expected medium-term economic growth prospects as well as higher debt interest costs arising from the bank rescue have required us to revise our budgetary targets. To achieve a deficit of below 3% of GDP by 2014, the Government has concluded that an overall saving of €15 billion is required. The European Commission acknowledges that this is the appropriate target based on the growth projections we have set for the period of the Plan.



To demonstrate the seriousness of its intent, the Government has decided that 40% or €6 billion of the €15 billion adjustment will be made in 2011. This commitment to the early delivery of the Plan will engender confidence at home and abroad that we can restore order to our public finances. The adjustment will be made up of €10 billion in spending reductions and €5 billion in tax and revenue raising measures. These are demanding but realistic targets. With a concerted national effort, they can be achieved.

From the late 1990s, the benefits of our booming economy were felt across every section of the population. Working-age social welfare rates are now more than twice their rate in 2000. Over the same period, the State pension almost doubled. These increases were well ahead of the cost of living.

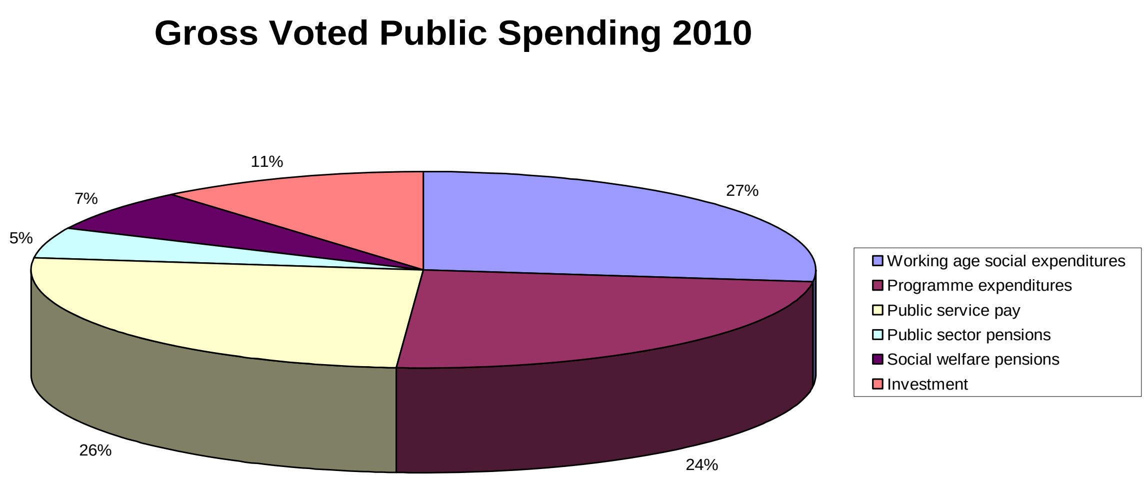
Public service pay also increased well ahead of inflation. From 2000 to 2009 average public service salaries increased by 59%. At the same time, taxation was reduced. During the period after 2000, the entry point to income tax increased from €7,238 to €18,300 for PAYE earners and since 2000, bands have widened by 105% for the single person and married two earners. Credits have increased by 92% since their introduction in 2001. The standard and higher tax rates fell from 26% and 48% in 1997/98 to 20% and 41% by 2007.

As a result of these changes, the proportion of income earners exempt from income tax increased from 34% in 2004 to an estimated 45% in 2010. It is now estimated that for the current year, 42% of income earners will pay tax at the standard rate and just 13% will be liable at the top rate.

The substantial reductions in tax and increases in welfare were made possible by the very high level of property-related tax receipts taken in by the Exchequer during the boom years. The property boom also swelled VAT and other receipts. In 2007, capital taxes and stamp duty yielded €6.7 billion. This year, that figure is expected to fall to as low as €1.6 billion. In these dramatically changed circumstances, it is clear the State can no longer afford the current levels of social provision and personal taxation.

The effect of the spending reductions for 2011 detailed in this plan will be to bring us back to working age social welfare rates slightly above 2007 levels. The income tax measures, outlined in Chapter 6, will bring us back to levels prevalent as recently as 2006.

The major drivers of public spending are Public Service Pay and Pensions; Social Welfare and Public Service programme spending; and Public Investment.

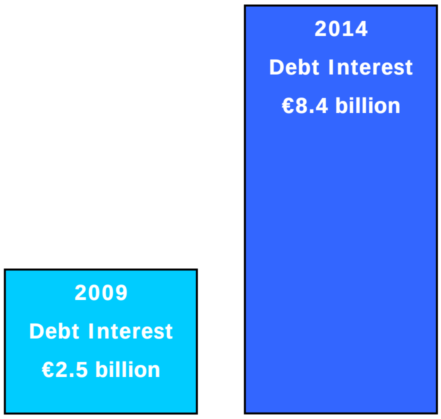


The bulk of the savings we must achieve will have to come from these categories. The Government is determined to eliminate waste and make maximum savings from efficiencies. But it is simply not credible to suggest that our public finance difficulties can be resolved without impacting on the public service pay bill, social welfare or public services.

General Government Gross Debt[1] is expected to be 95% of GDP by the end of 2010 and will peak at 102% in 2013, before falling to 100% by 2014. We cannot continue to accumulate debt at this pace without damaging public services. As it is, an ever-increasing proportion of tax revenue is being diverted from much-needed public services to pay the interest on our debt which has a first call on our resources. For this reason, it is critical that an immediate and significant reduction is made to our reliance on borrowing to finance our running costs.

[1] The estimates of General Government Debt contained in this Plan do not take account of any additional support to the banking system that may be part of a negotiated programme of external assistance.

Exchequer Debt Interest Comparison 2009 and 2014



Note: The €8.4 billion above is a post-consolidation figure. The 2009 amount represents about 8% of tax revenue while the 2014 amount represents 20% of projected revenue for that year.

No person, group or sector can be absolved from making a fair contribution to the resolution of our economic difficulties. The measures contained in the Plan are proportionate. We must all accept our share of the burden so that we can collectively share in the fruits that will undoubtedly flow from solving our current problems.

Significant and lasting gains have been won for this country over the period of our boom. For example, the decisions to pay down the national debt and set up the National Pensions Reserve Fund have strengthened our capacity to deal with this economic crisis. The transformation of our public infrastructure and our investment in education has served to increase our competitiveness and put us in a position to take advantage of recovery in the global economy.

The scale of the spending adjustment we must now make dictates that investment must be curtailed. But the careful funding choices made in this Plan seek to protect core areas of economic investment such as education and supports for enterprise and innovation for the development of the smart economy. Investment in key social infrastructure such as public transport, hospitals, schools, water and environmental services will also be maintained.

This Plan reaffirms the Government's unambiguous position on the maintenance of the 12½% rate of corporation tax. This is a cornerstone of our pro-enterprise, outward-looking industrial policy and has remained consistent over successive administrations.

Our budgetary adjustments over the last two and a half years have stabilised our public finances. We must now continue on this path by adhering to the targets set out in the Plan. The strategy and these targets in particular will be reviewed annually and action will be taken in the event of any deviation from the central projection.

This Plan is based on the information available up to mid-November 2010. The figures referred to in the document may change as a result of policy decisions taken by Government after publication.

Macroeconomic Principles and Outlook (Chapter 1)

While the budgetary adjustment required is substantial, the prospects for a return to growth are favourable. Ireland is a small, open economy and export performance during the recession has been markedly robust.

The vitality and dynamism of our economy depends on the health of our export sector which in turn stimulates domestic demand and creates jobs. The strategy underpinning this Plan will stimulate broadly-based export-led growth to increase output, to return to sustainable employment creation and to assist recovery in the domestic economy.

Many of the essential conditions for a resumption of export-led growth are in place: our road network and our public transport system have been transformed; we have one of the best educated workforces in the world; and our tax system supports enterprise and innovation. This Plan sets out the measures we will take to increase productivity and rebuild our competitiveness.

The current account of the balance of payments is expected to return to surplus in 2011 and record a steadily rising surplus over the following three years. This means that from next year the economy as a whole will no longer be borrowing from the rest of the world.

Macroeconomic Outlook 2011–14

The reforms set out in this Plan will lead to a more stable macroeconomic position:

- Real GDP will grow by an average of 2¾% in the years from 2011 to 2014;
- From 13½% in 2010, unemployment will fall below 10% in 2014.

Budget Strategy (Chapter 1)

Approximately two thirds of the budgetary adjustment (€10 billion) will be achieved through expenditure savings and one third (€5 billion) through revenue-raising measures. Within the expenditure saving of €10 billion, current expenditure will be reduced by €7 billion and capital investment by €3 billion.

Budget Strategy 2011–14

The Plan will correct budgetary imbalances:

- €15 billion budgetary correction over 4 years;
- €10 billion in public expenditure, €5 billion in tax and revenue raising;
- 40% or €6 billion will be front-loaded in 2011;
- Deficit will be reduced to 9.1% of GDP in 2011 and to below 3% by 2014; and
- Debt to GDP ratio will peak at 102% in 2013 and will fall to 100% by 2014.

Strategy for Competitiveness, Growth and Employment (Chapter 2)

Government policy must support the private sector by removing potential structural impediments to competitiveness and employment creation, and by pursuing appropriate sectoral policies to encourage export growth and a recovery of domestic demand.

At present, the level of the minimum wage is out of step with an economy where GNP has fallen by 19%. Other labour market regulations are preventing job creation – especially in sectors where unemployment among younger and less-skilled workers is most prevalent. Decisive reform is required.

Welfare and labour market policies must reward work and provide a pathway to employment, education and training opportunities for those who have lost their jobs. Reforms in this area, along with measures to enhance competitiveness, are pivotal to growth in our economy.

Competitiveness, Growth and Employment

The Government will:

- Reduce the minimum wage by €1 to €7.65;
- Reform welfare system to incentivise work and eliminate unemployment traps;
- Complete a review to eliminate anomalies in Registered Employment Agreements (REAs) and Employment Regulation Orders (EROs) within three months; and
- Reinvigorate activation policies to ensure that unemployed people can make a swift return to work.

Cost competitiveness:

- Promote rigorous competition in the professions and measures to reduce legal costs;
- Take decisive actions to reduce waste and energy costs faced by businesses including the development of Smart Grids and renewable energy;
- Enhance availability of technological infrastructure, in particular next generation broadband networks;
- Lead efforts to reduce office rents in both the private and public sectors; and
- Increase efficiency in public administration to reduce the costs for the private sector.

Sectoral Policies:

- Implement sector-specific measures to assist an increase in exports as well as an increase in domestic demand.
- Support innovation through the innovation fund, other enterprise supports and the tax system, and encourage small business development.

Expenditure Measures (Chapters 3, 4 & 5)

The job of Government is to create the conditions in which enterprise can flourish and jobs can be created. The most important of these conditions is sound public finances. Since 2007, our national income (GNP) has fallen by 15% and our tax revenues have reduced from over €47 billion to €31.5

billion and are now back to 2003 levels. In these circumstances, the current level of public spending is unaffordable. It must be returned to a sustainable level relative to the size of the economy.

The bulk of the savings will have to come from the major drivers of spending including Public Service Pay and Pensions, Social Welfare, Public Services including student supports, free or subsidised medical care and treatment and Public Investment.

The expenditure measures contained in this Plan are designed not only to return public spending to a sustainable level but also to protect those most in need and facilitate economic recovery. Careful choices have been made to target scarce resources at those most in need, to protect enterprise and to promote competitiveness. Investment in education, innovation and enterprise has been maintained. The targets set for a reduction in public service staff levels together with the full implementation of the Croke Park Agreement will create a more efficient and effective public service, a crucial component of competitiveness that will deliver better services to the citizens at a lower cost.

Capital spending must be reduced. But these reductions of €3 billion by 2014 must be considered in the context of the very substantial investment over the past decade which has transformed our road network, our public transport system, our educational institutions and our cultural, sport and tourist facilities. In the current lower cost environment, better value can be achieved from a lower level of capital investment creating a high level of capacity in the economy and delivering important social infrastructure.

Expenditure Savings

Government will:

- Reduce current expenditure by €7 billion by 2014, bringing spending back to 2007 levels;
- Reduce the cost of the public sector pay and pensions bill, social welfare, and public service programmes;
- Achieve savings in social welfare expenditure of €2.8 billion by 2014 through a combination of enhanced control measures, labour activation, structural reform measures, a fall in the Live Register, and, if necessary, further rate reductions;
- Cut public service staff numbers by 24,750 over 2008 levels, back to levels last seen in 2005;
- Reduce the public sector pay bill by about €1.2 billion between 2010 and 2014;
- Make more effective use of staffing resources with redeployment of staff within and across sectors of the public service to meet priority needs;
- Reform work practices to provide more efficient public services with scarcer resources;
- Introduce a reformed pension scheme for new entrants to the public service and reduce their pay by 10%;

- Introduce a pension deduction for public service pensioners to yield €100 million in savings;
- Reduce non-pay and non-social welfare spending by €3 billion over the period;
- Increase the student contribution to the costs of third level education;
- Introduce water metering by 2014; and
- Reform and update the existing budget system beginning in Budget 2011.

Taxation Measures (Chapter 6)

While the bulk of the budgetary adjustment is on the expenditure side, taxation must also play a role in bridging the gap between the State's income and expenditure. Revenue-raising measures will contribute one third of the overall budgetary adjustment. The tax system must be capable of raising the resources necessary to pay for essential public services in a manner that does not unduly impede economic development. The Government remains committed to the 12½% corporation tax rate: it will not be increased under any circumstances.

In 2010, it is estimated that 45% of taxpayers will pay no income tax. This is not sustainable. A fundamental principle of the reform outlined in this Plan is that all taxpayers must contribute according to their means. Those who can pay most will pay most but no group can be sheltered.

The measures contained in this Plan will broaden the tax base by bringing more taxpayers into the tax net, abolishing or curtailing a range of tax exemptions and reliefs, and introducing a new site value tax. These changes will bring us back to an income tax structure last seen in 2006. Approximately one third of the revenue raised will come from indirect tax, capital tax and other charges; one third from direct income tax; and the final third from tax expenditures.

This Plan contains a set of measures which will increase Government revenues over the next four years by just over €5 billion or approximately 3% of GDP in 2010 terms. Approximately 40% of the policy measures will be front-loaded into 2011, resulting in substantial structural reform of the income tax system.

Revenue measures

Government will:

- Maintain the 12½% corporation tax rate; this will not change;
- Raise €5 billion over the period of the Plan - 40% of measures will be front-loaded;
- Raise €1.9 billion through income tax changes;
- Implement pension-related tax changes to yield €700 million, with €240 million in tax savings on the public service pension-related deduction;
- Abolish/curtail a range of tax expenditures yielding €755 million;
- Increase the standard rate of VAT from 21% to 22% in 2013, with a further increase to 23% in 2014. These changes will yield €620 million;

- Introduce a Site Value Tax to fund essential locally-delivered services. This will yield €530 million;
- Increase the price of carbon gradually from €15 to €30 per tonne, yielding €330 million;
- Reform Capital Acquisitions Tax and Capital Gains Tax to yield an additional €145 million;
- Transform the Business Expansion Scheme (BES) into a new Business Investment Targeting Employment Scheme (BITES).

Conclusion

Our economy is beginning to recover. There will be a small increase in GDP this year. Given the 7.6% decline recorded in 2009 that in itself is remarkable. The impact of our improved competitiveness can already be seen in our healthy export figures. Both our foreign owned and indigenous exporting companies have been extremely resilient throughout the downturn. Even in the difficult trading circumstances of this year, they have increased their market share.

This Plan will enable us to build upon the many positive aspects of our economy so that we can return to a sustainable medium-term growth path. The measures it contains will:

- remove barriers to growth;
- boost our competitiveness; and
- restore order to our public finances.

Detailed policy measures identified in the Plan will build on our strengths and develop other sectors to provide a balanced economy and employment for our citizens. Our future prosperity rests upon the implementation of this Plan over the next four years.

Chapter 1 Economic Policy

Key Messages

- The economy is expected to stabilise this year before expanding at an annual average rate of 2¾% between 2011 and 2014.
- A €15 billion package of measures is required to restore order to the public finances by 2014.
- This package will comprise two thirds expenditure and one third revenue measures.
- The adjustment will weigh on domestic demand, but its overall effect will be mitigated by the economy's high propensity to import and by the positive impact of budgetary adjustments on competitiveness and confidence.
- Ireland is a small, open economy in which long-term sustainable growth depends on the health of its internationally trading sectors.
- The conditions for sustainable export-led growth are in place - good infrastructure, high-quality human capital, a favourable taxation environment and available credit for viable businesses.
- The Plan sets out policies to assist a resumption of output and employment growth, including structural reforms to enhance labour market flexibility and cost competitiveness.
- Export-led growth will foster recovery in the domestically trading sectors.
- Growth in GDP is expected to bring the unemployment rate down below 10% by 2014.
- The balance of payments (BoP) is expected to return to surplus in 2011 and the surplus will steadily increase over the following three years. This means that the economy as a whole will no longer be borrowing from the rest of the world.

1.1 The Economy in 2010

1.1.1 Current Position

The economy is emerging from recession. The level of GDP in 2010 will be some 11% below and the level of GNP some 15% below their respective levels of 2007 in real terms. Employment has fallen by about 13% from its peak of 2007 while the unemployment rate has risen from 4.6% to 13.5%. A downturn of this size is without precedent in Ireland's recorded economic history and has few modern parallels at an international level. It follows annual average growth of 7.3% and 6.6% in GDP and GNP respectively, and a cumulative increase of over 900,000 of the numbers at work, between 1994 and 2007.

The recession was due in part to the effects of a steep economic downturn in our main trading partners and a deep global financial crisis. But it was exacerbated by the collapse of the domestic property market and construction industry and the associated banking crisis at home. As such, the severity of the recession may be attributed to the combination of excessive credit expansion, rapid property price inflation and disproportionate growth in construction output in the earlier 2000s.

The crisis has had a severe impact on the public finances. Tax receipts in 2010 will be around 33% lower than in 2007, the steepness of the fall reflecting the over-dependence on property and construction-related revenue sources during the boom years. At the same time, net current spending has continued to rise because of the upward pressure exerted by a much increased Live Register, a mounting debt interest burden and falling receipts from sources such as PRSI. As a result, the public finances have deteriorated rapidly and a structural gap between spending and revenue has opened up which will not be closed by a cyclical recovery in the economy (see Annex 1).

Recent data suggest that economic recovery is slowly taking shape. It is now expected that GDP will record a very small increase this year on the back of strong export growth. Exports in turn are being driven by improvements in competitiveness and a strengthening of international markets. Conditions in the labour market are also beginning to stabilise as indicated by the flattening of the unemployment rate and recent declines in the monthly Live Register. However, domestic demand remains weak as households and businesses continue to repair their balance sheets following a period of excessive debt accumulation.

1.1.2 Budgetary Outlook for 2010

Introduction

In early November, the Department of Finance published an Information Note on the economic and budgetary outlook, based on detailed technical analysis and containing an assessment of future economic conditions. Further information on the economic and budgetary outlook can be found in that Note which is available on the Department's website at www.finance.gov.ie. Additional economic data, including a comparison of the Department's forecasts with those of other organisations, a discussion of risks, and sensitivity analysis associated with this Plan are set out in Annex 2.

The Budget Deficit

The latest Exchequer figures indicate that the Government will achieve its objective of stabilising the underlying budget deficit in 2010. Net voted current expenditure was €37.2 billion for the period January to October 2010, 2.7% below profile. Tax receipts for the same period amounted to €24.7 billion or 1% above profile. November will be a key month for tax receipts. However, tax revenue for the year as a whole is currently expected to amount to €31.5 billion, some €450 million above the level forecast in last December's Budget.

Taking account of the likely evolution of Government spending in the final months of the year, and excluding the impact of the bank support measures, the General Government deficit in 2010 is now expected to be 11.7% of GDP, in line with the Budget 2010 target of 11.6%.

Public Debt

Due to the strong performance of the economy through much of the 1990s and early 2000s, debt ratios fell dramatically. As a result, the General Government Gross Debt to GDP ratio had fallen to just 25% by end-2007. The underlying position was even stronger at that point: the net debt to GDP ratio was just 14%.

By end-2009 however, reflecting the large deficits recorded in the intervening period, and other factors, General Government Gross Debt had reached 66% of GDP. It is currently estimated that the ratio will be 95% of GDP at end-2010. The main reason for the very large increase this year is that the capital support – some €31 billion – being provided to a number of institutions within the banking sector in 2010 is classified within the General Government Gross Debt measure. When account is taken of the value of assets in the National Pensions Reserve Fund (NPRF) and of Exchequer cash balances, the position is a good deal more favourable. The net debt measure that results from these adjustments is estimated at 69% of GDP at the end of 2010.

1.2 Budgetary Adjustment

1.2.1 Rationale for Adjustment

In money terms, the gap between Government receipts and spending will come to almost €19 billion in 2010. This gap simply must be closed. Government has already taken significant actions to prevent the gap from widening. Table 1.1 shows the adjustments to expenditure and revenue, amounting to a cumulative €14.6 billion, already implemented between July 2008 and Budget 2010 in pursuit of this objective.

Despite the scale of the adjustment, a very large and unsustainable gap remains between spending and revenues, which is filled by borrowing.

Table 1.1 Budgetary Adjustments since mid-2008 – planned budgetary impact upon 2010

	€ billion
July 2008 Expenditure Adjustments	1.0
Budget 2009 (October 2008) Revenue raising measures	2.0
February 2009* Expenditure Adjustments	2.1
Supplementary Budget (April 2009) Revenue-raising & expenditure-reducing measures	5.4
Budget 2010 (December 2009) Expenditure-reducing & minor revenue-raising measures	4.1
Total	**€14.6bn**

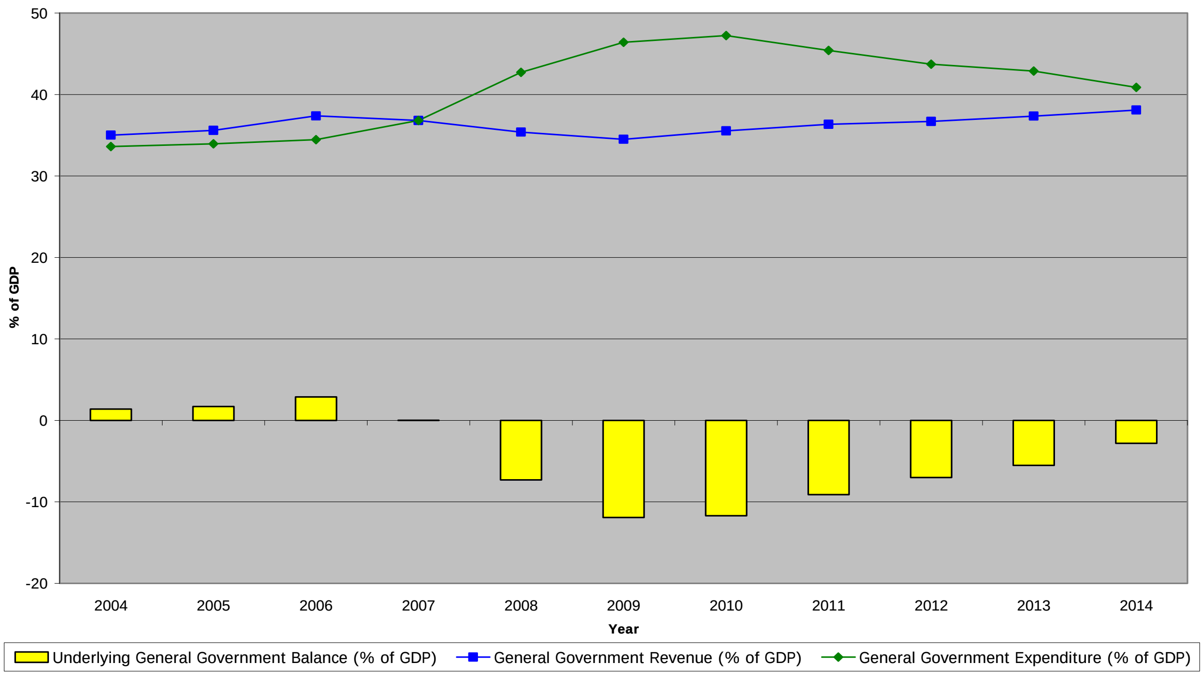
**Postponement of the pay increases contained in the 'Towards 2016' agreement generated another €1 billion in full year savings*

The current level of borrowing is unsustainable. Unless it is reduced, the burden of debt service will absorb a rapidly increasing proportion of tax revenue, even assuming no upward pressure on interest rates. More pertinently, as recent developments in the international bond markets have shown, persisting with the current scale of borrowing will result in interest rates remaining at unaffordable levels. Moving towards a balanced budget therefore is a prerequisite for future economic growth. Tackling the deficit now is essential in order to engender international confidence in our ability to meet our commitments.

1.2.2 Scale of adjustment required

Ireland's membership of the eurozone obliges us to adhere to the Stability and Growth Pact and bring the General Government deficit back below 3% of GDP. Budget 2010 assumed an adjustment package of €7.5 billion over a four-year period would be required to reach this target by 2014, the target year agreed with our European partners. It is now estimated that an adjustment of some €15 billion will be necessary to reach this target.

Figure 1.1 Public Finances 2004-2014



Reasons for the increase in the size of the budgetary adjustment required

- The economy is smaller, reflecting CSO revisions to the level of GDP in 2009 and previous years.
- The repair of household and company balance sheets after the damage caused by the bursting of the property bubble will dampen consumer and investment spending to a greater extent than previously thought.
- The level of prices in the economy is now forecast to rise more sluggishly than previously expected as economic activity generally is more muted.
- The impact of the Promissory Notes issued to Anglo Irish Bank, INBS and EBS, means that in order to achieve the budgetary targets by 2014 compensatory measures must be taken over the period 2011 to 2014. These costs will amount to an estimated €2.4 billion in 2014 and, if not addressed, would add about 1.3% to the deficit figure in that year.
- All of these factors suggest that the outlook for growth, both real and nominal, is less favourable than a year ago. This means having to adjust more and in so doing there is an additional negative impact on the economy.

1.2.3 The Composition of the Budgetary Adjustment

It is clear that an adjustment of the magnitude required cannot be achieved by exclusive reliance on either tax increases or expenditure cuts. If taxes were raised by €15 billion over the next four years, the burden of taxation would increase to the point where competitiveness was hugely impaired and the economy's capacity to generate growth in output and employment seriously damaged. Conversely, if the entire burden of the €15 billion reduction were to fall on Government spending, the impact on public services and social welfare provision would be unacceptable.

It follows that the adjustments to be made must comprise a mix of revenue-raising and expenditure-reducing measures. In determining the appropriate balance between the two, the Government has been guided by the lessons of our past as well as the experience of other countries that have found themselves in similar circumstances. The international evidence, analysed by organisations such as the IMF, the EU Commission and the OECD, suggests that budgetary adjustments are more successful in reducing deficits and stabilising debt ratios when they rely more on reducing expenditure than increasing taxes.

This is consistent with our own experience of the late 1980s. The unsuccessful attempts at restoring order to the public finances in the early part of that decade leaned heavily on tax increases, while the successful budgetary adjustment of the late 1980s relied more on controlling expenditure and, insofar as it included tax measures, concentrated on widening the base rather than increasing rates of tax.

Of the €14.6 billion of budgetary adjustments that have already been undertaken since 2008 just under two-thirds have fallen on the expenditure side with the remainder comprising revenue-raising measures. Similar proportions will apply to the adjustments planned for the next four years: of the €15 billion overall adjustment to be made, €10 billion will be composed of expenditure reductions and €5 billion will comprise revenue-raising measures. Drawing on the experience of the 1980s, the proposed revenue-raising measures will concentrate on broadening the base as part of the reform of the tax system that was signalled in Budget 2010.

The effect of the adjustment will be to raise the overall ratio of tax (including receipts from PRSI, the Health Levy and the National Training Fund Levy) to GDP by about 3% points between 2010 and 2014. This will still leave the ratio slightly below the level it was at in the late 1990s, a period during which the economy last experienced balanced export-led growth.

Table 1.2 below shows the General Government Deficits in each of the years 2011-2014, arising out of an overall adjustment package of €15 billion. Achieving these budget targets is predicated on implementing the expenditure and taxation adjustments set out later in this document. Chapters 3 to 5 detail the required current and capital expenditure adjustments on a sector by sector basis. Chapter 6 sets out the individual revenue-raising measures which are necessary to generate an additional €5 billion in revenue.

Table 1.2 – Forecast General Government Deficits and end-year Gross Debt Levels				
	2011	**2012**	**2013**	**2014**
General Government Deficit (% of GDP)	**9.1%**	**7.0%**	**5.5%**	**2.8%**
Total Consolidation[2] (Full-Year Impacts)	**€6.0bn**	**€3.6bn**	**€3.1bn**	**€3.1bn**
▪ *Expenditure*	€3.9bn	€2.1bn	€2.0bn	€2.0bn
o *Current*	€2.1bn	€1.7bn	€1.6bn	€1.6bn
o *Capital*	€1.8bn	€0.4bn	€0.4bn	€0.4bn
▪ *Taxation*	€1.4bn	€1.5bn	€1.1bn	€1.1bn
▪ *Other*	€0.7bn			
General Government Gross Debt (% of GDP)	100%	101%	102%	100%

Rounding may affect totals

Implementing a package of budgetary adjustments totalling €15 billion over the next four years in the manner outlined above and a gradual unwinding of Exchequer cash balances is expected to result in the General Government Gross Debt peaking in 2013 at 102% of GDP before falling to 100% of GDP by 2014.

The stabilisation and subsequent reduction of the ratio of debt to GDP is dependent, among other things, on the growth rate of nominal GDP and the average interest rate on the debt. The sensitivity of the ratio to these variables is explored in Annex 3.

1.3 Achieving Economic Recovery

1.3.1 Growth in an Open Regional Economy

Ireland is an open regional economy. Its openness is most obvious in terms of the importance of international trade: exports and imports of goods and services are equal to 175% of GDP. But there are other dimensions of Ireland's openness that are no less significant. One is its dependence on international capital flows, including flows of foreign direct investment from abroad. Another is the elasticity of its labour supply: the capacity for its labour force to be augmented by immigration and depleted by emigration.

Ireland's openness means that the economy here interacts widely and deeply with the rest of the world and is sensitive to changes in world economic conditions, while its size means that the domestic market is too small to provide the basis for long run sustainable growth. Long term growth in a small open economy therefore is a function of the export base, the collection of enterprises that are involved in the production of goods and services for international markets.

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[2] Total consolidation sums to more than €15 billion in Table 1.2 due to inclusion of non-recurring once-off items that impact in 2011 only. The full year impacts of expenditure and revenue measures are taken into account in the figures.

The enterprises that make up these internationally trading sectors generate output and employment directly, but they also generate output and employment indirectly in Ireland through their demand for buildings, machinery, components, raw materials and a wide range of service inputs. On top of that, the internationally trading sector together with the local firms that supply it, create a multiplier effect throughout the wider economy, as the people employed in these sectors spend their wages and salaries.

The vitality and dynamism of the Irish economy therefore depends ultimately on the vitality and dynamism of its internationally trading sector. This, in turn, depends on the competitiveness of the enterprises that go to make up the sector, that is, on their ability to win, retain and expand their share of the international markets which they serve. It also depends on Ireland's attractiveness as a location for the establishment of new exporting activities.

Long-term sustainable growth in the Irish economy is export-led. This is not to say that domestic demand is unimportant. On the contrary, balanced economic growth is attained when consumption and investment, as well as exports, are expanding at a healthy pace. Indeed, strong gains in employment typically require solid growth in domestic demand. This is because the sectors that serve domestic demand, like retailing and construction, tend to be more labour intensive than the exporting sectors. There are notable exceptions to this pattern. Tourism, for example, is an important exporting sector that is relatively labour intensive.

In their recent analysis of the causes of the swift reversal of our economic fortunes, Klaus Regling and Max Watson[3] conclude that in the period leading up to the current crisis, the share of construction sector in the economy became excessive and as our competitiveness deteriorated significantly, Ireland lost market shares in international trade. At the height of the building boom in 2007, the construction sector directly accounted for 13% of total employment, compared with an average of just over 7% for the 1990s. The appetite of a rampant building industry for labour and other resources put upward pressure on the economy's cost structure and contributed to the deterioration in the competitiveness of the internationally trading sectors.

The Irish economy did enjoy sustained balanced export-led growth as recently as the 1990s. Between 1993 and 2000, exports expanded at almost 18% per annum, driving average annual GDP growth of 9%, a cumulative increase of half-a-million people in employment, a cumulative rise in living standards of about 80%, and all in the context of maintaining a healthy balance of payments position and achieving a substantial government budget surplus.

The formula for achieving the kind of balanced sustainable growth in output and employment that is appropriate to a small open economy, therefore, is not elusive. We discovered and applied that formula in the 1990s and we can do so again.

[3] A Preliminary Report on the Sources of Ireland's Banking Crisis by Klaus Regling and Max Watson – Published May 2010.

1.3.2 Economic Policy Principles

Although Government has only a marginal presence in the production of internationally traded goods and services, it plays a vital part in creating the conditions in which the sector can grow and prosper. Equally important, Government is responsible for creating an environment that makes Ireland an attractive place in which to live and work.

The most important of these conditions and the one for which the Government has the clearest and most direct responsibility is sound public finances. Unsustainable public finances undermine the framework for economic prosperity through at least three channels: (i) the upward pressure on interest rates and the consequent increase in the price of credit; (ii) the uncertainty created about the future course of taxes and the continued provision of essential public services, and (iii) the reputational damage to the country and its institutions. The restoration of sound public finances must be the cornerstone of any economic plan.

The measures taken to restore sound public finances must observe certain principles and must have regard to the nature of the Irish economy. A key principle is that the measures be fair and be seen to be fair in order to maintain the highest degree of social cohesion. In deciding on the measures to be taken to restore sustainability to the public finances, the government has attempted to spread the burden of adjustment as equitably as possible.

Over the past two years, the combination of tax and social welfare changes has reflected that spirit of fairness. Analysis of the distributive impact[4] shows that the net impact of these changes has been progressive, with higher income groups carrying a larger burden than those on modest incomes. In real terms, the reduction in the cost of living has also helped to maintain living standards.

A number of other considerations have informed the Government's approach to framing the budgetary measures and the broader economic policy initiatives detailed later in this Plan:

- The need to boost competitiveness. This has, for example, influenced the composition of budgetary adjustment as between spending and revenue-raising and the emphasis in raising revenue on widening the base rather than raising tax rates.
- The need to enhance the economy's productive capacity. The government has sought to make the bulk of the necessary spending reductions on the current side. In doing so it has ensured that sufficient funds are available to press ahead with key infrastructural projects and to maintain high levels of spending on education.
- The need to take a long-term view. At the core of our fiscal problem is a large structural deficit, the measures to eliminate which have to be structural in nature. These measures must be permanent in their impact and selected on the grounds of their appropriateness over the medium to long run. Charting our way out of our current difficulties requires long-term

[4] Carried out by the Social Inclusion Unit in the then Department of Social and Family Affairs.

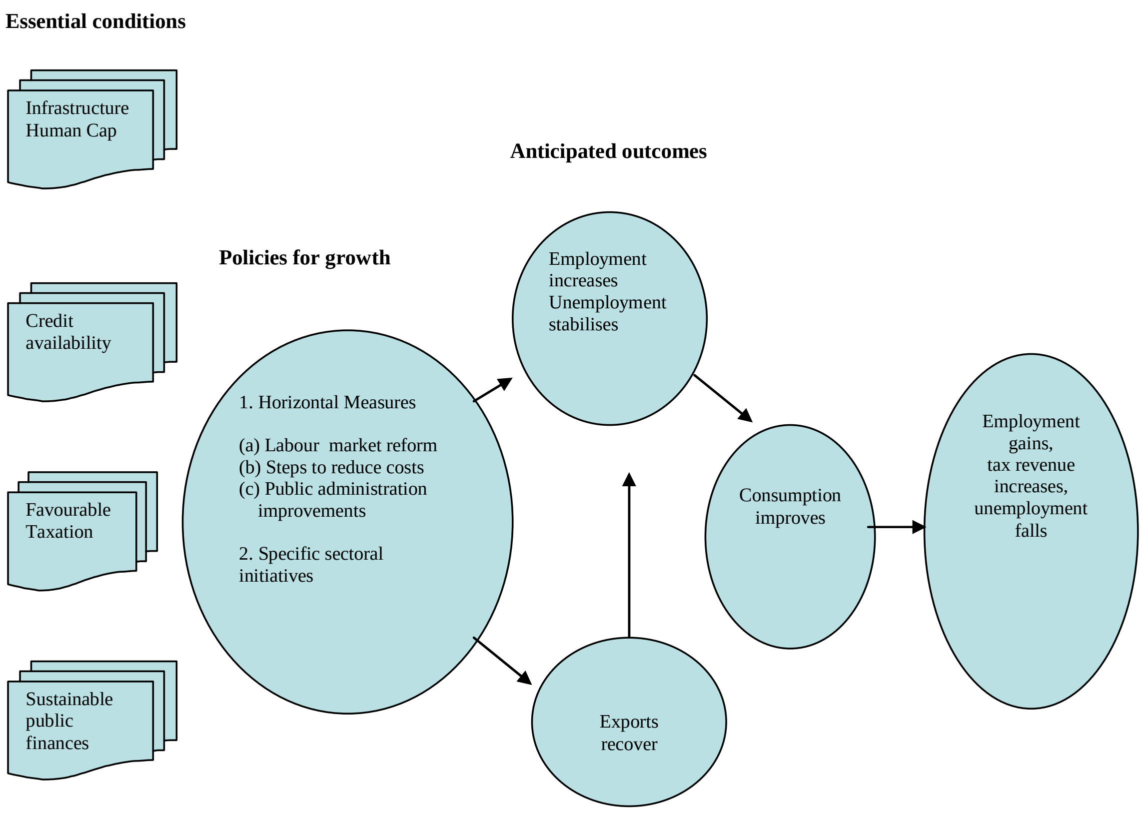
planning. The proposals for reform of the budgetary process, outlined in Chapter 3, are intended to create a framework in which fiscal policy decisions are informed by a medium to long-term perspective.

- The need for credibility. This Plan must be credible, both to Irish citizens and to international markets. To that end, the Plan is based on a set of economic forecasts which the Government believes to be prudent, and sets out the policy measures which it is proposed to take at a level of detail designed to dispel uncertainty to the greatest degree possible.

1.3.3 Strategy for growth

Figure 1.2 illustrates the anticipated path to economic recovery set out in this chapter. The process of recovery is founded on a number of essential conditions – which are either in place, or are being pursued actively - coupled with a range of specific policy actions detailed in Chapter 2. These measures will assist export recovery through enhanced competitiveness and sector-specific initiatives. Export growth will in turn deliver high value employment and act to stimulate the domestically trading sectors of the economy. The measures contained in Chapter 2 will also directly assist in job creation in the local economy by removing barriers to employment and disincentives to work. These developments will in turn boost consumption and, over time, reduce unemployment and lead to further employment gains.

Figure 1.2 Summary Steps to Economic Recovery



Restoring competitiveness and retuning sectoral policy to grow exports and assist locally trading firms is the necessary first step on the path to economic recovery. This is Government's core strategy for tackling unemployment.

1.3.4 Essential Conditions for Growth

Our experience shows that economic growth and sustainable jobs are generated by the private sector in the main. But Government plays an important role in creating the framework conditions to enable growth. The budgetary adjustment measures set out in this Plan can deliver sustainable public finances. Other essential inputs from Government include:

- the provision of appropriate economic and social infrastructure;
- investment in human capital;
- ensuring adequate credit availability; and
- tax polices which are favourable to entrepreneurship, investment and work.

Across these areas, conditions for growth are either already in place, or policies to achieve them are being pursued.

Essential Conditions for Growth

Physical infrastructure

Improvements to our stock of economic and social infrastructure over the past decade or so are a visible legacy of the economic expansion of that period. In the years between 1997 and 2007 annual public capital allocations were quadrupled. This investment expanded capacity across a range of sectors and addressed the infrastructure deficit that had previously constrained the Irish economy.

The current stock of infrastructure, which will be augmented by a substantial ongoing programme of public investment over the next four years, leaves the economy well-equipped to return to export-led growth.

Capital investment will continue to support employment by providing a significant level of direct job supports to IDA Ireland and Enterprise Ireland. These supports will be maintained so that the Government will offer considerable direct assistance to the enterprise sector alongside measures to improve competitiveness.

Available human capital

As with the stock of physical infrastructure, the quality of Ireland's human capital puts us in a strong position for a return to economic growth.

The country continues to have a skilled and flexible labour force whose educational profile displays a number of 2positive characteristics. The 25-34 year old age cohort, for example, has a higher level of formal qualification than the OECD average, while the proportion of the population aged 20-24 with at least an upper second-level education is the highest in the EU15 (see figure 1.3)

Amongst those who have become unemployed a large number have significant levels of skill and experience and a history of achievement across a range of sectors.

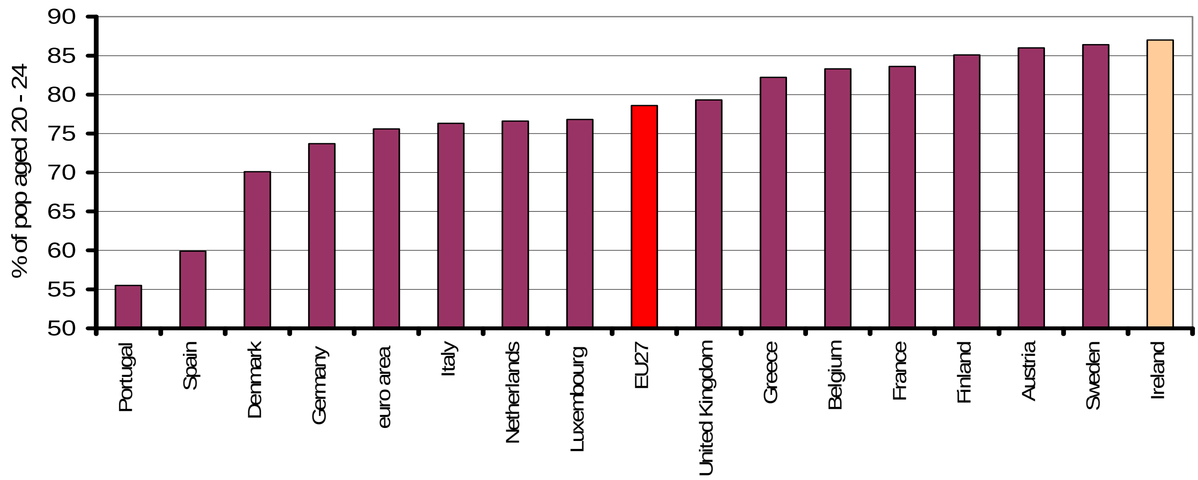
Credit availability for business

An overriding objective of the Government's banking policy is to ensure that viable businesses, especially Small and Medium Enterprises (SMEs), can access the credit they need. To this end a Code of Conduct on SME Lending was introduced for the first time last year. The Code requires banks to deal fairly and transparently with their business customers. In addition, the Credit Review Office (CRO), set up under the NAMA legislation, provides a review mechanism for SMEs who have had credit refused, withdrawn, or offered on unreasonable conditions. In his latest quarterly report, Mr. John Trethowan of the CRO notes that the lending situation for SMEs is improving and that the recapitalisation strategy for the two largest banks (Bank of Ireland and Allied Irish Bank) is achieving its objective.

Favourable taxation
The tax burden in Ireland is relatively low and will remain so even after the revenue-raising measures contained in this Plan have been implemented.

A key feature of the tax system is the 12½% corporation tax regime which represents an essential pillar of enterprise policy. Other important aspects of the corporation tax framework include: the R&D tax credit; the holding company tax regime and Ireland's rapidly expanding network of double taxation agreements.

Figure 1.3 Proportion of population with at least upper second level education



Source: Eurostat

1.3.5 Retuning Policies for Growth

Actions have been taken on all the essential conditions for growth but a number of critical reforms will further boost economic activity. These can be broadly categorised as follows:

- Labour market reforms to remove barriers to employment and disincentives to work;
- Reforms to improve the non-labour elements of cost competitiveness; and
- Supportive sectoral policies to assist recovery across the enterprise base.

These structural reforms to bolster the private sector are presented in detail in Chapter 2. Over the medium-term they will be complemented by reforms to the operation of the public service, discussed in Chapter 4. The associated policy actions represent a coherent Government strategy for creating the conditions that will foster the resumption of growth in output and employment.

1.4 The Economic Outlook, 2011-2014

1.4.1 Output and Employment

After two years of extremely sharp declines in output, the Irish economy, as noted above, is expected broadly to stabilise this year before expanding over the period 2011 to 2014. Consistent with the typical recovery path in a small open economy, the stabilisation and initial strengthening will be primarily driven by a recovery in exports. The recent performance of exports has been encouraging and it is now estimated that they will grow by about 6¼% in real terms in 2010. In 2011, there may be some slowdown, reflecting the moderation of the pace of recovery in our main trading partners, but taking the 2011-2014 period as a whole, exports can be expected to increase at a healthy pace as the competitiveness of Irish producers improves further and demand continues to grow in our overseas markets.

Table 1.3 Medium term economic outlook				
(% change unless otherwise stated)	**2011**	**2012**	**2013**	**2014**
GDP real	1¾	3¼	3	2¾
GDP level ^ (€m)	161,200	168,100	175,400	183,500
GNP real	1	2½	2½	2½
GNP level ^ (€m)	127,900	132,500	137,600	143,400
	components of real GDP			
Domestic demand				
- consumption	0	1	1½	1¾
- government	-3	-2	-2¼	-2
- investment	-6	5¼	5	5¼
Trade and external account				
- exports	5	5	4½	4
- imports	2¾	3	3¼	3
- BOP current account (% GNP)	¼	1½	2½	3½
	price developments			
HICP	¾	1	1¾	1¾
GDP deflator	¾	1	1¼	1½
	labour market			
Employment	-¼	1¼	1½	1¾
Unemployment (%)	13¼	12	11	9¾

Source: Department of Finance forecast
^ Figures are rounded to the nearest €100 million

As a healthy export performance filters through to investment and consumption, the recovery in economic activity should become more broadly-based. However, domestic demand is likely to respond sluggishly. Household finances have been significantly affected by house and other asset price declines in recent years and, while the unemployment rate is now stabilising, it is doing so at a high level and will take some time to decline. Households have entered a period of debt reduction. This in turn has reduced the amount of disposable income available for consumption and will continue to do so for some time to come. In these circumstances, the household savings rate will likely remain above its historical average, although it is expected to fall over the period of the Plan, as the crisis recedes, consumer confidence returns and labour market conditions improve.

In these circumstances, real consumer spending is expected to be flat in 2011 before expanding modestly, at an annual average rate of around 1½% in the period 2012 to 2014. Some of the factors restraining consumer spending – in particular the need to repair balance sheets – are also likely to restrain investment spending by firms in the period ahead. Taken together with the outlook for public capital spending, this indicates that overall investment spending will provide limited support to domestic demand. A 6% fall is expected in 2011, followed by average annual growth of about 5% over the following three years.

Real GDP is forecast to increase by an average of almost 2¾% in the years 2011 to 2014, with real GNP growing by an average of just over 2% over this period. Growth in 2011 however will be considerably below the average for the period as a whole. This moderate expansion in output is expected to be accompanied by the resumption of employment growth, starting in 2012 and averaging about 1½% a year between 2012 and 2014, generating a cumulative increase of about 90,000 over this period. This is consistent with a steady decline in the unemployment rate which is expected to have fallen below 10% by 2014.

Reflecting the moderate pace of output growth, the amount of spare capacity in the economy and the likelihood that external pressures on prices will be modest, low rates of inflation are projected. Consumer price inflation should be contained at less than 1% in 2011 and is forecast to average 1½% in the years 2012 through 2014. The GDP deflator, which provides the most comprehensive measure of inflation in the economy, is expected to increase at a somewhat slower rate. Inflation, by either measure, is expected to be lower than in our main trading partners over the period of the Plan, reflecting and assisting the process of competitiveness improvement.

This economic outlook summarised above takes account of the €15 billion budgetary adjustment package planned for 2011-2014. It also takes account of the favourable impact on output and employment expected to accrue from the proposed structural reforms to bolster labour market flexibility and cost competitiveness contained in Chapter 2.

1.4.2 The Impact of Fiscal Consolidation in an Open Economy

Budgetary adjustment will clearly have a negative impact on household disposable income, thereby lowering personal consumption. However, the impact of the adjustment on consumption is unlikely to be one-for-one. This reflects the current elevated level of household savings. Figures from the Central Statistics Office (CSO) put the savings rate at over 12% in 2009, and Department of Finance estimates point to a broadly similar rate for this year. Households have increased their savings for a number of reasons: uncertainty regarding future income prospects has motivated an increase in precautionary savings while the decline in net household wealth (or more precisely the ratio of net wealth to disposable income) has prompted debt deleveraging within the household sector, a phenomenon which is expected to decline over the period of the Plan.

Budgetary adjustment can potentially play a positive role in reducing precautionary savings by creating greater certainty about the prospects for household disposable income. In particular, permanent, targeted and well-designed budgetary adjustment measures can reasonably be expected to have a favourable effect on confidence, so that the impact on consumer spending of lower disposable income may be partly offset by a decline in the savings rate. In relation to specific measures, as noted earlier, the available evidence suggests that reductions in current spending have a smaller negative impact on economic activity than cuts in productive capital spending or tax increases.

The available evidence also indicates that, when taxes need to be raised, measures that broaden the tax base are preferable to increases in tax rates.

The openness of the Irish economy must also be borne in mind in assessing the effect of budgetary adjustment. In the first instance, the import content of spending in Ireland is relatively high. In other words, we import a large share of what we consume. Thus, while domestic demand will clearly decline because of the budgetary adjustments that need to be made, the consequent decline in imports will mean that the impact on GDP will be significantly less than it would otherwise be.

At the same time, the budgetary adjustment will contribute to improving the economy's competitiveness by putting downward pressure on the domestic cost base. This will have a positive effect on export performance which will provide some measure of offset to the dampening effect of fiscal correction on overall economic activity.

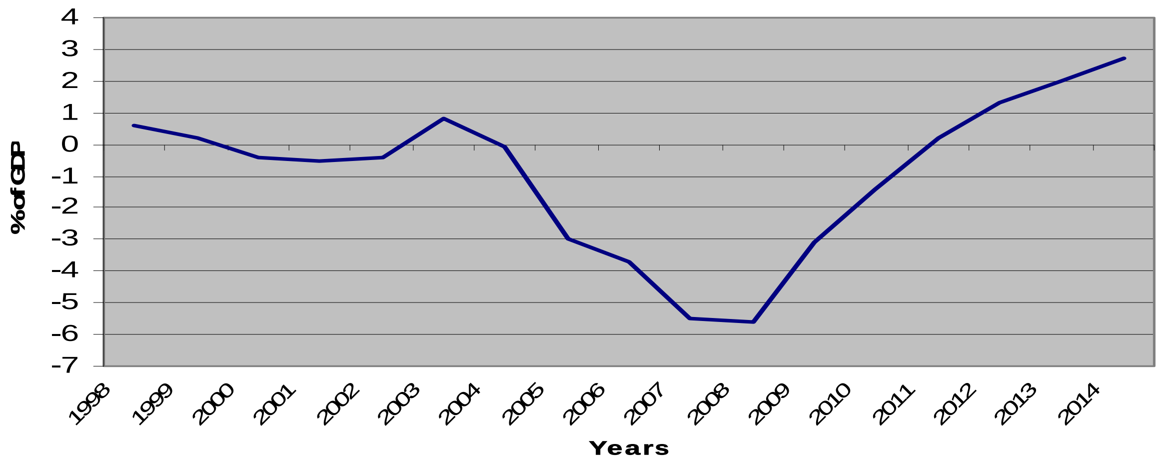
1.4.3 Savings, the Balance of Payments and the Banking System

The current account of the balance of payments is a measure of the extent to which the economy as a whole is lending to or borrowing from the rest of the world. An important aspect of the behaviour of the Irish economy over the past few years relates to the balance of payments. Since 2008 there has been a sharp fall in the balance of payments current account deficit, which amounted to almost 6% of GDP in 2008, but which is estimated to have declined to 1.4% of GDP in 2010. What this signifies is a major reduction in the rate at which Ireland (public and private sectors together) has been borrowing from abroad.

Given an underlying government budget deficit of 11.7% of GDP, the small current account deficit in 2010 indicates that the private sector is now running a very large financial surplus, equivalent to over 10% of GDP. This surplus reflects the combination of the steep fall in investment and the sharp increase in savings that has occurred in the recession.

The increase in savings is especially evident in the household sector where the savings rate, according to the CSO, rose from less than 4% in 2008 to over 12% in 2009. This increase in savings has been used to rebuild household balance sheets. In part this has been achieved by the repayment of debt. Already, the value of outstanding loans to households has been reduced by about 10% from its January 2008 peak of €154 billion to €139 billion in September 2010.

Figure 1.4 Balance of Payments Current Account (% of GDP)



The forecasts underpinning this Plan envisage the current account of the balance of payments recording a small surplus in 2011, and see that surplus growing steadily over the period to 2014, by which time it is expected to reach 2.7% of GDP. The budgetary programme is targeting a decline in the Government's budget deficit from 9.1% to 2.8% of GDP over the same period. This combination of current account surpluses and substantial (though declining) budget deficits implies the continuation of a large private sector financial surplus throughout the period of the Plan.

Much of this accumulation of financial surplus by the private sector will take the form of increased deposits with and reduced borrowing from domestic banks. The result will be a very substantial fall in the loan-to-deposit ratio of the domestic banking system and a corresponding reduction in the domestic banks' reliance on external sources of funding.

Chapter 2 Strategy for Competitiveness, Growth and Employment

Key Messages

- Export led growth will fuel domestic recovery.
- Policy will foster the considerable growth potential of the Irish economy.
- Cost competitiveness will be improved through a series of specific measures in the waste, energy, transport, telecommunications, professional services and public administration sectors.
- Barriers to employment creation will be removed.
  - The level of the National Minimum Wage will be reduced by €1 an hour.
  - The Minister for Enterprise, Trade and Innovation will complete a review to eliminate anomalies in the framework REA and ERO agreements within three months.
- Welfare and labour market policies will be overhauled so that work is rewarded and those seeking work have a pathway to work, education and training.

2.1 Overview – the Strategy for Economic Recovery

Competitiveness is the key to a return to economic growth and a resumption of sustainable employment creation. We have made progress over the last two years. But more needs to be done. This means reducing costs and improving productivity in all sectors.

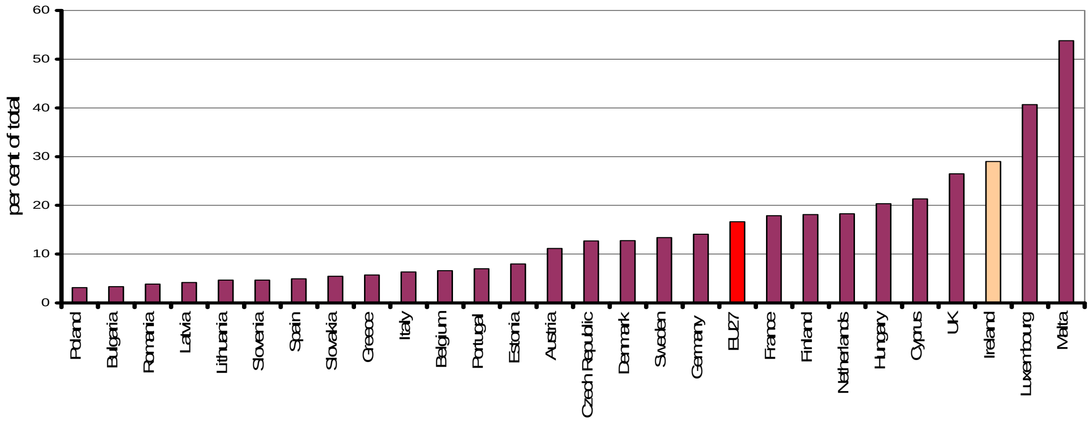
The job of Government is to support the private sector by removing structural impediments to competitiveness and employment creation and securing the conditions for growth. But the Government must also pursue appropriate sectoral policies to foster export growth and a recovery of domestic demand. This Chapter sets out the key reforms in each of these important areas.

For a regional, open economy such as ours, sustained export growth will be a critical step on the path to economic recovery. Labour market reform and competitiveness measures in this Plan will assist this process and will help foster employment creation in domestically trading sectors such as retail and hospitality.

The prospects for a return to enterprise-led growth are improved by the modern nature of Ireland's export base as illustrated in Figure 2.1. The high proportion of exports from high-tech sectors[5] indicates that the Irish economy has already established a strong base which can act as a platform for further advancement to a more knowledge intensive period of growth.

[5] It should be noted that high-tech sectors may include manufacturing activities with low tech processes. Nonetheless the graph is a useful indicator of the comparative modernity of Ireland's export base.

Figure 2.1 High-tech exports as a proportion of total



Source: Eurostat

Enterprise Policy – Driving the Smart Economy Agenda

Alongside the sector specific policy supports set out in section 2.5, a number of cross-cutting issues relevant to enterprise policy warrant some discussion.

This Plan builds on, and is consistent with, *Building Ireland's Smart Economy,* the framework for sustainable economic recovery published in December 2008. This framework identified five action areas as the basis for the Government's response to the crisis:

- securing the enterprise economy and restoring competitiveness;
- building the Ideas Economy;
- enhancing the environment and securing energy supplies;
- investing in critical infrastructure; and
- providing efficient and effective public services and smart regulation.

It placed particular emphasis on increasing productivity across all sectors of the economy as the basis for sustainable improvements in living standards. It also stressed the role of knowledge and innovation in driving productivity.

The Government has acted in all these areas to tackle short-term difficulties while laying the basis for future recovery. It has

- introduced supports for business, through short term measures such as the Enterprise Stabilisation Fund and the Employment Subsidy Scheme, while ensuring large gains in international competitiveness;
- begun to re-position Ireland as a Global Innovation Hub based on the work of the Innovation Taskforce, particularly through the establishment of Innovation Fund Ireland;
- sustained high levels of capital investment to support economic activity during the last two years, completed the inter-urban motorways and delivered new projects at reduced cost; and
- provided funding for R&D and commercialisation and for renewable energy including ocean energy and biomass.

The Government recently launched a new strategy – Trading and Investing in a Smart Economy – to integrate the promotion of overseas trade, tourism and investment. This strategy sets out cross-sectoral priorities and targets, and a series of recommended actions that will ensure our trade, tourism and investment sectors are well positioned to respond effectively to emerging opportunities as the global economy recovers. The strategy focuses on specific sectors and markets and is expected to deliver 150,000 direct and 150,000 indirect new jobs. We have also set ambitious targets for new FDI investments, tourist numbers and exports.

The selected sectors include services, tourism, food, education, life sciences, software, Next Generation Network-enabled sectors, green technology, construction and the built environment, creativity and design, and technologies for an ageing population ('silver technologies').

Britain and the United States will continue to be our key markets. But there is considerable potential to expand business with our Euro area partners, as well as in new and high potential growth markets such as Brazil, China, India, Russia, Japan, and the Gulf States.

Positioning Ireland's brand and reputation in new growth markets and reinforcing positive messages about our brand and reputation in existing markets will support broadly based export-led economic recovery.

2.2 Restoring Cost Competitiveness

Data on prices, costs and productivity point to a sustained improvement in competitiveness over 2009 and 2010. The fall in the euro exchange rate against the dollar and sterling in the first half of 2010, and lower inflation in Ireland has assisted export performance[6]. But improvements have been slower to materialise in some areas, principally in the locally trading sector of the economy. Table 2.1 shows our ranking in a selection of key competitiveness indicators.

Table 2.1 Selected cost competitiveness indicators

Cost category	*Rank among countries benchmarked*
Large energy user prices	6th / 14
Waste disposal costs	9th / 9
Water costs for industrial users	10th / 16
Mobile telephone costs (high usage)	5th / 13
Broadband low speeds (< 2mbps)	6th/24
Broadband medium speeds (2-12mbps)	11th/29
Broadband high speeds (12-32mbps)	10th/29
Prime industrial rental	11th / 13
Prime office space rental	8th / 13

Source: National Competitiveness Council, Eurostat and OECD

[6] Central Bank (2010) *Quarterly Economic Bulletin*. Q4.

A number of areas require further action in order to boost competitiveness.

2.2.1 Waste, Energy and Transport

There has been a significant reduction in the cost of electricity for large users. For large energy users we are sixth cheapest out of 14 countries benchmarked. For SMEs we are now close to the EU average. A rebate of network charges to large energy users, combined with falling fuel prices and the development of renewable energy assisted this process. The Energy Regulator has taken steps to achieve efficiencies in network investment and operations. This has been matched by Government policy actions including the introduction this year of a carbon windfall levy on generators. The full opening up to competition of the supply and generation markets can be expected to have a positive impact on prices. Government will also take further actions.

Action Points

- The Commission for Energy Regulation will continue to impose rigorous efficiency targets on the ESB, Bord Gáis and Eirgrid to drive efficiencies in the energy sector.
- Capital investment programmes by the utility companies will be commensurate with the infrastructure needs and energy demand of the Irish economy avoiding excess capacity and extra cost.
- The National Energy Efficiency Action Plan will be implemented in order to achieve a national energy saving of 20% by 2020[7] including measures to assist SMEs to lower electricity costs.

When it comes to waste management costs and treatment options, Ireland needs to improve its performance.

Action Points

- Major waste infrastructure will continue to be developed primarily by the private sector while public investment in recycling infrastructure will be maintained - both elements will expand capacity and assist competitiveness.
- Levies will be used to drive waste modernisation in accordance with a sustainable waste hierarchy, ensure compliance with EU legislation and create a revenue stream for investment in support of waste policy objectives and enforcement.
- Government will ensure greater competition for public transport routes following the establishment of the National Transport Authority. This will have further positive effects on competitiveness.

[7] The Action Plan sets out a range of measures for achieving this saving including the National Retrofit Programme, supports to business for energy efficient technologies, a targeted energy reduction of 33% in the public service and the development of electric vehicles.

2.2.2 Telecommunications

Ireland compares favourably on international telephone costs and high use mobile packages as well as low speed broadband. Over the past three years internet subscriptions have trebled and broadband speeds have doubled. However the economic importance of this area demands continued progress and further improvements in quality and reduction in cost will be needed.

It will be important to ensure a high standard of international connectivity and to enhance the IT capacity of the network. Overall, the policy framework provides that investment in broadband infrastructure is primarily a matter for the market. State intervention is aimed at improving our digital skills, enhancing our international connectivity and addressing market failures where they exist.

Action Points

- The regulatory regime will facilitate a collaborative approach to private investment.
- The Next Generation Broadband Taskforce will work with industry to enhance the business case for investment in NGN (Next Generation Network) delivery.
- Appropriate State investment will be undertaken in cases of market failure.
- The use of state infrastructure for the roll out of NGN networks will be maximised.

2.2.3 Professional Services

In general, the cost of services to businesses has fallen, but this is not uniform across all professions. Although accounting costs have fallen, the cost of legal services remains high.

Action Points

- Competition in the professions will be promoted and overseen by an independent figure, reporting regularly to Government.
- The Government will identify further ways to tackle increases in insurance costs, building on achievements of the Personal Injuries Assessment Board.
- All the restrictions on appropriately trained General Practitioners who wish to hold GMS contracts will be abolished.
- Provide for a more structured approach to mediation in the legal system and promote further the use of Alternative Dispute Resolution taking into account recommendations of the Law Reform Commission in its Final Report 2010 on the subject.
- A package of measures to reduce legal costs will be implemented, including
    - increased use of tendering by the State;
    - prioritising publication and enactment of the Legal Costs Bill; and
    - additional proposals for legislation to reduce legal costs, drawing on the recommendations of the Legal Costs Working Group and the Competition Authority.
    - Provide for increased use of arbitration and mediation.

2.2.4 *Office Space/Property*

The construction cost of prime industrial sites fell by 14% between 2008 and 2009. Notwithstanding this reduction, costs in Ireland are still among the highest benchmarked by the NCC. The same applies to industrial rental costs, though office rental costs are now relatively competitive with a reduction of 18% recorded in 2009. There is scope for further improvement in this area.

> **Action Points**
> - The proposals of the Working Group on Transparency in Commercial Rent Reviews will be implemented.
> - The Office of Public Works will lead a coordinated effort to reduce office rents by up to 15% and review the efficiency of property arrangements across the public sector.
> - Proposals will be brought to Government for legislation to overhaul and streamline the property revaluation process. The possibility of secondment of staff from local authorities is being explored.

2.2.5 *Efficiency in Public Administration*

The Government charges for delivering services such as local government utilities and business administration. In addition, companies incur indirect costs in complying with regulations (health and safety, financial etc). Companies also incur costs in searching for business support services and in accessing similar services from multiple State providers. The Government will take specific steps to reduce the cost base for the private sector. This is part of the Public Sector Transformation programme (including the Croke Park agreement mechanisms) outlined in Chapter 4. The efficiency recommendations of the Local Government Efficiency Review Group will also play a role in streamlining administration.

The Government will take the following steps to improve public administration for the benefit of business customers:

> **Action points**
> - The 15 day prompt payment rule will be extended beyond Government Departments to the wider public sector.
> - Over the duration of the plan, increases in government administrative charges[8] will be avoided, and the scope for reductions examined where possible.
> - The targeted 25% reduction of the regulatory burden on business will be achieved by end-2011.
> - Local Authorities will be required to improve their efficiency, including through implementing relevant recommendations of the Local Government Efficiency Group, to reduce where possible, the level of rates charged to businesses.

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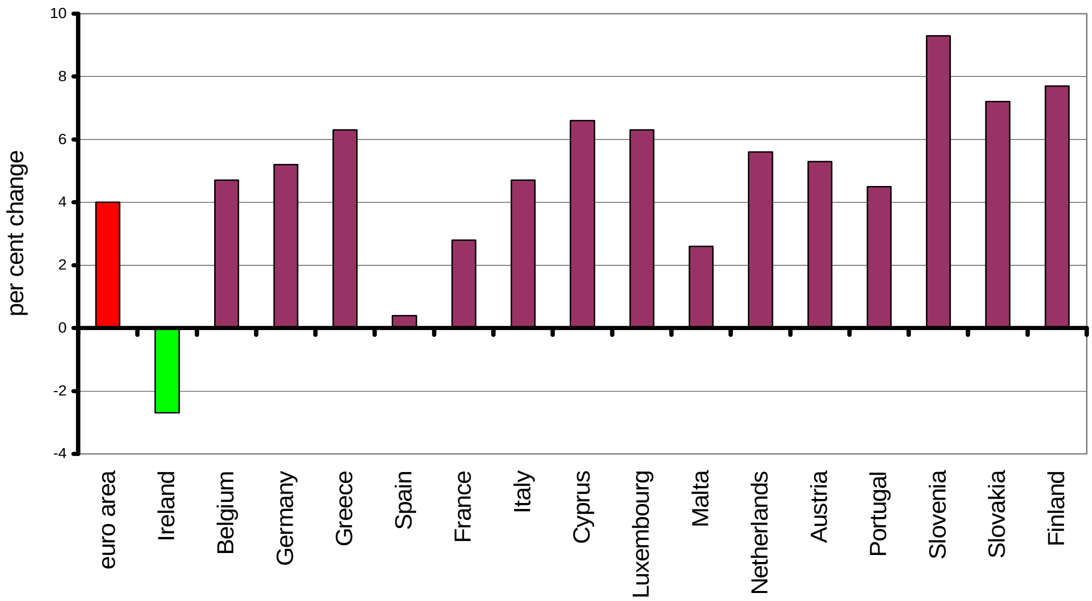
[8] This excludes levies payable by entities regulated by economic regulators e.g. ComReg, Commission for Energy Regulation, Central Bank etc.

2.3 Removing Barriers to Employment Creation and Disincentives to Work

The central objective of this plan is to create the conditions for growing jobs and tackling unemployment. Although productivity and efficient use of resources will be important for economic recovery, unit labour costs must also be maintained at competitive levels. Labour costs are the key element in overall cost competitiveness. Labour costs also affect the cost of other inputs to the enterprise sector and play a critical role in influencing employment levels.

A process of adjustment is underway: in 2009 there was a 6.75% improvement in unit labour costs vis-à-vis the euro area as illustrated in Figure 2.2.

Figure 2.2 Change in unit labour costs, 2009



Source EU Commission Spring 2010 Forecast

The official unemployment rate for the second quarter of 2010 was 13.6%. The extent of the unemployment problem varies geographically with the mid western and south eastern regions registering higher unemployment rates at 16.3% and 18.1% respectively. Similarly, there are differences across sectors with the industry, construction and retail sectors recording the largest percentage decreases in employment numbers. Given the scale of the unemployment problem, any legislative and policy obstacles to job creation must be removed. The State must also act to enhance the incentives to the unemployed to take up job opportunities. This combination of State interventions in the labour market must be carried out in an integrated manner.

2.3.1 Dismantling Barriers to Employment and Facilitating Employment Growth

Introduced in 2000 at a rate of €5.59, the National Minimum Wage (NMW) is currently set at €8.65. It has been increased six times since its introduction and is now 55% higher than its original level. By end 2010 the consumer price index is forecast to have increased by approximately 28% since 2001.

Our NMW is the second highest in absolute terms compared to other EU countries and is sixth when expressed in purchasing power terms. As a percentage of the average gross monthly earnings, Ireland has the sixth highest NMW.

The majority of minimum wage workers are employed in textiles, retailing, hotels, restaurants and bars, and personal services. Employment in occupations covered by the NMW is typically dependant on domestic demand and is likely to be sensitive to changes in the wage rate. Given the desirability of growing employment in those sectors where significant jobs losses have occurred, and the importance of encouraging recruitment of young people in particular, the level of the minimum wage has significance beyond the numbers currently employed at that rate.

Where a NMW is imposed at a level higher than the equilibrium wage rate, unemployment will result. Some workers will be willing to work for a wage lower than NMW but employers are restricted from providing these job opportunities. Other negative effects include:

- Acting as a barrier for younger[9] and less skilled workers to enter the labour force and take up jobs;
- Preventing SME's from adjusting wage costs downward in order to maintain viability and improve competitiveness; and
- Reducing the capacity of the services sector to generate additional activity and employment through lower prices for consumers.

The NMW was introduced during a period of sustained economic growth and rapid wage increases. Our circumstances have changed dramatically in the last three years. Price levels have reduced and earnings have adjusted downwards to help to preserve jobs. A reduction in the minimum wage level – as proposed by the OECD[10] - can also be expected to remove a barrier to job creation. Therefore the Government have decided to introduce legislation to reduce the rate of the minimum wage by €1 per hour, or 12% to €7.65[11].

Action point

- The minimum wage will be reduced by €1 to €7.65.

The new rate will remain in the top tier of EU minimum wage rates.

Other regulated wage levels exist in certain sectors where employers and workers reach specific agreements about pay and conditions of employment, either through Registered Employment Agreements (REA's) or Employment Regulation Orders (ERO's), following consideration by Joint

[9] According to CSO QNHS Quarter 2 2010, youth unemployment is 25.8% for the age group 20 to 24.
[10] OECD (2009) *Economic Survey – Ireland.*
[11] Proportionate reductions of 12% will also take place for minimum wage rates related to employees under 18 years of age and employees aged 18 or over in their first and second years of employment.

Labour Committees. The terms in each case are protected by legislation. These agreements apply mainly to the agricultural, catering, construction and electrical contracting sectors. Pay rates are typically above the NMW and in some cases incorporate significantly higher wage levels.

Both types of agreements constitute another form of labour market rigidity by preventing wage levels from adjusting. This in turn affects the sustainability of existing jobs and may also prevent the creation of new jobs, particularly for younger people disproportionately affected by the employment crises who form part of the labour force for these sectors.

Consistent with a proposed reduction in the minimum wage, it is important that any barriers to employment are removed in these regulated sectors given their significance for the traded sector of the economy. There is also a need to ensure these agreements are fit-for-purpose in the current economic climate. There is a strong case for removing anomalies and obsolete provisions, so as to have a more streamlined, transparent and flexible model of wage setting.

Three particular aspects of these arrangements have been identified as potentially problematic from a competitiveness and job creation perspective. These are:

- Specific cost-increasing conditions such as pay rates for Sunday working;
- Geographical divisions which can sometimes appear arbitrary; and
- Inflexibility in measures for adjusting agreements in line with broader labour market developments.

These issues must be addressed in order to assist competitiveness and employment growth in these important sectors.

Action Point

- A review of the framework REA and ERO arrangements will be undertaken by the Minister for Enterprise Trade and Innovation, to be finalised within three months.

2.3.2 Removing Disincentives to Work

Social policy must continue to protect the most vulnerable in society and provide supports to those in unemployment. At the same time, our social protection system must not contain poverty traps and must not discourage those who are unemployed from returning to work.

The jobseeker rate of social welfare payment almost doubled between 2001 and 2009 before being reduced in Budget 2010 to €196 per week. This rate of increase has had implications for replacement rates[12] in the labour market which will also be impacted by the decision to reduce the minimum wage.

[12] The replacement rates for given income levels measures the proportion of out of work benefits received when unemployed against take home pay if in work.

The persistence of high replacement rates can act as a major disincentive to work. Replacement rates of the order of 70% can be considered to be a barrier to employment.

Analysis of estimated replacement rates for different earning levels and family types undertaken by the Department of Finance in late 2009 revealed the following findings:

- In general, single people face high replacement rates at the earnings level of the NMW, but the issue does not arise for higher earning single people;
- Couples where both are not working face high replacement rates at income levels up to the average industrial wage;
- Couples with children where both are not working have higher replacement rates again; and
- One-parent families have low replacement rates except in cases where out-of-work income is supplemented by earnings from the community employment scheme.

Rate reductions have been introduced for new jobseeker claimants under age 25 and without child dependants. The Qualified Adult rates applicable were also reduced. These rate reductions have had a significant downward impact on replacement rates for such claimants.

In some cases, the effects of the proposed changes to the minimum wage will be to increase replacement rates. OECD analysis has pointed to a danger that the high rate of unemployment in Ireland could be sustained owing to weaknesses in activation policy and high replacement rates for those on below average wage levels[13]. Therefore, there is a need to strengthen activation measures and to ensure that replacement rates are not acting as a barrier for any cohorts in unemployment. Achieving the right balance between the level of the NMW, labour legislation, social welfare rates, taxation and levels of activation is crucial to avoiding work disincentives.

High replacement rates need not necessarily give rise to high unemployment provided there is an effective activation strategy in place. Given the current dynamics in the labour market however, high replacements rates are viewed as a disincentive to work.

Action Points

- Reform of the welfare system will reduce unemployment traps by incentivising employment and discouraging a long term attachment to the social welfare system.
- This will assist in removing disincentives to work and will be complemented by strengthened activation measures.

2.4 Re-orienting Activation Measures

International evidence indicates that appropriate activation measures can increase the incentive to work, reduce the number of long term unemployed and increase aggregate employment. In particular,

[13] OECD (2009) *Economic Survey of Ireland.*

activation measures can help ensure that those at risk of long term unemployment[14] are ready to avail of employment opportunities when economic recovery takes hold. It is critical that the unemployed are equipped with relevant skills and kept close to the labour market. There is a need for appropriate upskilling or reskilling so that the labour market can access the skills it requires.

Elements of the Government's Activation Policy

Increased levels of engagement with the unemployed

- The National Employment Action Plan[15] has increased substantially the number of interviews provided for the unemployed.
- Group interviews for the unemployed will be held after 3 months.

Training/work experience places

- Significant numbers of additional places have been provided for education, training/work experience for the unemployed since 2008.
- The Work Placement Programme allows for up to 2,000 individuals to participate in work for periods of up to 9 months while in receipt of social welfare payments.
- Allocations from the Activation Fund (€20 million) and the European Globalisation Fund were used in 2010 to provide additional options to help people back to employment.

Increased incentives for employers to create jobs

- The Employers' PRSI scheme to encourage employers to recruit people who are unemployed was introduced in July 2010.

Increased incentives for the unemployed to progress

- The targeted reductions in social welfare rates introduced in recent budgets have incentivised those under 25 to participate in education, training or work.
- Legislation has been put in place so that receipt of benefit payments will be conditional on participation in the National Employment Action Plan.

The Government is improving the efficiency of activation structures by streamlining the Public Employment Services. The Community Employment Scheme and the FÁS employment services are being merged with the Department of Social Protection providing a single employment service for jobseekers. This will facilitate central monitoring and control of conditionality measures.

[14] This includes former employees in declining sectors such as manufacturing and construction.
[15] The Irish National Employment Action Plan was adopted by Government in response to the European Employment Guidelines. The Plan includes a commitment to a more systematic engagement of the Employment Services with the unemployed. Implementation of this commitment commenced in September, 1998.

The scale of the unemployment problem justifies the introduction of further measures to improve national activation policies as recommended by the OECD. The focus must be on the provision of structured pathways to employment for those on the Live Register.

Action Points

A strengthened framework of additional activation measures will include:

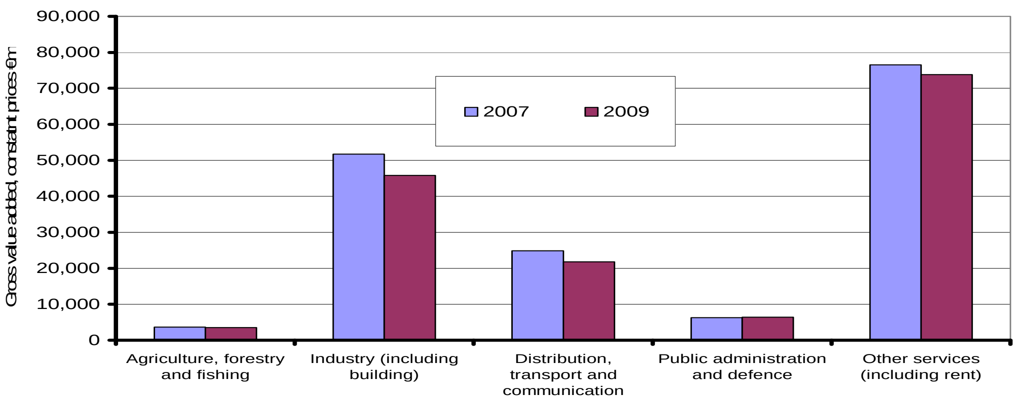
- A community work placement programme.
- A Skills Development and Internship Programme.
- Additional placements on the work placement scheme.
- The extension of the PRSI Employers Exemption Scheme to end-2011.

2.5 Enterprise Policy - Investment, Exports and Sectoral Performance

2.5.1 Sectoral Outlook

Figure 2.3 presents data on the sectoral contributions to gross value added (GVA) in the economy and how these have changed in recent years. GVA declined sharply in the Industry (including building) category. Value added also decreased in the distribution, transport and communication and other services sectors, reflecting the reduction in domestic demand and the impact of the financial crisis.

Figure 2.3 GVA by Sector, 2007 and 2009



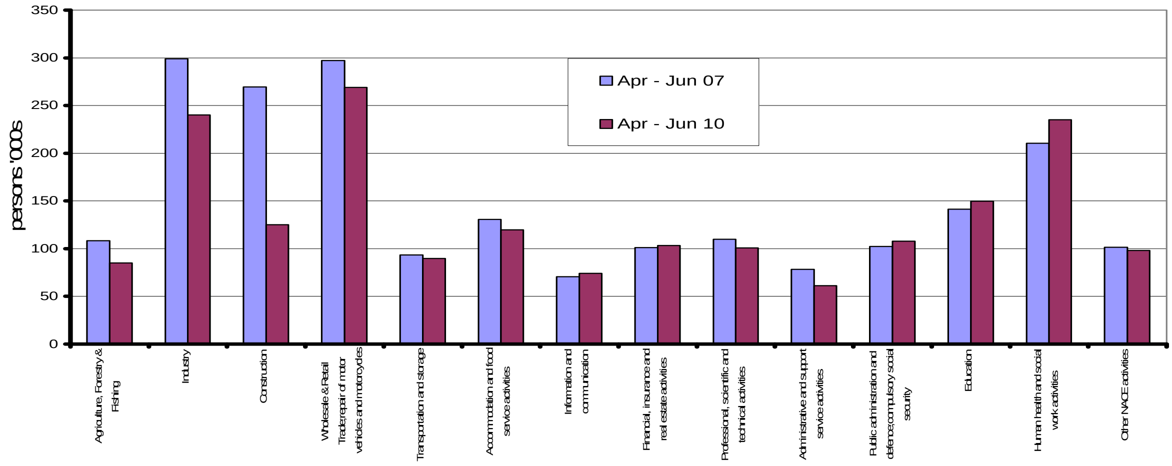
Source: CSO

The largest falls occurred in 2009 when GDP decreased by 7.6%. In that year,

- industry and building output decreased by 7.8%;
- distribution, transport and communications output decreased by 9.3%;
- other services output decreased by 2.3%; and
- public administration and defence output decreased by 0.5%.

Figure 2.4 presents the sectoral distribution of employment in the economy comparing data for Quarter 2 2010 and Quarter 2 2007.[16] Not surprisingly, construction is the most affected sector. Encouragingly, employment increased in high value sectors such as information and communications technology and financial, insurance and real estate activities.

Figure 2.4 Employment by sector, 2007 and 2010



Source: CSO

2.5.2 Investment and Innovation

Attracting Foreign Direct Investment (FDI)

The attraction of FDI has driven growth in the Irish economy in the past and can do so again in the next phase of Ireland's economic development. Foreign investment in Ireland is substantial in nature: IDA supported companies alone sustain over 135,000 jobs. Manufacturing of pharmaceuticals and medical devices, financial services and the provision of ICT and professional services are the key sectors. As noted in Chapter 1, our performance in this area has remained robust throughout the recession. Further steps can be taken to copper-fasten Ireland's attractiveness as a location for internationally mobile investment.

The implementation of the Government's Trade, Tourism and Investment Strategy will encourage niche areas such as converging technologies to make Ireland a strategic base for multinational corporations (MNC's). Government Departments will seek to form partnerships with multinational companies based in Ireland to develop, trial and roll out innovations which improve services in Ireland and can also have worldwide application.

Supporting Indigenous Business

Indigenous businesses, including large firms, high potential start ups and SME's, are a major source of employment. They provide essential goods and services nationwide and are pivotal to the success of

[16] The sectoral classifications by which GVA and employment data are published do not match exactly.

larger enterprises. They are also successful exporters in their own right. The range of competitiveness measures and labour market reforms outlined earlier will assist these firms through these difficult times and lead ultimately to growth. A number of further steps will be taken to encourage small business development.

Action Points

- The Business Expansion Scheme will be overhauled and improved. Full details are contained in Chapter 6.
- Enterprise agencies will work with SMEs to improve performance, productivity and competitiveness, assist them in developing exports in new and existing markets, help them to access public procurement opportunities and help firms develop a greater online presence.
- Core R&D supports and the innovation voucher system will continue to help small firms acquire cost-effective R&D and to move up the value-chain.
- The Government will investigate the potential for providing access to vacant or under-utilised public property for entrepreneurs or business start-ups to use as incubation centres.
- The Government is undertaking an overhaul of bankruptcy legislation.
- The 15 day prompt payment rule will be extended beyond Government Departments to the wider public sector.

Making Ireland a Global Innovation Hub

The Innovation Taskforce reported in March 2010 with recommendations to make Ireland a Global Innovation Hub. The aim is to make Ireland:

- The best place in Europe to turn research and knowledge into products and services;
- The best place in Europe to start and grow an innovative company;
- The best place to relocate or expand and scale an SME; and
- The best place in Europe for research-intensive multinationals to collaborate with each other and with clusters of small companies.

In support of these goals, a number of important recommendations made by the innovation taskforce will be delivered.

Action Points

- Innovation Fund Ireland will attract international venture capital fund managers to Ireland, making their expertise, experience and network available to our enterprises.
- IDA will introduce the European Accelerator Programme to attract fast growing firms to locate their European HQ in Ireland.

- Enterprise Ireland (EI) will introduce a new approach to providing seed capital and other supports to innovative start-ups.
- EI will assist Irish firms to maximise export potential through programmes for CEOs, mentoring and trade missions and will launch a campaign to attract overseas entrepreneurs to locate in Ireland.
- The 'Silvertech' initiative will be introduced and the HSE will work closely with multinational companies in Ireland on the introduction of new technology for healthcare.

Embedding Science, Technology and Innovation

Ireland has built a strong science base, and has joined Finland, Germany and the US in the world's top twenty countries for scientific output. Two thirds of Ireland's R&D is in the private sector, creating new product and service innovations that will drive exports, growth, and jobs. In 2009, nearly half of IDA investments were in research, development and innovation - activities that are central to productivity and new business development in Ireland's multinational sector. Indigenous enterprises continue to embrace R&D. Even during the downturn, these enterprises have proven they can grow exports and create employment. Productive, high calibre research, undertaken by highly skilled research teams working closely with industry partners will continue to be a core investment priority for Government. This new competitive advantage will be one of the key drivers of Ireland's economic recovery. But there must be a greater focus on the commercialisation of research outputs. Only world-class research projects should be supported and researchers need not necessarily be engaged across all disciplines. In sectors where we cannot be world leaders, the focus should move to technology transfer and utilisation of research elsewhere.

Action Points

- Research investments will be concentrated in areas where Ireland will secure the greatest economic and social returns.
- The number of industry led research competence centres will be doubled to ensure that industry drives the research agendas.
- IDA and EI will foster research, development and innovation in companies to boost productivity, exports, growth and jobs.
- Ireland has built a reputation as a country where enterprise can partner effectively with third level institutions. This will be developed at all levels ranging from SFI funded fundamental research centres (CSET's and SRCs) to EI Innovation Partnerships and Innovation Voucher programmes.

Fostering the Green Economy

The fast-growing Green Economy is an area where Ireland has huge potential for growth. The High Level Report on the Green Economy highlighted the growth and jobs potential in the following areas:

- Energy export potential

- Green IFSC
- Water management
- Ireland as a test-bed location and research hub
- Potential for convergence of ICT and energy management systems

The National Retrofit Programme has also provided work for the construction sector. There is scope to exploit the potential of over 250 companies (including high potential start ups) in the CleanTech sector. The Finance Act 2010 also contained measures to support the development of the Green Economy. Further steps in this regard include:

- Investing €4.5 billion in our transmission distribution and international interconnection grids to develop our renewable resources.
- Developing Ireland as a centre of new Smart Grid technology using our advantage in a flexible grid infrastructure and as a location for energy ICT companies.
- Identification of skills needs to capitalise on the green economy and design of appropriate courses and training to deliver these skills.
- The publication by Government of the Green Public Procurement Plan.
- Exploiting the potential of green financial services.

2.5.3 Strategy for Manufacturing and Agri-food Export Growth

Manufacturing growth was a key driver of Ireland's economic expansion in the 1990s and into the last decade. Although changes in the cost environment have posed challenges for manufacturing industries, the constituent sectors can re-position themselves by moving up the value chain, exploiting new market opportunities, including those in the BRIC countries, diversifying into market niches, and consolidating activities to achieve efficiencies.

In 2009, manufacturing exports amounted to some €84 billion[17] and represented 56% of all exports by value. Recent data show an increase of 12.8% in merchandise exports (broadly equivalent to manufacturing) in Quarter 3 2010 compared to the same period in 2009. This can be attributed to growth in Ireland's main trading partners and improvements in our competitiveness. The agri-food sector performed particularly well.

The broad **'Life Sciences'** sector encompasses chemicals, pharmaceutical and medical devices companies and is a key exporting sector. Total exports for the sector account for 57% of the value of all Irish goods exports[18]. Eight out of the world's top ten pharmaceutical companies have manufacturing operations in Ireland. Growth in this sector has driven Ireland's positive export performance during the recession. Ireland has a strong reputation in this area underpinned by core engineering skills and expertise in designing and constructing state-of-the-art manufacturing facilities. The industry has responded to the challenges of international competition and downward cost

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[17] CSO (2010) *External Trade July and August 2010*
[18] CSO External Trade Data, Forfas calculations

pressures by enhancing productivity and seeking to cut costs. Broad conditions remain positive for this sector in terms of the available workforce supports from the enterprise agencies and the solid international reputation in terms of regulatory compliance. The measures relating to cost competitiveness set out in previous sections, particularly the reductions in energy costs, will assist this sector in over-coming medium-term challenges.

The **ICT** manufacturing sector in Ireland accounts for approximately 7% of manufacturing exports. The sector has experienced a decline in output over the last two years and some multinationals have moved their manufacturing activities to lower cost locations. At the same time, a number of these companies have increased their services operations here. The concentration of leading ICT companies remains high for a country of Ireland's size and there are good prospects for recovery. The success of the IDA in attracting R&D projects to existing manufacturing sites will help anchor manufacturers and shift activities in Ireland further up the value chain. The tax environment remains favourable for inward investment and an improvement in cost competitiveness will also support medium term growth.

Action Points

Government will

- Provide significant funding through IDA Ireland, EI and Science Foundation Ireland, along with other R&D supports relevant to the sector.
- Deliver the Health Information Bill which will speed up ethical review of health research trials and investigations.
- Invest in R&D industry/third level sector collaboration.

2.5.4 Strategy for Services Export Growth

The services sector has been one of the success stories of the Irish economy over the past decade. In 2000, this sector accounted for just 21% of total exports. By 2009, services exports were valued at €66.6 billion and represented 44% of total exports by value[19]. The ESRI forecasts that services will make up 70% of total exports by 2025[20]. Although exports of indigenous services are growing, there is scope to accelerate growth.

Along with the sectors discussed below, opportunities for the internationalisation of traditional services areas will be exploited. For instance the Government will implement the International Education Strategy and Action Plan to improve Ireland's competitive position as a centre for international education.

This **financial services** sector covers international banking, funds management, shared services, investment management and insurance. Financial services exports accounted for 20% of total services

[19] CSO (2010) *Services exports and imports 2008 and 2009*
[20] As cited in National Competitiveness Council (2009) *Driving Export Growth – Statement on Sectoral Competitiveness.*

exports in 2009[21] with the IFSC playing an important role. Many leading international financial services firms have operations here. Although financial services exports decreased by 7.2% in value in 2008[22], employment figures have remained steady in the sector with a small decline in the numbers employed in international banking offset by growth in the international insurance industry. Recent data show a strong export performance by the financial services sector. The Government has taken a number of steps to support the sector in recent years including measures in the Finance Act 2010 to improve the competitiveness of the international funds industry and to encourage Islamic finance products. Future options for the sector will be identified through a Strategy Review by the IFSC Clearing House Group, to be published early in 2011.

The **digital economy** is a key part of the Smart Economy. It involves the rollout of an extensive Next Generation Network and also the fostering of cloud computing services and its attendant new applications.

Ireland is host to many of the world leaders in software such as Yahoo, Microsoft and Oracle, some of whom have located R&D centres here. Although such multinational companies account for the majority of software exports from Ireland, indigenous companies have grown in significance. Irish companies now account for €1 billion of total software exports of approximately €23 billion[23]. These firms have developed strengths in the e-learning, financial services and telecommunications applications.

The sector is an important source of high value jobs in the economy and while it is undergoing a period of consolidation (as companies seek to aggregate their activities in regional headquarters and to minimise their cost base) exports of Irish-based grew strongly in Quarter 3 of 2010.

Opportunities exist for indigenous software companies in traditional sectors (e-learning, financial services), tailored software solutions and hosted/managed services. The games software sector is also an emerging area of opportunity and there is scope to build on Ireland's growing reputation as a prime location for the industry, potentially through the introduction of specific supports. The underlying conditions for multinational companies remain positive with continual improvement in the R&D infrastructure.

Government has invested in an Exemplar Network that will act as a test bed for indigenous and international R&D into the next generation of data management.

The Government is determined to maintain Ireland as a manufacturing as well as a services economy, and our improving cost competitiveness, particularly in energy cost, will assist this.

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[21] CSO Service imports and exports bulletin. Forfas Calculations, CAGR between 2000 -2009
[22] NCC (2009) *Getting Fit Again*
[23] Department of Enterprise, Trade and Innovation (2010) *Trading and Investing in a Smart Economy.*

Action Points

Government will:

- Provide direct supports for R&D and other business activities through the enterprise development agencies.
- Roll out 100 megabit connectivity to second level schools.
- Continue the roll-out of the National Broadband Scheme.
- Develop the use of ICT as an enabler of energy efficiency, which is a key area of growth.
- Working with relevant industry partners will help SME's to better exploit the opportunities of global online markets by helping them create their first website and upskilling their capacity in online sales.
- Continue the modernisation of financial regulation according to best international practice.
- Develop Ireland as a centre for Green Data Centres and establish an International Content Services Centre.
- Explore the potential of green financial services.
- Complete a strategy review by the IFSC Clearing House Group 2011.

2.5.5 Key Sectors for Growth

This section deals with key labour-intensive sectors that will provide increased job opportunities as the economy recovers. These sectors will particularly benefit from the combined impact of the reduction in the NMW, the review of REA's and ERO's and increased cost competitiveness.

Agri-Food Industry

Exports by this sector amounted to approximately €7 billion in 2009, representing half of all exports by indigenously-owned firms. Sub components of the sector include meats, dairy products, prepared foods and drinks. The sector is highly labour intensive and is a vital part of the rural economy. 2009 was a disappointing year for agriculture with a decline in outputs and income but the sector's performance has improved in 2010. During the first five months, the value of exports was more than 8% higher than a year earlier, at almost €3 billion. The rate of recovery has accelerated as the year has progressed. Exports grew by 14% in the third quarter. Export prospects for the major agri-food product categories for 2010 are generally positive, as better market prices and a more stable economic picture across Ireland's key markets underpin trade.

Food Harvest 2020 and Bord Bia's Pathways to Growth strategy set out a roadmap for the sector and provide the framework for boosting competitiveness and increasing employment. The Food Harvest committee concluded we can grow our primary output by one-third, and our value added and exports by around 40%. This ambition is partly driven by the expected growth in global food markets and partly by our own strategic advantages as a food and drinks producer.

Future policy must be focussed on areas where competitive advantage can be achieved. The sector must become more innovative by investing in research, providing what the consumer wants, applying lean manufacturing techniques and ensuring we have the scale at every level to maximise our cost competitiveness. There must also be a focus on environmental sustainability, while continuing to support and develop primary production. We must build on our green image and market the environmental sustainability of our food production systems.

The ending of milk quotas in 2015 provides a unique opportunity for a step change in the scale of our dairy sector, with a 50% increase in milk output envisaged by 2020. Growing demand for seafood (including aquaculture) can be leveraged by developing non traditional species, improving quality and developing value added products from foreign landings for high value EU and niche markets. Consumer preferences for environmental sustainability and high quality can be exploited to increase prepared food and drink exports. Increased product differentiation and the use of genetic advances to boost productivity can contribute to growth in the beef and other meats sectors.

Along with measures to grow specific sub sectors, the energy cost competitiveness measures and the actions to improve wage flexibility outlined earlier in this chapter will increase profitability and employment in this sector which is particularly exposed to adverse exchange rate movements. Capital investment programmes will, where permissible, be targeted at producers with the best potential to achieve growth and competitiveness and at young farmers with relevant qualifications and robust business plans. Further consolidation and rationalisation is needed to generate the economies of scale and efficiencies necessary to increase commercial strength relative to other international competitors.

An Agri Research Advisory Group will be established to bring a greater industry focus to the design of research programmes which will reflect priority areas identified in Harvest 2020.The agriculture and forestry sector can also play a significant role in the development of renewable energy, for example, biomass. The potential of other technologies such as anaerobic digestion is also being appraised.

Action Points

Government will:

- Implement the key recommendations of Food Harvest 2020.
- Reconfigure the milk quota scheme.
- Promote lean manufacturing in the agri-food sector.
- Provide direct capital supports for marketing and processing.
- Support the consolidation and restructuring needed to enhance competition in the sector.

Tourism and Travel

Tourism has been a key sector for the Irish economy attracting foreign revenue and acting as an important driver of regional development. It contributes approximately 6% of all services exports and is relatively labour intensive, providing opportunities across a range of skills levels. Tourism generates direct income in sub-sectors such as accommodation and catering. It also has a positive impact on other sectors such as transport and retail. In recent years, visitor numbers have declined from 7.8 million in 2008 to 6.9 million in 2009, a fall of almost 12%.

But conditions in the industry are favourable: recent World Economic Forum benchmarking ranked Ireland among the best performing countries for hotel rooms per capita, attitudes toward tourists and sports stadium capacity. Convention Centre Dublin is a pivotal attraction for business tourism – a growing market segment which can yield a high economic return.

The tourism marketing budget of €44 million for 2010 will maintain Ireland's visibility in overseas markets and keeps the level and value of marketing investment constant in real terms. Additional measures to boost performance in this sector include the expansion of practical business supports for tourism enterprises, the extension of the employment subsidy scheme to hotels and the launch of a €4 million domestic tourism marketing scheme.

A return to growth in tourism numbers is dependent on a recovery in external markets. But measures to improve the quality and diversity of the tourism product and our competitiveness will position the sector to take advantage of that recovery. Capital funding for the tourism sector will be focussed on completing the upgrade of major tourist attractions, developing a small number of key iconic attractions, improving infrastructure for recreational cycling, walking and water based activities and heritage attractions. Investment will also be made in cultural projects, historic properties and national monuments. Competitiveness measures such as reducing the minimum wage, increasing wage flexibility (through a review of ERO's) and more competition in locally traded services will improve the cost base and viability.

Future opportunities include the development of cultural tourism, ecotourism, outdoor activities and business/conference tourism. There are also opportunities for growth in new markets such as the Asia Pacific countries, South Africa and the Gulf states. It is planned to increase visitor numbers to 8 million by 2015[24]. Achieving this target will expand employment in the tourism sector.

Action Points

Government will:

- Liberalise visa restrictions for visitors from long haul source markets.
- Invest in enhancing the visitor experience through quality tourism product (including attractions and infrastructure).
- Leverage existing cultural resources (the online Census and genealogical records, Aviva Stadium, Convention Centre Dublin etc) to raise Ireland's profile while

[24] Department of Enterprise, Trade and Investment (2010) *Trading and Investing in a Smart Economy*

maintaining investment in overseas marketing.
- Improve and facilitate tourism travel around Ireland.
- Work with stakeholders to augment access routes.

Retail and Wholesale

The retail sector is a major source of employment. Job losses, income reductions and higher precautionary savings have led to a substantial decline in personal consumption over the last two years. The paying down of household debt, uncertainty regarding job stability and the prospect of potential reductions in incomes due to tax increases continues to dampen retail demand. But recent CSO figures indicate that retail sales are stabilising and competitiveness has improved in the sector over the last two years.

As competitiveness increases and exports grow, employment will stabilise and begin to recover. This, together with the stabilisation of the public finances, will lead to greater certainty about future economic prospects and will in turn boost consumer confidence and lower the savings ratio from its currently elevated level. Higher consumption will increase employment in the retail sector.

Action Points

To support the retail sector, the Government will:

- Remove barriers to recruitment through the reduction in the minimum wage.
- Further improve the cost base through the measures to reduce input costs such as energy and property as outlined earlier in this chapter.
- Support an increase in consumption levels through measures to support the tourism sector.
- Enhance the efficiency of the sector through a reduction in transport times for delivery of goods as a result of investment in a number of key strategic road projects and road maintenance.

Construction

There has been a significant decline in employment in the construction sector caused by the severe contraction in new home building.

Demand for office and commercial accommodation can be expected to remain subdued. Recent analysis by the Department of Environment, Heritage and Local Government suggests that the oversupply in the housing market may be more pronounced in rural areas and that the overhang may be less significant in our cities. Pending the resolution of the housing adjustment, there may be a greater prospect for housing demand in our major cities. Government will take measures to help ensure the effective management and resolution of unfinished housing developments.

It is neither likely nor desirable that employment levels in the construction sector return to pre crisis levels. Nevertheless, a certain level of capacity must be retained to ensure skills and expertise built up in recent years are not lost for future activity. Incomes and employment growth in general will facilitate a return to a more stable long term equilibrium level of construction activity above the current level.

Action Points

Government will:

- Protect employment in the sector through a review of REA's.
- Support job retention through energy efficiency activities e.g. the National Retrofit Programme.
- Consider providing commercial opportunities for utility companies through the introduction of water metering.
- Develop Ireland as an international construction services centre, from which companies can compete for major construction contracts overseas.

2.5.6 Summary of Sectoral Considerations

Overall, Ireland must build on its strengths in ICT, health/life sciences, international financial services, agri-food and other internationally traded services. We will position ourselves to take advantage of emerging opportunities in green and cleantech technologies, marine and maritime industries, creative industries and other services. Combined with competitiveness reforms, the growth in exports in the manufacturing and services sectors previously discussed will boost domestic demand by creating employment and higher incomes.

2.6 Conclusion: Anticipated Medium-term Outcomes

The Government's strategy for an enterprise-led return to economic growth seeks to bolster the private sector to promote all areas of economic activity.

Some of the measures detailed above will impact on living standards of individuals and their families in the short-term. But these measures are essential if we are to bring the cost structure of the economy to a sustainable level and ensure that we respond flexibly to improved trading conditions as the recovery gains pace. In this way, existing jobs will be protected and new employment opportunities created. Realising these objectives will generate wider benefits. The labour market reforms contained in this chapter will have the effect of reducing unemployment and benefitting those most severely affected by the downturn, thereby fulfilling our national and EU commitments to combat social exclusion.

The measures detailed in this chapter will:

- enhance competitiveness through lower costs, productivity growth and innovation;
- support the growth of a successful, sustainable enterprise base;

- spur faster output growth;
- help to ensure that growth translates into gains in employment;
- help to bring down unemployment; and
- match those seeking work with suitable job opportunities more speedily so that spells of unemployment are on average shorter.

The macroeconomic forecasts which underpin the plan envisage GDP growth averaging 2.7% between 2011 and 2014. This pace of growth is expected to lower unemployment from its current rate of 13.5% to about 9.8%. These forecasts are based on the assumption that all the measures set out above are implemented and make some prudent allowance for the positive effects expected to flow from them. It is possible that the effects of the measures will be greater than has been incorporated in the forecasts.

Chapter 3 General Expenditure Context

Key Messages

- Two thirds of the budgetary adjustment will fall on the expenditure side – €10 billion.
- Reductions in current spending will amount to €2.1 billion in 2011.
- Capital spending will be €1.8 billion lower.
- Reductions are required in each of the three major areas of voted expenditure – the public service pay and pensions bill, social welfare and programme expenditure over the Plan period.
- The adjustment must be viewed in the context of significant expenditure allocations over the period 2000 to 2008.
- The adjustments in 2011 and later years will be determined on the basis of a coherent set of guiding principles for expenditure consolidation.
- The Government will reform the existing budget process.

3.1 Introduction

Restoring stability to the public finances is the centrepiece of this Plan. The day-to-day costs of running the State cannot be financed through borrowing on an indefinite basis. Reaching the challenging target of reducing the deficit to below 3% of GDP by 2014 requires structural reform of public spending and taxation. This Chapter provides an overview of the overall adjustment on the spending side.

Given the fall in GNP and the impact on Government revenues, the State is no longer in a position to afford the level of public services and social welfare rates of recent years. Because social welfare, pay and programme spending each account for around one third of total expenditure, reductions in each of these areas are unavoidable. These reductions will bring expenditure back to its 2007 level.

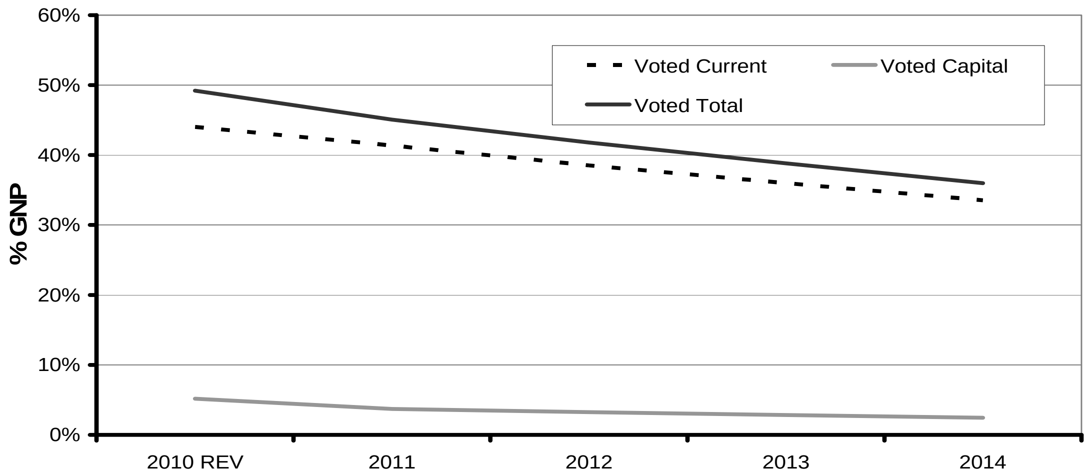
The planned expenditure element of the total budgetary adjustment is set out in Table 3.1 below. Current expenditure will be approximately €7 billion lower by 2014 compared to the projections based on existing policies, and capital expenditure €3 billion lower.

Table 3.1 **Budgetary Consolidation Path 2009-2014**							
	2009* €billion	***2010* €billion***	***2011 €billion***	***2012 €billion***	***2013 €billion***	***2014 €billion***	***% change 2010-14***
Opening position:-							
Gross Current Expenditure	55.7	54.7	54.9	54.7	54.8	55.1	1%
Gross Capital Expenditure	7.3	6.4	6.5	6.5	6.5	6.5	2%
Current consolidation**							
- annual			2.1	1.3	1.5	1.5	
- Additional impacts from 2011				0.4	0.1	0.1	
- cumulative				3.8	5.4	7.0	
Capital consolidation							
- annual			1.8	0.4	0.4	0.4	
- cumulative				2.2	2.6	3.0	
Total consolidation**							
- annual			3.9	1.7	1.9	1.9	
- Additional impacts from 2011				0.4	0.1	0.1	
- cumulative				6.0	8.0	10.0	
Revised expenditure position^:-							
Gross Current Expenditure	55.7	54.7	52.8	50.9	49.4	48.0	-12%
Gross Capital Expenditure	7.3	6.4	4.7	4.3	3.9	3.5	-45%

**As published in the Revised Estimates for Public Services 2010.*
***Includes measures which impact on both gross and net voted expenditure.*
^ The gross expenditure position does not reflect any adjustments made to appropriations-in-aid.

The Plan provides for a scaling back of current expenditure[25] by 11 percentage points of GNP, from 44% in 2010 to 33% by 2014. Total Government expenditure[26] (i.e. including capital) will fall from 49% to 36% of GNP over the period, as shown in Figure 3.1 below.

Figure 3.1 Expenditure Path, 2010 - 2014



Action point

- The total expenditure adjustment over the period of the Plan will amount to €10 billion, comprising of €7 billion current expenditure and €3 billion capital expenditure. As a result, total Government voted expenditure as a percentage of GNP will be reduced from 49% to 36% by 2014.

[25] Voted expenditure
[26] Voted expenditure

3.2 Why We Must Reduce Expenditure

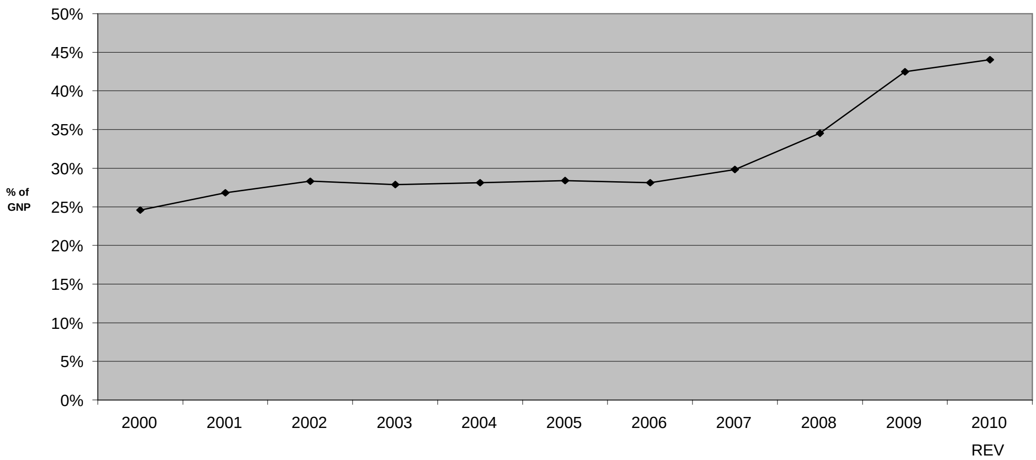
The planned reductions must be seen in the context of the rapid increase in public spending over the period from 2000 to 2008. This saw unprecedented improvements in the level and quality of public service provision in Ireland. In particular, major strides were made in improving social welfare levels, increasing expenditure on education and healthcare, and the stock of infrastructure in the economy was significantly enhanced. Table 3.2 below shows the rate of increases in the key areas of expenditure.

Table 3.2 Increases in Public Service Allocations 2000-2008

Public Expenditure area	*2000 € bn*	*2008 € bn*	*% change 2000-2008*
Social Welfare	6,829	17,741	+160%
Education	3,716	8,465	+128%
Health	5,362	15,356	+186%
Capital investment	3,930	9,011	+129%
Total expenditure	25,925	62,395	+141%
Consumer Price Index	-	-	*+ 34.8%*

These significant increases in public expenditure were broadly in line with the strong nominal growth rate of the Irish economy with expenditure as a proportion of GNP remaining at around 28% for most of that period. However, with the sharp fall off in growth since 2008, that ratio has risen markedly to around 44% of GNP in 2010, as shown in Figure 3.2 below. It is clearly not sustainable for public spending to remain at such a high level, and restoring overall expenditure back to an affordable level is now a key imperative of public policy.

Figure 3.2 Voted current expenditure, 2000 – 2010



The Government has already taken decisive action to restore stability to the public finances. Since 2008, significant re-prioritisation and reduction of expenditure has occurred. These adjustments have stabilised overall levels of spending, notwithstanding a large increase in the social welfare bill due to rising unemployment. The sustained programme of expenditure reduction undertaken by Government to date is outlined in the box below.

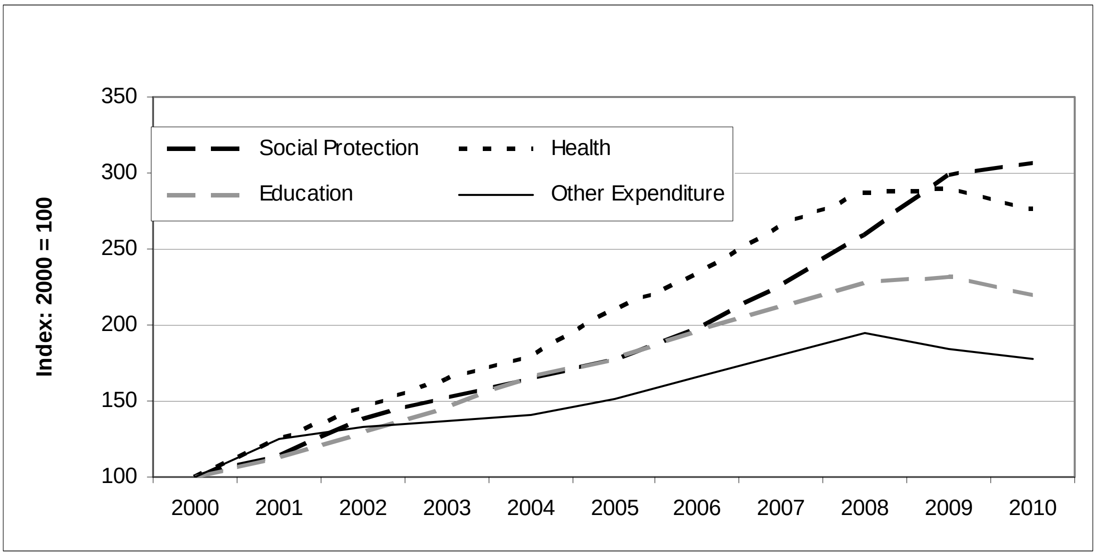
Summary of Expenditure Savings undertaken to date

- €1 billion in July 2008, arising from re-scheduling of the decentralisation programme, and a range of administrative savings on foot of the Efficiency Review that had been announced in Budget 2008 (December 2007);
- €3 billion in February 2009, arising from a range of efficiency and policy adjustments, including the introduction of a public service pension levy, and the postponement of pay increases that had been scheduled under the Towards 2016 partnership agreement;
- €1.8 billion in April 2009, on foot of a major round of programme savings and capital reductions announced in the *Supplementary Budget;* and
- €4 billion in December 2009, with a significant range of cuts in Public Service Pay, Social Welfare payments, as well as other programme areas and capital savings.

Taken together with other programme savings and containment measures in this period, including in Budget 2009, the overall expenditure consolidation exercise amounts to more than €10 billion, or 8% of this year's GNP.

The expansion in spending throughout the 2000s and the reductions since 2008 are illustrated in Figure 3.3 below. This Plan builds on recent savings initiatives to restore order to the public finances.

Figure 3.3 Expenditure Path by area, 2000-2010

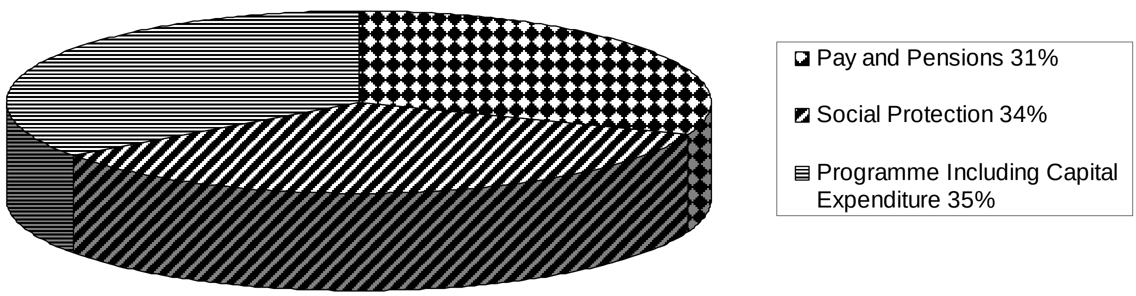


3.3 Composition of Expenditure

Achieving budgetary savings of the scale envisaged in the Plan requires a balanced and strategic approach. It requires a contribution from all of the principal components of expenditure and must be consistent with the Government's overall plan for restoring competitiveness and promoting growth and job-creation over the period ahead. In particular, it is essential that a streamlined and more efficient system of public administration makes a sizeable contribution to the budgetary adjustment and that front-line services are protected insofar as possible.

The broad composition of the three main elements of current expenditure in 2010 is set out in Figure 3.4 below.

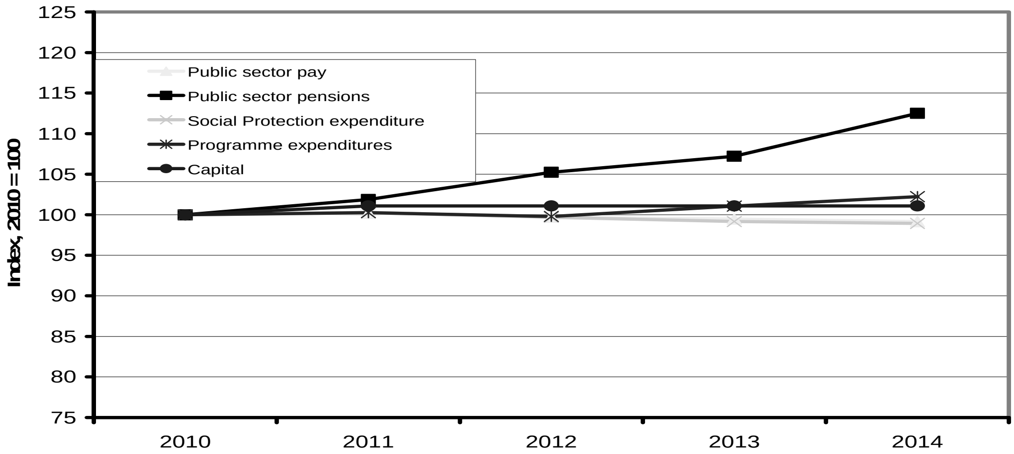
Figure 3.4 Broad Composition of Current Expenditure 2010



While efficiencies and the elimination of waste can play an important role, they cannot of themselves bridge the gap to any substantial extent. Material reductions across these three broad categories are therefore required.

It is useful to disaggregate these categories into public service pay, public service pensions, social welfare expenditure, programme expenditure and capital. On the basis of existing policies, expenditure across these areas would evolve over the period to 2014 as set out in Figure 3.5 below. This illustrates that public service pay - while a significant proportion of the total - is on a stable course, in contrast to public service pensions where costs are set to rise. The most pronounced increase is on social welfare payments; this is driven by both social welfare pensions spending due to demographic factors, and working-age social expenditures across the wide range of schemes and supports in this area (after taking account of the projected reduction in the Live Register).

Figure 3.5 Existing Path of Expenditure, 2010-14



3.4 Strategy and Principles for Expenditure Reductions 2011-2014

The expenditure reduction measures taken by Government over the next four years will have an ongoing effect on the economic and social fabric of the country. For this reason, it is important that decisions about these measures are grounded in a coherent vision of our medium term future.

It is widely accepted that continued targeted investment in education and innovation will enhance our future economic growth prospects. Our own experience from the 1980s and international evidence tell us that activation and other labour market measures play an important role in preparing those who have lost their jobs for a return to work as economic growth gathers pace.

It is also clear that healthcare and welfare systems that have taken years to evolve are important to maintain as far as possible. To guide expenditure choices over the next four years, the Government has agreed a set of principles which will inform a consistent approach to realising the savings necessary to achieve the target of a deficit of 3% of GDP by 2014.

These principles are:

- Future capital investment must be carefully targeted and more employment-focused;
- The costs of delivering public services must be brought down;
- The vulnerable must be protected as far as possible;
- Support levels must be restructured to preserve incentives;
- Essential Healthcare and Education services must be protected;
- All other programme expenditure, grants and subsidies must be scaled back to affordable levels; and
- Ministers and Public Service Managers must prioritise expenditure within cash ceilings.

These principles have shaped the expenditure measures for 2011 and the subsequent years of the Plan which are set out in Chapters 4 and 5.

The Principles for Expenditure Reductions Explained

Future capital investment must be targeted and employment-focused:
Overall capital investment in Ireland has been maintained at twice the EU average for a decade. The "infrastructure deficit" that constrained economic capacity in the past has been largely addressed. As many objectives have been met this area should provide major savings. The smaller allocation must be targeted on those areas that will help to underpin recovery, with job-intensive investment in building up our economic capacity.

The costs of delivering public services must be brought down:
The salary cost of doctors, nurses, teachers, Gardaí and other public servants account for about one third of day-to-day spending. A balanced approach to expenditure reductions still requires that the overall payroll bill be tackled. Public servants have had two pay reductions in 2009 and 2010 and it is appropriate to recognise their contribution. There is scope for further savings in payroll costs through number reductions. The Croke Park Agreement provides a basis for greater efficiencies and flexibility, without having recourse to further pay reductions. The commitments entered into by the Government under the Croke Park Agreement are dependent on savings being delivered.

The vulnerable in society must be protected as far as possible:
Social welfare accounts for one third of day-to-day spending. The Government will ensure that in achieving savings in this area, scarce resources are directed at those most in need.

Support levels must be restructured to preserve incentives:
The driving force for this re-balancing is the need to preserve incentives for people to take up work.

Essential Healthcare and Education services must be protected:
The health and education sectors account for €24 billion, or about 44%, of overall current spending in 2010. The Government recognises the importance of essential frontline healthcare and education services and will minimise the impact of reductions as far as possible. The focus must be on eliminating inefficiencies, cutting administrative overheads and examining all areas of expenditure to achieve value for money and to lessen the impact on service provision.

All other programme expenditure must be scaled back to affordable levels.
Significant savings must be found in this broad area of expenditure, including closing off schemes and programmes and reducing grants and subsidies. The traditional model of completely free provision for public services is not sustainable. A reasonable co-payment on the part of the citizen will (a) offset, to some extent, the Exchequer costs involved, and (b) lessen the waste arising from unnecessary oversupply, which is always a risk when goods or services are provided free.

Ministers & Public Service Managers must prioritise expenditure within cash ceilings:
Through setting cash ceilings for each expenditure area, the task of identifying the necessary savings for each year will be delegated to each Minister and Departmental head as part of the reformed Multi-Annual Expenditure Framework (see Annex 7). Overall expenditure levels will be fixed and prioritisation of expenditure and identification of savings will be embedded into the process of expenditure management.

3.5 Budget Reform

The budget system will be comprehensively reformed and updated to bring greater sustainability to the management of public finances; to achieve maximum value for money in public expenditure; and guard against the emergence of structural budgetary imbalances.

This process will take into account the recent recommendations of the Joint Oireachtas Committee on Finance and the Public Service in its recent Report on Macroeconomic Policy and Effective Fiscal and Economic Governance.

A reformed *Budget Formation Process* taking account of agreed EU-wide coordination and surveillance mechanism will be put in place. A budgetary timetable along the following lines is now being considered:

- *December:* annual Budget presented to Dáil Éireann, with detailed Estimates for the coming year *(year t+1).*
- Draft Stability Programme Update (SPU) projections prepared, together with proposed multi-year Ministerial Current Expenditure Envelopes, for the later years *t+2* to *t+4.*
- *January – April:* refinement of the draft SPU projections and multi-year budgetary policy objectives, taking account of the updated global and domestic economic outlook, and in the light of commentary from the Budget Advisory Council (see below) and the relevant Dáil Committee. In addition, the EU policy co-ordination processes culminate with the 'Annual Economic Summit' (European Council) and its Conclusions.
- *April:* The final Stability Programme Update for the years *t+2* and beyond is prepared in light of the perspectives received from the above policy inputs.
- *July:* EU-wide budgetary surveillance, on the basis of SPU documents, would be completed.
- *September - December:* Preparation of the December Budget and detailed Estimates for the following year, *t+2,* is ongoing, in line with the overall parameters set out in April's SPU document.

Reformed arrangements will also include:

- the extension of *Performance Budgeting* to identify more readily the results and impacts that are expected to be delivered with public funds - details in this regard are provided in Annex 6;
- new *VFM rules* to spotlight performance, and to assess whether spending programmes and investment projects are delivering real benefits;
- a *Medium-Term Expenditure Framework* with multi-annual ceilings on expenditure in each area, to ensure that public expenditure is managed within fixed, sustainable limits and to guide the planning and delivery of structural and policy reforms - further details in this regard are set out in Annex 7;
- a *Budget Advisory Council* to provide an independent commentary on the Government's budgetary planning, by means of assessing the appropriateness of the budgetary stance and aggregate budgetary targets being adopted; and
- a *Fiscal Responsibility Law* to put key reform measures on a statutory basis and to ensure that the principle of keeping the public finances on a sustainable footing is binding in law.

Further operational aspects of these reform measures will be set out in the forthcoming 2011 Budget.

Action Point

- The Government will reform and update the existing budgetary architecture, with details to be announced in the 2011 Budget.

Chapter 4 Current Expenditure Measures

Key Messages

- Savings of €7 billion will be made on current expenditure by 2014.
- 40% of the savings will be frontloaded in 2011 and will amount to over €2.1 billion in 2011 and over €2.7 billion in a full year.
- Adjustments are required across all major categories of spending, namely:
  - Public service pay bill (- €1.2 billion).
  - Social Protection expenditure (- €2.8 billion).
  - Other Programme expenditure (- €3 billion).
- Further reduction of public service staff numbers for each sector to bring the overall reduction to over 24,750 or 8% on end-2008 levels.
- More effective use of staffing resources with redeployment of staff within and across sectors of the public service to meet priority needs.
- Reform work practices to provide more efficient public services with scarcer resources.
- Introduce a reformed pension scheme for new entrants to the public service and reduce their pay by 10%.
- Introduce a pension deduction for public service pensioners to yield €100 million in savings.
- Increase the student contribution to the costs of third level education;
- Introduce water metering by 2014.

4.1 Introduction

The expenditure choices set out in this Chapter are designed not only to return public spending to a sustainable level but to hasten economic recovery. For this reason, investment in education, innovation and enterprise has been maintained. The targets set for a reduction in public service staff levels will require a more efficient and effective public service that, together with the full implementation of the Croke Park Agreement, will enhance our competitiveness and deliver better services to citizens.

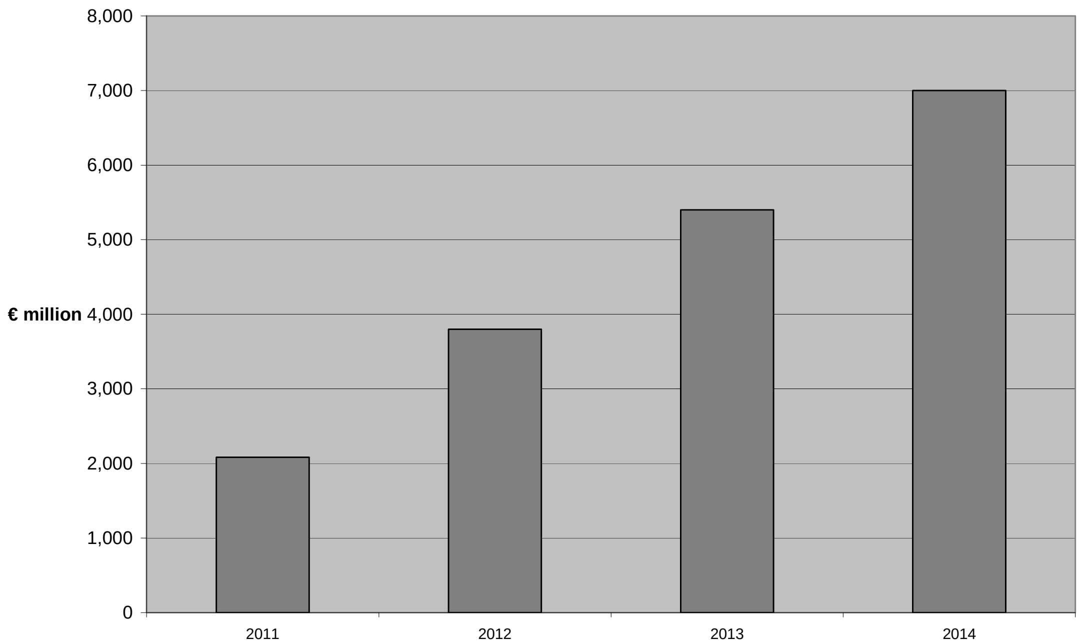
The measures contained in the Plan will reduce current expenditure to just over €48 billion by 2014, some €7 billion less than had been projected. Table 4.1 sets out the trajectory of gross current expenditure necessary to achieve the 2014 target which amounts to a reduction of 13% of 2010 spending. Expenditure savings of over €2 billion will be made in 2011 with somewhat lower annual savings targets set for each of the years 2012, 2013 and 2014.

Table 4.1 Composition of 2009/2010 Allocations and 2011-2014 Savings	*Allocations*		*Adjustments*[27] [28]				
	2009 €bn	***2010 €bn***	***2011 €bn***	***2012 €bn***	***2013 €bn***	***2014 €bn***	***% of 2010 Base***
Public service pay	17.4	16.0	0.3	0.7	0.9	1.2	-8
Public service pensions	2.6	2.8	-0.1	0	0	0	0
Social Protection expenditure	20.4	20.9	0.9	1.5	2.3	2.8	-13
Other expenditures	15.3	15.0	1.0	1.6	2.2	3.0	-20
Of which: Administration	1.2	1.2	0.1	0.1	0.1	0.1	-8
Subsidies, Grants and other schemes, Procurement	14.1	13.8	1.0	1.6	2.2	3.0	-22
Current Total	55.7	54.7	2.1	3.8	5.4	7.0	-13

All areas of expenditure will be reduced, on the basis of the principles set out in Chapter 3. Those areas where expenditure is highest will yield the greater part of the savings. The Government is determined to ensure that administrative streamlining and efficiencies, consistent with the Government's agenda of *Transforming Public Services* and with the commitments entered into under the Croke Park Agreement, will play their full role in delivering the required level of savings. This is essential if public services are to be reformed and delivered at a cost that can be sustained in the future.

Figure 4.1 outlines the scale of the expenditure savings to 2014.

Figure 4.1 Scale and composition of cumulative savings, 2011 to 2014



[27] The public service pay adjustment includes the associated fall in the pension-related deduction from reduced Public Service pay.
[28] The Public Service Pension adjustment includes the €100 million annual savings arising from the measures outlined in section 4.7. These savings are offset by the increased pension costs associated with the planned structural reduction in Public Service numbers, particularly in relation to lump sum payments in the earlier years of the plan.

4.2 Public Service Pay Costs

The Public Service Pay Bill has been reduced by over €1.4 billion in gross terms in 2010 over the 2009 outturn and now stands at just over €16 billion as a result of the reductions in public service pay rates and reduced staffing levels. Public service staff numbers have already been reduced by about 12,000 since peak levels at end-2008. This exceeds the targets adopted by Government in late 2009. In fact, the existing end-2012 target of 307,400 (whole-time equivalents) has effectively been achieved by end September 2010 (307,500) and will be comprehensively exceeded by end 2010 when the effects of the H.S.E. scheme are taken into account.

On the basis of existing policies and projections, public service pay costs will continue to fall. Sector-by-sector analysis indicates that, by continuing to build upon the control measures currently in force, we can now achieve a target level of 294,700 staff numbers by end-2014. This will return the public service to the numbers last seen in early 2006 and the public service pay bill to the level last seen in 2005. Table 4.2 sets out the planned position.

Table 4.2 Expenditure on Public Service Pay Bill[29]

	2009 €bn	*2010 €bn*	*2011 €bn*	*2012 €bn*	*2013 €bn*	*2014 €bn*	*% change 2010-14*
Opening Pay allocation	17.4	16.0	16.1	16.0	16.0	15.9	-1%
Consolidation measures, 2011-14[30]			0.4	0.7	1.0	1.2	-
Pay Expenditure Ceiling	17.4	16.0	15.7	15.3	15.0	14.7	-8%

The pay saving resulting from this reduction in numbers, coupled with a range of reforms and efficiencies will amount to €1.2 billion savings by 2014. Table 4.3 below set out details by Government sector. This gross pay saving will be offset by some increased pension costs in 2011 and 2012, as discussed in the section 4.7 below. There will also be additional savings in the local authority sector, not directly impacting upon the Exchequer.

Additional pay savings will be achieved through an immediate 10% reduction in the pay of all new entrants to the public service leading to a further sustainable reduction in public service pay costs over the medium term. In addition, all new entrants will start on the minimum point of the scale.

More generally, the Government has already taken action to reduce the pay of politicians and senior public servants. In 2009 the Minister for Finance ordered a fresh review of top level public service pay, to take account of the changed budgetary and economic circumstances, the changed private sector pay environment and to compare pay against that of other countries of comparable scale,

[29] This table presents the gross pay allocations and, as such, does not take account of the receipts of the pension-related deduction on Public Service remuneration, which is estimated to yield up to €1 billion in 2010.
[30] Does not include the associated fall in the pension-related deduction from reduced Public Service pay.

particularly in the Eurozone. This led to the Government reducing the pay of Ministers, TDs, Senators and other office holders, as well as senior civil servants and their equivalents across the wider public service.

The Government has also placed an appropriate salary limit on the CEOs of the largest financial institutions and ordered a cessation of the payment of bonuses. Salaries of other senior executives are being adjusted to bring them into line with the salary caps imposed on the CEOs.

In addition the Government has decided to carry out a review of the pay of the Chief Executives of commercial State bodies.

Table 4.3 Public Service Numbers at end year and associated Pay savings*

	2000	2008	2010	2011	2012	2013	2014
Opening numbers ceilings	247,250	319,450	307,900	308,000	307,400	308,500	309,350
Numbers ceilings				301,000	298,800	296,500	294,700
of which:							
Civil Service	34,050	39,300	37,350	36,200	35,800	35,250	34,600
Health Sector	81,500	111,050	106,850	105,300	103,800	102,300	100,800
Education	67,850	94,650	93,700	93,300	94,100	95,050	95,750
Justice	12,250	15,700	14,800	13,750	13,600	13,400	13,250
of which Gardaí:		14,400	14,500	13,500	13,350	13,150	13,000
Defence	12,100	11,250	10,800	10,500	10,400	10,300	10,300
Local Authorities	29,100	35,000	32,200	30,750	30,400	30,000	30,000
NCSAs**	10,400	12,500	12,200	11,200	10,700	10,200	10,000
Annual Ceilings Reduction				7,000	8,600	12,000	14,650
Cumulative Numbers Reduction since 2008				18,450	20,650	22,950	24,750

* Numbers rounded to the nearest 50 whole-time equivalents.
** Non-Commercial State Agencies.

Over the last year, enhanced numbers monitoring systems and multi-annual frameworks have been put in place. These arrangements will be strengthened to ensure that effect is given to Government decisions on public service numbers.

The staff reductions required to achieve the end 2014 ceiling of 294,700 equate to an average annual reduction of approximately 3,300 in the number of serving public servants over 2011 to 2014. Delivering this reduction will require continued implementation of the moratorium on recruitment with exceptions being limited to all but a limited number of essential posts and the utilisation of redeployment as the primary mechanism to fill posts which have been approved.[31]

The annual aggregate and sector ceilings outlined in Table 4.3 set out the minimum acceptable reduction in staff numbers and should staff exits exceed projected levels, the savings target by 2014 will be frontloaded. There can be no question of recruitment of replacement staff in any sector, except in the circumstances outlined above, until the reductions required to reach the end 2014 ceilings have been exceeded. On this basis, the overall numbers reduction of 24,750, relative to end-2008, represents a prudent basis for the delivery of numbers-based payroll savings. The Government anticipates that accelerated numbers reductions may make a further contribution to the overall payroll adjustment of €1.2 billion by 2014.

The reductions sought will bring Garda numbers back to 13,000, the level reached in 2006/2007. Civil service numbers will go back to 34,600 or 2001 levels, and HSE numbers will return to 100,800, the 2005 level. Education numbers will increase over the period reflecting demographic pressures and in line with Government commitments.

More generally, the savings arising from numbers reductions will need to be supplemented with significant savings from efficiencies and greater flexibility realised through a whole range of reform measures in accordance with the Croke Park Agreement. This will involve reductions in the costs of overtime, allowances, staff substitution and temporary replacement, and special payments across the public service. The National Recovery Plan has been prepared on the basis that the Croke Park Agreement will make possible the delivery of tangible savings. The commitments entered into by the Government under the Croke Park Agreement are dependent on savings being delivered.

4.3 Reforming Institutions and Service Delivery

This proposed reduction in numbers will drive major reforms in the way that the public service does its business. The Public Service will be smaller, with fewer organisations and fewer staff operating from a reduced number of locations with significantly reduced resources. Because of this, the Public Service will have to be more efficient and effective. It will have to achieve greater productivity and demonstrate greater flexibility. The performance of organisations and individuals will have to be better managed and measured and there will have to be greater accountability for results. Staff mobility will have to be maximised and organisations will have to be restructured so that public bodies and individual public servants will be able to work together across sectoral, organisational and professional boundaries more effectively.

The Government has set out a vision for an increasingly integrated Public Service which is leaner and more effective, and focussed on the needs of the citizen. This vision must be realised throughout

[31] In exceptional circumstances, critical and urgent business needs may necessitate recruitment to particular posts which cannot be filled though redeployment. In such cases, the organisation will be required to suppress a lower priority post.

every part of the Public Service through the implementation of Government's Transforming Public Services agenda which will be facilitated by the Croke Park Agreement. The commitments given by the Government under the agreement are dependent on delivery of these efficiencies. Unions have agreed that services can be restructured, work locations can change and that services to the public can be offered over longer periods.

The reduction in numbers over the last two years has resulted in increased productivity across the public service. The core concern of Government is to achieve sustainability in the cost of delivering public services through a further targeted reduction in public service numbers. Revised work practices and other major reform initiatives are essential to mitigate the impact on priority public services of staff reductions and limited resources. More must be achieved by fewer staff with smaller budgets.

Croke Park Agreement

- Building on its Statement on Transforming Public Services, the Government has set out a vision for an increasingly integrated Public Service which is leaner and more effective, and focussed more on the needs of the citizen. The Public Service Agreement 2010-14 (the Croke Park Agreement) will facilitate co-operation with the actions which will have to be taken in every public service organisation to achieve the Transformation agenda.

- In the light of the serious state of the public finances, very significant steps have already been taken over the last eighteen months to restrict the cost of the public service.

Pay Reduction

- By accepting the Croke Park Agreement, public servants have accepted the imposition of a pension levy and pay cuts resulting in an average combined reduction of 14% in pay. This has resulted in an estimated annual pay saving of €1.8 billion in net terms. The Agreement provides for an effective freeze in pay up to 2014.

Substantial Numbers Reductions

- As a result of the moratorium on recruitment and promotion and other cost savings mechanisms like the Incentivised Scheme of Early Retirement and the Incentivised Career Break Scheme, there has already been a reduction of about 12,000 in public service numbers since the end of 2008. Under the Croke Park Agreement, the public service unions have given commitments to co-operation with public service modernisation which will include work practice changes that will be necessary to sustain priority service levels with significantly reduced numbers.

Industrial Peace

- Reform measures have been implemented with no substantial industrial unrest.

4.4 Redeployment

Without steps to mitigate their impacts, a substantial reduction of the numbers of public servants would impact on the level and range of services delivered to the public. In this constrained environment it is crucial that there is maximum flexibility in the deployment of staff.

The redeployment arrangements contained in the Croke Park Agreement will allow us to sustain priority services which will include work practice changes that will be necessary to sustain priority service levels with significantly reduced numbers. It will permit staff to be moved from activities which are of lesser priority, or which have been rationalised, reconfigured, or restructured, to areas of greater need.

Redeployment arrangements will apply in the Civil Service; in the Health and Education sectors; in Non-Commercial State Agencies (NCSAs); and in Local Authorities. Redeployment can take place within individual sectors or between these sectors. It will provide Departments and agencies with an effective and efficient mechanism for reducing excess staff numbers and for acquiring additional staff where appropriate, without the need to resort to outside recruitment. In addition substantial changes will be required in work practices as provided for under the Croke Park Agreement.

4.5 Public Service Transformation

Delivery of the Government's Transformation agenda will require tangible and measurable change across all parts of the public service in a number of key areas.

4.5.1 Performance

The reduction in numbers will demand significant improvements in performance from all public servants as we strive to maintain service levels with scarcer resources. Performance management and development will be extended across all sectors of the Public Service. Existing systems will be strengthened significantly to ensure that performance ratings reflect actual performance. Performance management will be linked to disciplinary systems.

The proposed Performance Budgeting Initiative, as outlined at Section 3.5, will also be supportive of the performance management agenda.

4.5.2 Service Delivery

Services to the citizen can be enhanced as staffing numbers reduce if the manner in which they are delivered is reformed according to the following strategies that have proved successful outside the public service. These include:

- moving to risk based compliance;
- filtering of applications;
- use of trust relationships to obtain data; and
- greater use of self-service including online facilities.

Progress in this area will underpin developments right across the eGovernment agenda.

4.5.3 Shared Services

Sharing of services by Public Service bodies will gather pace in this constrained budgetary environment. A Head of Shared Services is being appointed and areas to be targeted include:

- human resource management;
- payroll;
- pensions administration; and
- financial management.

While some initial investment is required, this is an obvious area to deliver significant savings over the lifetime of the Plan.

4.5.4 eGovernment

eGovernment has the potential to improve a whole range of Government services. The current eGovernment Strategy focuses on improved delivery of information electronically, enhanced electronic delivery of services, and better use of shared technology approaches. The eGovernment plans of individual bodies are being developed in accordance with these recommendations.

Further phases of this strategy are being planned. These will address greater electronic integration between public bodies, the online publication of public service data, online collaboration facilities for citizens and businesses, and legal and administrative measures to enhance the take-up of electronic services and self-service.

Further details are contained in Annex 9.

Action Points

Public Service Transformation

- The reduction in public service staffing levels and scarcer resources will necessitate significant reform in order to ensure that priority service levels to the citizen are maintained.
- These reforms can be achieved through the full implementation of the Transforming Public Services agenda facilitated by the Croke Park Agreement.
- Service delivery will be reformed, refined and simplified.
- Greater use will be made of shared services to achieve efficiencies and improve service delivery.
- There will be substantial changes to the way in which public servants work to increase productivity and sustain necessary public services. Performance management and development will be extended across all sectors of the Public Service and existing systems will be strengthened.

4.6 Public Service Sectoral Reform

4.6.1 Civil Service and State Agencies

The Civil Service and State Agencies are treated as related sectors for redeployment purposes, allowing for flexible redeployment between them and other sectors as required.

In the Civil Service increased productivity will be secured from a reduced staff complement though revised working practices, for example in the Prison Service, where all tasks in prisons and places of detention will be reviewed with a view to delivering further staffing efficiencies. Productivity will be improved by eliminating outdated working and attendance arrangements and by better managing existing human resources and by better managing existing human resources across the Civil Service.

The Programme of State Agency rationalisation that commenced in 2008 will continue. In particular there will be an emphasis on:

- reducing the number and range of agencies;
- redeploying staff to areas of greatest need;
- improving governance and performance arrangements; and
- sharing services.

Agencies will be required to reduce their running costs by 10%.

4.6.2 Health

The Health Service will be reformed to provide a greater range of services in community settings, particularly through primary care teams and social care networks, and to provide such services on a planned basis in the evenings and at weekends. This will lead to a reduction in the number of in-patient beds and an increase in day case, outpatient and diagnostic capacity, which will provide faster access to services at lower cost.

Planned services will be provided throughout the health system over an extended (8 a.m. to 8 p.m.) day and over an extended week, while emergency services will continue to be available on a 24-hour 7-day basis. This will reduce the staffing and other resources required to ensure services are available to the public at nights and weekends.

Staff will be redeployed within and across service locations in the publicly-funded health service, and in the wider public service, as necessary. There will be a review of existing rostering arrangements, to incorporate changes so that staff levels match service demand levels at all times and in all settings.

Health system management will centralise functional, transactional, support and other services at national level including areas such as medical card and other scheme processing functions, payroll, procurement and purchasing, Information and Communications Technology and Human Resource Management.

Major change will be introduced in medical laboratory services and associated work practices. Individual, professional and statutory accountability for management and comparable clinical grades will be strengthened, and performance management will be introduced in the health service in 2011.

4.6.3 Local Government

Significant change is envisaged for the local government sector over the coming years, as set out in the recommendations of the Local Government Efficiency Review. The redeployment arrangements will support this restructuring of local government. Staff will be transferred from areas where demand has declined, such as planning, to other hard-pressed parts of the local authority or the wider Public Service. Service delivery will be changed to maximise efficiencies and savings will be achieved through regional delivery, the use of shared services, aggregated procurement and online transactions, new work practices and flexibility in working arrangements. Modernisation and standardisation of employment conditions will drive productivity improvements, with the performance management system linked to incremental progression and promotion.

4.6.4 Education

In the Education Sector, a comprehensive review and revision of the contracts for teachers and other education staff (special needs assistants, staff in Vocational Education Committees, Institutes of Technology and Universities) will identify and remove impediments to the provision of an effective service. Teachers and academic staff will work an additional hour per week to provide for a wide range of needs in the various institutions, with the Institutes in particular committed to flexible delivery of new courses specifically aimed at the unemployed. Redeployment will take place at all levels and will facilitate restructuring in the second and third level sectors. The substitution and supervision roster for teachers in second level schools will be improved.

4.6.5 Policing and Defence

A more effective Garda rostering system will ensure that there are enough Gardaí to meet priority policing demands. Civilianisation will maximise the availability of Gardaí for duties of a policing character. Garda training of recruits and serving members will be tailored to meet the diverse needs of a modern police service.

The overall organisation and structure of the Defence Forces is being reviewed. The Defence Forces will cooperate with the flexible deployment/redeployment of personnel.

As public service payroll represents about one third of overall spending, there is significant scope to make major savings. This is a key element of the overall consolidation strategy.

4.6.6 Prison Service

In light of the recent significant increase in the prison population, we are determined to ensure that imprisonment is used only as a sanction of last resort. Prison has to be reserved for serious offenders.

In 2009 there were 4,800 cases where people were sent to prison for non-payment of fine. We have introduced a number of measures to address this in the Fines Act 2010.

- With effect from January 2011, courts will have to take into account the capacity of a person to pay a fine before deciding on the amount. So by law no person should be sent to prison because they cannot afford to pay a fine.
- Later next year, as soon as the Courts Service have the necessary administrative arrangements in place, measures will be brought into force which will allow for fines to be

paid by instalment. In cases where a person wilfully refuses to pay a fine, the first option will not be imprisonment but seizure of their goods and if that proves unsuccessful the courts will consider community service before imprisonment.

A large number of people sent to prison are sent there with sentences of imprisonment of six months or less. Legislation is being drafted and should be published early in the next session that will impose a legal obligation on judges to consider the imposition of community service in cases where they might otherwise impose a prison sentence of six months or less.

Measures have already been taken to stop people being imprisoned unfairly for non-payment of civil debt.

Action Points

Government will achieve savings of €1.2 billion in the Public Service Pay Bill by:

- Cut public service staff numbers by 24,750 over 2008 levels, back to levels last seen in 2005;
- leveraging the mechanisms of the Croke Park Agreement to secure efficiencies in all areas; and
- reducing pay rates by 10% for new entrants.

4.7 Public Service Pension Reforms

Pension costs for public servants will continue to rise over the coming years due to the rise in Public Service employment in the 1970's. As Table 4.4 below shows, an increase of 13% to over €3 billion is in prospect by 2014.

Table 4.4 Expenditure on Public Service Pensions

	2010 €bn	*2011 €bn*	*2012 €bn*	*2013 €bn*	*2014 €bn*	*% change 2010-14*
Opening Expenditure Level	2.8	2.8	2.9	3.0	3.1	13%
Impact of Retirements		0.2	0.2	0.1	0.1	
Pension Adjustment		-0.1	-0.1	-0.1	-0.1	
Expenditure Ceiling	2.8	2.9	3.0	3.0	3.1	12%

The Comptroller and Auditor General's report on Public Service pensions (Special Report 68, October, 2009) estimated the actuarial cost of public service pensions at €108 billion and pointed to the fact that a change in the indexation arrangements for post-retirement increases could lead to substantial cost reductions in the future.

The Government has decided that a reduction in the cost of Public Service pensions is necessary. Pensions now account for almost 15% of the total Public Service pay and pension bill. This has increased from €1.35 billion in 2005 to €2.8 billion in 2010, an increase of more than 100% over the period. The Comptroller and Auditor General's (C&AG) 2010 report shows the number of Public Service pensioners increased from 113,384 in 2008 to 123,954 in 2009; the report also estimates that there are two Public Service pensioners for every five serving public servants.

Given the present budgetary constraints, the Government considers that it is appropriate that some retired Public Service pensioners make a contribution to the required adjustment. There is a gap between the burden being borne by those currently in Public Service employment and those who are retired. The pension levy and the pay adjustment did not affect those in retirement. The Government has also taken account of the general reduction in prices: the CPI is now at 2007 levels, whereas Public Service pensioners received general round increases of 2% in June 2007, 2.5% in March 2008 and 2.5% in September 2008 – providing an increase in the real value of Public Service pensions.

The Government has therefore decided on a reduction of €100 million or about 4% in the annual cost of Public Service pensions paid to some pensioners in 2011. The reduction will require legislation to be passed before the end of the year.

In order to avoid a destabilising rate of retirements in 2011 and to manage the cost in both 2011 and 2012, the Government has decided to extend the "grace period" under which pensions are calculated by reference to the pre-cut rates of public service pay to end-February 2012. This decision has been taken into account in the pay and pensions figures presented.

The reduction will apply to existing Public Service pensioners, former office holders, retired members of the Judiciary, and their survivors. For existing public service pensioners and those public servants who retire before the ending of the ‘grace period’ at end-February 2012, the legislation will provide for an average reduction of some 4% in pensions in line with the following rates and bands:

Annual Public Service Pension (€)	***Reduction Rate***
First 12,000	0%
Between 12,001 and 24,000	6%
Between 24,001 and 60,000	9%
Balance above 60,001	12%

There is no change in public service pension scheme terms. Pensions will be calculated in the usual way according to those terms. In the case of existing public service pensioners and those public servants who retire before the ending of the ‘grace period’ at end-February 2012, there will be an average reduction of some 4% in pensions with the application of the above rates. As those who retire after this date are subject to the pay reduction of 7% on average, which will reduce the pension and lump sum to be paid, the Government has decided that it would not be appropriate to also apply the pension reduction to this group.

More generally, public service pensions must be comprehensively reformed so that future costs can be managed in the context of sustainable public finances. In Budget 2010, the Minister for Finance announced the introduction of a new single pension scheme for all new entrants to the Public Service from 2011. This new scheme will reduce budgetary expenditure on Public Service pensions in the longer-term.

This is another step in the reform of the Public Service pension system that has been underway for some time:

- in 2004, the minimum pension age was increased from 60 to 65 years for new entrants to the Public Service;
- in 2009, the pension-related deduction was introduced for all Public Servants in recognition of the benefits provided under Public Service pension schemes; and
- no pension increases are being paid at present.

The main provisions for the new scheme decided by the Government are:

- raising the minimum pension age to 66 years initially and then linking it to the state pension age - this is in step with the changes decided by the Government in the context of the recently announced *National Pensions Framework* which increased the state pension age to 66 years in 2014, 67 in 2021, and 68 in 2028;
- a maximum retirement age of 70 years; and
- career average earnings rather than final salary will be used to calculate pension – a standard accrual rate would be applied to pensionable pay so that a pension amount accrues each year, this amount to be up-rated each year by the CPI so as to maintain its purchasing power.

Legislation will be published shortly facilitating the introduction of the new scheme in 2011.

The new pension scheme which will apply to new entrants from 2011 will use the CPI rather than, as at present, a link to the pay of serving Public Servants to calculate increases for pensioners. This is a major step towards achieving savings such as those identified in the Comptroller's 2009 report. The *Public Service Agreement* provides that use of the CPI for post-retirement increases for existing pensioners and serving staff will be considered as part of the general discussions on pay and other issues in spring 2011. The Government has agreed that no change will be applied to the present pay parity arrangement for existing pensioners and serving staff during the lifetime of the Agreement, that is, up to 2014. In view of the terms of the Croke Park Agreement, that arrangement will not give rise to any increase in that period.

Action Points

In order to address the significant rise in public service pension costs in future years, the Government will:

- Secure a contribution from public service pensioners of €100 million in 2011.

- Bring in a new single pension scheme for new entrants to the Public Service from 2011.

4.8 Social Protection Expenditures

Table 4.5 below sets out the projected rate of expenditure increase in these areas of spending, along with the reductions required for the period to 2014. Spending in this area will be reduced by €3 billion in 2014 when compared with the opening position.

For 2011, scheme savings of €760 million are required from the Social Protection allocation in addition to savings of €100 million from labour activation measures. These measures will be announced on Budget Day. Further savings amounting to approximately €1.9 billion will be required in the period 2012–2014, as summarised in Table 4.5 below. To achieve this level of savings will require a combination of enhanced control measures and labour activation measures which would lead to a reduced Live Register as well as structural reform measures and further rate reductions as necessary over that period. Savings from rate reductions can be ameliorated over the period of the Plan if substantial progress is made with structural reform changes to the social welfare system, re-oriented labour activation measures and also to the extent that the current level of fraud and control activity can be increased through enhanced measures. These would include improved detection methods, better data matching and, overall, an increased use of e-technology. In particular, the roll out of the Public Service Card, from early 2011, will facilitate that process.

Table 4.5 Proposed Expenditure on Social Protection

	2010 €m	*2011 €m*	*2012 €m*	*2013 €m*	*2014 €m*	*% change 2010-14*
Opening Expenditure Level	20.9	21.0	20.9	20.8	20.7	-1
Consolidation Objectives						
- Measures from 2011		0.9	0.9	0.9	0.9	-
- Measures 2012-2014		-	0.6	1.4	1.9	-
- Total		0.9	1.5	2.3	2.8	-
Expenditure Ceiling	**20.9**	**20.1**	**19.3**	**18.5**	**17.9**	**-14**

Considerable analysis has been undertaken in reviewing social welfare policy in the areas of child income support and working age payments and, in this regard, three reports will be published shortly by the Minister for Social Protection.

Structural reform measures in these areas could include:

- The development of a rebalanced and integrated child income support payment system. This would provide for a universal component to replace Child Benefit with one single payment rate per child. This payment will be supplemented with a further payment in the case of children of families in receipt of a social welfare payment or in low income employment. These supplements will replace qualified child payments and family income supplement as appropriate.

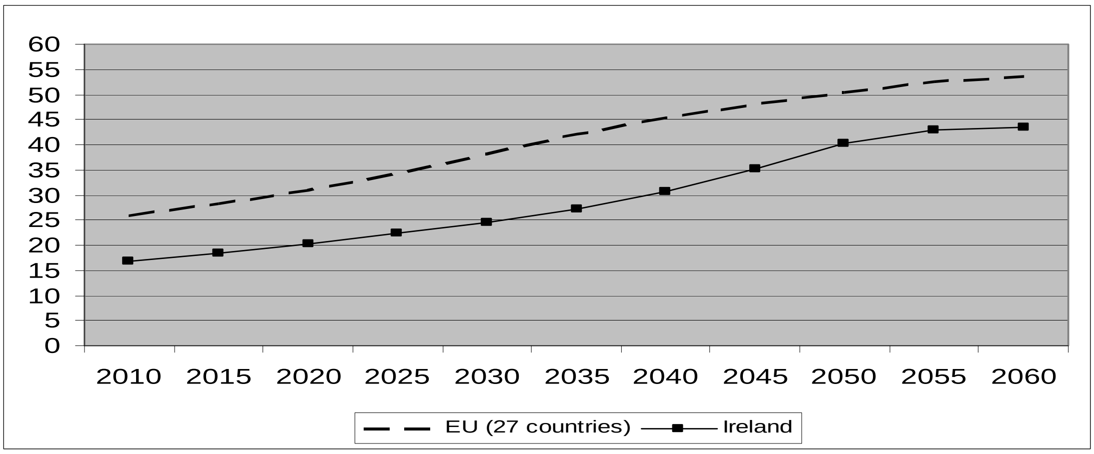
- The development of a single social assistance payment to replace the different means-tested working age payments, including some secondary and supplementary payments, as part of a more purposeful labour activation strategy which will involve:
  - more participation by people in receipt of social assistance working age payments in labour activation measures; and
  - the provision by the State of more personalised labour market measures targeted at all working-age payment recipients who would have previously received one parent family payments, disability payments and jobseekers payments.

The development of such a single working-age means-tested system will help to minimise existing benefit traps and address the lack of incentive to move back to work or move from part-time to full-time employment.

Most EU Members States will have a higher ratio of pensioners to working-age participants over the coming decades – see Figure 4.2 below. While our demographic profile is much more favourable, the ageing of our population means that numbers claiming the State pension will increase over the next number of decades. The projected costs of the State pension out to 2014 are set to increase by about €800 million between 2010 and 2014 or 16%.

These pressures, which will arise over the period of the Plan and beyond, will require some structural change to ensure the sustainability of State pension provision. Funding for the free travel and television licence schemes will be frozen at 2010 levels of expenditure for the duration of the Plan. This decision will have no impact on those benefiting from these schemes.

Figure 4.2 Projected Old-Age Dependency Ratio (%)



Definition: Population aged 65+ as a % of the population aged 15-64. (Source: Eurostat. (Eurostat data is based on EUROPOP2008 convergence)

The Government published the National Pensions Framework in March, 2010. The Framework set out a policy approach for the longer-term development of the pension system in Ireland taking account of demographic changes, the fact that just over 50% of the workforce have private pension provision, the need to provide an adequate income for retirees, and future budget sustainability.

To ensure sustainability, steps must be taken to reduce cost by increasing pension ages and encouraging more saving for retirement. Elements of the new policy proposed in the National Pensions Framework include the following:

- The age at which people qualify for the state pension will be increased - to 66 years in 2014, 67 in 2021, and 68 in 2028.
- A new supplementary pension scheme - using an "auto-enrolment" system - will be introduced to provide additional retirement income for employees not already in a pension scheme. Contributions to the new scheme will be made within a band of earnings, with earnings below and above certain thresholds exempt. Employees earning above a certain income threshold will be automatically enrolled in the new scheme with a contribution rate of 4% within a band of earnings.
- The Government and the employer will support this saving by providing matching contributions.

The Government has made it clear that the introduction of the new supplementary pension scheme in 2014 will depend on economic conditions.

Work on the Framework is going ahead under the aegis of the Department of Social Protection and considerable progress has already been made. While the Government will continue with this work, it is clear that the pace of implementation must have regard to the economic and budgetary circumstances facing Ireland.

Action Points

Social welfare expenditure will be €3 billion lower in 2014 compared to the opening position in 2010.

- Structural reform measures, re-orientated labour activation and enhanced control measures will be required to reduce expenditure.
- Rate reductions will be ameliorated if substantial progress is made with structural reforms and labour activation measures.

4.9 Other Programme Expenditures

4.9.1 Proposed Savings for Other Areas

Seventy per cent of programme expenditures outside of Social Protection are on Health and Education. Table 4.6 shows the multi-annual current expenditure for each of these areas (and for all remaining spending areas combined) broken down between pay and non-pay[32].

Table 4.6 Current Expenditure Ceilings 2011-2014						
	2010 REV €m	***2011 €m***	***2012 €m***	***2013 €m***	***2014 €m***	***% change 2010-14***
Health	14.8	14.1	13.9	13.7	13.7	-8
- pay	7.6	7.3	7.2	7.0	6.9	-9
- non-pay	7.2	6.8	6.7	6.7	6.8	-6
Education	9.2	9.2	9.0	8.9	8.9	-3
- pay	6.4	6.6	6.5	6.5	6.6	+2
- non-pay	2.8	2.6	2.5	2.4	2.3	-16
Other Programmes*	9.8	9.4	8.7	8.2	7.6	-23
- pay	4.6	4.6	4.4	4.2	4.2	-9
- non-pay	5.2	4.8	4.3	4.0	3.4	-34

*Not including social protection.

Although the health and education sectors will be required to contribute to the overall expenditure adjustment, the Government will seek to ensure frontline health services are protected from cutbacks due to the need to provide these services and the importance of human capital as an essential condition for economic recovery. This is in keeping with the consolidation principles set out in Chapter 3.

However, it is also a core principle of the Government's approach to expenditure consolidation that residual savings must be made in the broad area of other programme expenditures outlined in Table 4.6. This will involve closing schemes and programmes which are no longer affordable, and in some case the introduction of fees. This is a more cost effective approach to service delivery compared to a strategy of reducing programme benefits but retaining existing staffing levels.

Details of the specific expenditure measures proposed for these areas for 2011 and for future years are set out in Annex 8.

4.9.2 Scheme for Water Charges

Part of the expenditure savings package will arise from the introduction of a scheme for the metering and charging for domestic water. This will lead to significant capital and current savings to the Exchequer and the General Government Sector over the medium term. This reflects the overall consolidation strategy outlined in Chapter 3 which emphasises the importance of reasonable charging mechanisms to mitigate the costs of public service delivery and reduce waste.

[32] A more detailed table showing the gross current expenditure ceiling proposed for each Department is set out at Annex 8. This Annex also details the specific measures proposed for implementation in 2011, and for consideration over the period 2012-2014.

Charging for water will introduce a new revenue stream to meet costs at present funded by taxation. The cost for the provision of water services to the domestic sector in 2008 was €590 million. The proposed charging for this - less an adjustment for the cost of the proposed free allowances - will improve the General Government position. The Exchequer also provided €508m in 2010 to fund capital investment in water services.

It is intended that domestic water charges will cover local authorities' operational costs. A proportion of the capital cost of providing water services to the domestic sector will also be recovered through the charge. Overall it is anticipated that these measures could lead to annual savings of up to €500 million per annum on operating costs with further significant capital savings arising on a graduated basis the following years**.** These savings will arise as a result of the new revenue accruing from the water charges.

In addition, savings will result from the incentive effects of the metering system which will reduce demand to economically efficient levels over both the short and long term. It is estimated that the value of the operational and capital savings that will accrue in this manner will be significant.

4.9.3 Third Level Education

The Government recognises the importance to society of widespread and equitable opportunities for access to higher education and provides very substantial resources to this purpose.

As well as the wider benefits for society, higher education directly benefits its participants through better lifetime earnings opportunities.

Over the period of the Plan, it is intended that a higher student contribution to the cost of higher education will be made.

Action Point

Government will reduce non-pay expenditure across all programmes excluding social welfare by 2014 through:

- introducing a range of measures necessary to achieve cumulative savings of €3 billion;
- introducing a scheme for the metering of the domestic sector with charging for domestic water by 2014; and
- increase the student contribution to the costs of higher education

4.10 Savings from Reducing the Costs of Public Administration

The reductions now required in public service levels generally, make it imperative that we demonstrate a corresponding resolve to curtail unnecessary administrative costs. While there has been some success over recent years in securing administrative efficiencies, the Government considers that, in light of the *Transforming Public Service* agenda and of efficiencies calculated to arise under the Croke Park Agreement, it is timely to seek a further significant contribution from this source.

4.10.1 Payroll Savings

Section 4.2 above sets out the proposed savings to be realised from progressive, sustained reductions in public service numbers. In total, these reductions are projected to lead to savings amounting to €1.2 billion, including pension costs, by 2014. This includes reductions in pay-related administration costs in the Health sector and in the Civil Service.

4.10.2 Non-pay Administrative Savings

Proportionate administrative savings should also be factored in for each year of the plan. These savings will amount to €110 million a year by 2014, and include-

- a general 10% reduction in operating costs of Non-Commercial State Agencies (NCSAs) from 2011;
- savings in procurement costs across all areas of public administration; and
- efficiencies in administration in the civil service and wider public service.

Taken together, the overall savings from the costs of delivering public services – both Pay and Non-pay – will come to just under €1 billion a year by 2014. These are included in the programme savings and payroll savings set out in the previous sections.

4.10.3 Procurement

The National Procurement Service (NPS - established in 2009) has among its objectives the procurement of common goods and services across the Public Service, providing professional procurement advice to the Public Service, assisting where appropriate with specialist procurement being undertaken directly by Public Service bodies and integrating whole of Government policy issues (e.g. SMEs, environment, sustainability) in public procurement policy and practice.

The NPS completed a major exercise to identify the areas of top procurement expenditure categories across the public service. This analysis gives the NPS a clear focus on categories of procurement that can be targeted for intervention. To date the NPS has launched major procurement campaigns in a number of areas including energy (gas and electricity), stationery and office supplies, ICT consumables, managed print services, vehicles, clothing and insurance.

The NPS will leverage the Public Service's buying power to obtain better value for money. Last year, savings of €27 million were achieved by public bodies with the support of the NPS. Savings of approximately €40 million have been targeted in 2010. Procurement savings of the order of €50 million are proposed for 2011, rising to €65 million by 2014. The Government has decided to strengthen and focus the current efforts in this area by the appointment of a Public Service-wide Head of Procurement to help drive a more coherent policy basis and achieve the savings targets required in Public Procurement.

Action Point

- The sum of these measures will yield overall savings in the costs of delivering public services (both pay and non-pay) of up to €1 billion a year by 2014.

4.11 Debt Interest Costs and Debt Management

It is projected that the interest costs associated with servicing the national debt will increase as debt rises. Table 4.7 below sets out the estimated cost, as a percentage of tax revenue, of servicing the interest on the national debt over the period to 2014.

Table 4.7 Debt interest costs, 2011 to 2014

	2011	*2012*	*2013*	*2014*
Debt interest (as a % of tax revenue)	15	17	19	20

The sale of State assets could reduce the debt interest burden and the Government will be considering the disposal of assets. The recently established Review Group on State Assets and Liabilities will report by end December 2010. This will help to lower the ongoing interest cost.

Ireland has developed significant international demand for its bonds and debt instruments over the years and this international demand will remain an important source of funding as Ireland expands the investor base for its bonds by marketing to new investors. At present almost 85% of Irish bonds are held by overseas investors.

However, a number of measures are also being put in train which will lead to a greater investment in Irish Government bonds by domestic investors.

Irish pension funds have significant assets under management but hold relatively little Irish debt. Proposals have been made to the Government by bodies representing the pensions industry to make certain changes in the legal framework which would encourage pension funds to invest in Irish Government bonds. This will benefit both current and future pensioners as a result of the improvement in the position of their pension funds.

As indicated in a statement last month from the Minister for Social Protection, the Government is currently considering these proposals.

There is also demand in the Irish market from both pension schemes and insurers for a CPI-linked bond. Following further consultation to be undertaken with the markets, the National Treasury Management Agency (NTMA) intends to issue such a bond over the course of next year.

In the stressed conditions which have obtained in the bond markets in recent times, it has been frequently suggested that the State use the resources of the National Pensions Reserve Fund to support the Irish Government bond market. Such a step would be very beneficial to the markets and would demonstrate the Government's willingness to ensure the funding of the Exchequer's needs. Accordingly, legislation will be brought forward to enable the NTMA to deploy the resources of the NPRF to support the Exchequer's funding programme to the extent required. The NPRF's holdings of preference and ordinary shares in Bank of Ireland and Allied Irish Bank will not be affected by this move.

It is also important that ordinary citizens be given the opportunity to invest in Ireland for the benefit of the Irish State. Last year a new Solidarity Bond was announced for this very purpose which was very successful and has raised €300 million since its launch last May. For some investors the investment period of 10 years for the existing Solidarity Bond may be a disincentive. Accordingly, it is intended to launch a new 4 year Solidarity Bond shortly with a similar structure to the 10 year bond. It will pay a coupon each year and a bonus for those who hold the bond to maturity. Further details will be announced by the NTMA in the near future.

The overall amount of funds raised from the retail savings products under the State Savings schemes which are marketed for the most part through the post office network has reached a record €3 billion so far this year. It is expected that those retail savings schemes will continue to perform strongly in 2011.

The Irish public can also avail of the other Government bonds in issue and the various brokers and others through whom the public can purchase these bonds are urged to facilitate the public and to charge reasonable fees.

The initiatives outlined above give an opportunity for the Irish public and pension funds to contribute to funding the national debt. As a consequence of these measures it is expected that there will be a significant increase in the domestic ownership of Irish Government debt in the near future.

Chapter 5 Public Capital Investment

Key Messages

- There has been an unprecedented level of capital spending over the last ten years which has upgraded the quantity and quality of physical infrastructure.
- Planned capital investment must be reduced over the medium-term.
- Annual public capital allocations over the period of the Plan will be progressively reduced to reach an annual reduction of €3 billion by 2013. This is consistent with the lower level of growth and demand in the economy.
- Investment will continue in line with the principles set out in the Government's *Infrastructure Investment Priorities* report and will focus on:
  - Strategic STI investment at the core of the Smart Economy;
  - The Enterprise Development Agencies;
  - Water services investment;
  - Key strategic transport infrastructure;
  - Education capital investment;
  - Energy efficiency supports;
  - Health capital investment;
  - Essential investment in housing infrastructure, including important regeneration projects; and
  - Funding to boost the tourism sector.
- The introduction of water metering by 2014 will start to reduce the level of public capital funding required for water services.
- The Government will identify the opportunity for infrastructure investment by the NPRF and other private investors. An appropriate level of investment by the Commercial State Bodies will also assist recovery.

5.1 Overview

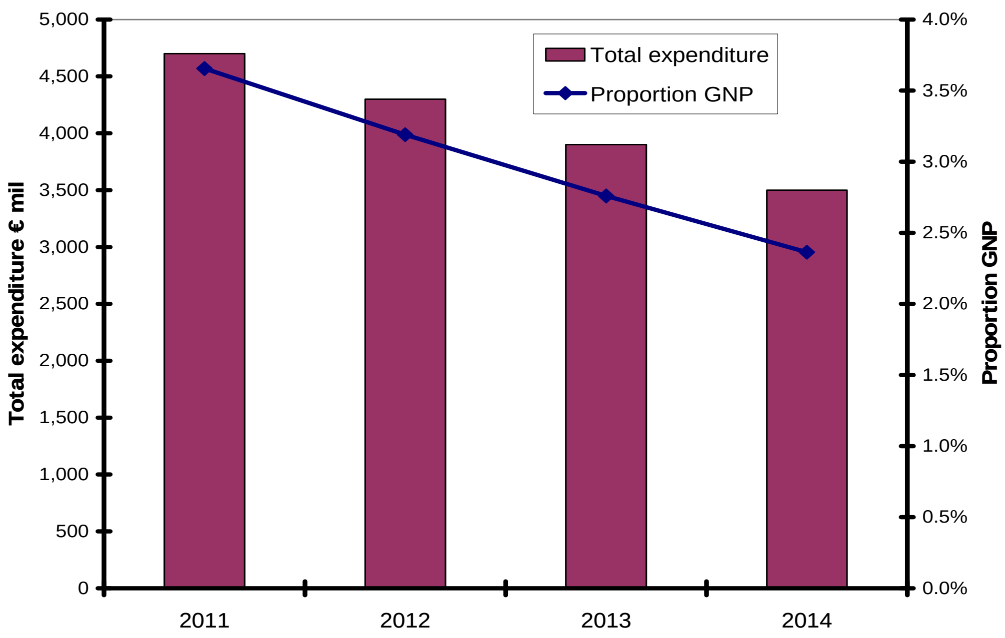
Annual capital spending quadrupled between 1997 and 2008 and the infrastructure delivered throughout the period represents a tangible legacy of the economic boom. The infrastructure deficit which previously characterised the Irish economy has been significantly addressed. In particular, the programme of investment has transformed the quality and quantity of the national road network and we now have state-of-the-art motorway connections between Dublin and the main regional centres. The expanded capacity levels achieved in infrastructure overall are likely to be sufficient to meet anticipated demand over the medium term in most areas.

The progress registered in this area in recent years was achieved in the context of a much strengthened public capital investment framework. Successive National Development Plans, the introduction of multi-annual envelopes and carryover and a renewed focus on project appraisal and management all helped ensure that infrastructure was delivered in a more strategic fashion.

The most recent public capital investment programme was based on a budget of €5.5 billion in each year from 2011 to 2016. Given the need for additional savings, further capital adjustments will be required. Of the total annual cumulative budgetary adjustment by 2014, lower capital allocations will contribute €3 billion.

In addition to the €1 billion of capital savings already identified for 2011 in Budget 2010, there will be a further reduction of just over €800 million to the allocation for 2011. Figure 5.1 illustrates the trend. Investment levels still compare favourably against international patterns and over the period of this Plan will be in line with average government investment as a proportion of national income in the OECD.

Figure 5.1 Revised Capital Allocations, 2011 to 2014



The potential negative effects of these reductions on real economic activity will be contained, however, as the State is now achieving greater value for money in the procurement of infrastructure.

Table 5.1 shows the revised allocations across Departments for 2011-2014. The Government will protect allocations to core economic investment such as supports for enterprise and maintain investment in key social infrastructure such as Health capital.

Table 5.1	**Revised Capital Expenditure Ceiling by Vote Group 2011 - 2014**				
Vote Group	**2011**	**2012**	**2013**	**2014**	**Total**
			€ million		
Agriculture	299	150	140	140	729
Communications	139	110	110	110	469
CEGA	86	86	86	40	298
Defence	12	13	13	12	50
Education	492	460	463	468	1,883
Enterprise	508	558	558	558	2,182
Environment	1,002	966	825	700	3,493
Finance [Excl. OPW]	6	5	5	5	21
OPW	116	120	120	120	476
Foreign Affairs	4	6	6	3	19
Health	399	388	400	400	1,587
Justice Group	80	80	85	85	330
Social Protection	7	7	7	6	27
Tourism, Culture & Sport	96	100	85	80	361
Transport	1,438	1,329	1,075	1,001	4,843
Capital Reserve		0	0	50	50
Unallocated Adjustment		-78	-78	-278	-434
TOTAL	**4,684**	**4,300**	**3,900**	**3,500**	**16,384**

Notwithstanding the pressing need to make these adjustments, the Government remains committed to the objectives and principles set out in the Government's *Infrastructure Investment Priorities*. Essentially, these are the investments which make the greatest contribution to economic recovery, underpin the creation of sustainable employment and deliver valuable social infrastructure.

Action point

- The cumulative annual capital adjustment by 2014 will amount to €3 billion commencing with a reduction of almost €2 billion in 2011 and further additional savings of €0.4 million each year from 2012 to 2014.

5.2 Role of Capital Investment in the Economy

Capital investment has been an important driver of economic advancement in Ireland over the past ten years, providing the capacity and scope for growth in national output. By identifying the right investment priorities, capital expenditure can again be central to underpinning economic renewal. Targeted capital investment can achieve this in several ways.

5.2.1 Delivering Economic Infrastructure

Targeted investment in economic infrastructure contributes to economic recovery by reducing bottlenecks, bolstering productivity and facilitating an improvement in international competiveness. Investment in infrastructure has positive effects throughout the wider economy – for example by reducing firms' transportation and coordination costs. The completion of the Major Inter Urban Routes and a number of remaining national roads projects of key strategic importance will be progressed and will further augment productive capacity in the economy.

Further targeted investment in public transport has the potential to unlock productive capacity in the economy and enhance national competitiveness. Such investment will also offer alternatives to car transport, thereby reducing emissions and enabling the transport sector to cater for the demands associated with longer term population and employment growth in a sustainable manner. Key objectives of public transport investment will be to advance public transport projects like Metro North and Dart Underground, as well as rail safety and traffic management programmes and continued planning of future priorities.

Steps will also be taken to facilitate greater private sector investment in broadband capacity.

5.2.2 Supporting Employment

As discussed in Chapter 3, a guiding principle of the expenditure adjustments set out in this Plan is that future capital investment must be targeted and employment-focused. The primary focus of investment must be on creating the framework conditions in which the enterprise sector can thrive in the medium to long-term. In this regard, public capital investment will have its greatest impact in maintaining sufficient capacity in the economy and supporting productivity enhancements.

The programmes supported by Department of Enterprise, Trade and Innovation and its agencies will be critical in achieving a return to economic growth through promoting the export potential of enterprise in Ireland and advancing the Smart Economy Agenda. These agencies will be flexible and adaptive to the needs of their client base while maintaining the highest standards in investment project appraisal. In addition, future policy will focus heavily on commercialisation of research outputs. Capital investment will therefore support direct job creation in world-class, export-oriented enterprises.

There will also be a level of direct job creation during the delivery phase of valuable public infrastructure. This will assist in retaining a level of employment and expertise in the construction industry. In particular the National Retrofit Programme will give rise to a considerable level of jobs in the construction sector on a nationwide basis.

5.2.3 Development of an Environmentally Sustainable Economy

This Plan provides for programmes of investment in water services, in waste infrastructure, in the National Retrofit scheme and in certain research and development programmes which can assist in the development of a low-carbon sustainable economy.

5.2.4 Investment in Water

Water services investment continues to be a key priority for Government and can deliver significant returns. We intend to prioritise investment in this area to achieve and maintain compliance with various requirements (including those arising from the implementation of the EU Water Framework Directive), to address issues in relation to the condition of water infrastructure in key urban centres and to meet future demand requirements. Policy in this area is also geared toward reducing the level of water lost through leakages in the distribution network. It is intended that by 2014 this investment will begin to be part funded by water charges.

Water billing for domestic customers will be made on the basis of metered charges. This will require a nationwide project to install meters in domestic residences. The Department of Finance and the Department of the Environment, Heritage and Local Government have been in discussions with the NPRF regarding the funding of the domestic meter installation programme. The NPRF has agreed in principle to fund this programme up to an amount of €550 million subject to certain pre-conditions and in keeping with its commercial statutory remit. It is recognised by Government that a crucial element of implementing this initiative will be the appointment of a Water Regulator.

The intended introduction of water charges by 2014 will start to reduce the level of general government investment required and lead to significant capital expenditure savings.

5.2.5 Delivery of Important Social Infrastructure

The capital allocations set out in this Plan will allow the continued development of social infrastructure, particularly through the delivery of key projects in the education and health sectors and social housing (including regeneration). The stock of educational capital has been very significantly upgraded by investment in school building and maintenance and expansion and upgrading of third level facilities and research space. Demographic developments will exert further pressure on our stock of schools over the coming years. A significant level of funding will be made available to the primary and secondary schools programmes over the medium-term. Given falling land values and tender prices, this funding will make it possible to meet demographic needs and provide for some improvement to the stock of educational capital in real terms. Investment will also build on the already substantial stock of higher education infrastructure.

This Plan provides for the continued modernisation of health facilities to ensure efficient delivery of quality services in the face of demographic factors and a more stringent regulatory environment. All future capital investment in this area will be consistent with broad policy goals in relation to developing capacity in the primary community and continuing care areas and in modernising acute facilities. A substantial level of funding will be maintained into the medium-term. Given the enhanced opportunities for value for money, this will facilitate a considerable upgrade of infrastructure in real terms.

5.3 NPRF Approach to Infrastructure Investment

In May 2010, the NPRF Commission agreed to allocate 5% of the NPRF Discretionary portfolio to infrastructure investment, an increase from the initial strategic allocation of 2%.

The sector's typical investment characteristics of long duration assets with stable yield dominated returns make it highly compatible with the cash flow requirements of a reserve fund such as the NPRF.

The key attractions of the asset class are summarised below:

- Long term horizon.
- Stable cash flows.
- Low volatility.
- Potential for inflation linked returns.
- Increased portfolio diversification.

Operating within the commercial mandate prescribed by its statutory remit, the preferred initial approach of the NPRF is to invest up to €500 million alongside third party institutional investors in infrastructure assets in Ireland. From a Government perspective, this approach offers social and economic benefits that will accrue in Ireland from further investment in infrastructure.

Initially the NPRF envisages this investment will entail the purchase of existing assets and over the medium term may include investing in new infrastructure. The NPRF has agreed to support the water metering programme on commercial grounds. The Government believes that there are commercial opportunities in the area of retro-fitting for the National Pensions Reserve Fund. Public transport investments also represent an opportunity in this context.

Action point

- The Government will help identify public infrastructure investment opportunities for the NPRF and other private investors.

5.4 Investment by Commercial State Bodies

Investment by a range of Commercial State Bodies in particular the State energy companies will also enhance productivity and assist in the process of economic recovery.

In the years 2010 to 2014, capital investment by the ESB will be over €6 billion. This investment will prioritise:

- Reinforcement and modernisation of Distribution Networks .
- Strengthening and adding capacity to the Transmission Network by Eirgrid.
- Smart Grid, Smart Meter and Electric Vehicle infrastructure.
- Renewable Power Generation.
- Existing Renewable/ Energy Efficiency Initiatives.

Bórd Gáis will invest in the region of €1.3 billion which will target:

- Extension of its transmission and distribution natural gas network.
- Developing new renewable wind generation assets.
- Continuing to build a vertically integrated energy business.
- Increased activities in Research and Development.

Eirgrid will also make the substantial investment of €600 million in the East-West Interconnector which is on schedule for completion by 2012.

As noted in Chapter 2, these investment plans will be continuously critically assessed in order to avoid excess capacity and excessive cost.

Considering the progress made in overhauling the national stock of infrastructure in recent years and the greatly enhanced value for money available in capital investment at present, a considerable level of investment can be delivered while still making significant Exchequer savings over the course of this Plan.

Chapter 6 Taxation Measures

KEY MESSAGES

- Revenue measures will provide one third of the budgetary adjustment.
- 40% of total revenue measures will be adopted in 2011.
- The income tax system is unsustainable if 45% of tax units pay no income tax.
- Radical base broadening across the tax system is needed.
- All taxpayers must contribute.
- By overhauling tax expenditures, those that can afford to pay more will pay more.
- Tax policy emphasis must be on sustainable structural reform.
- Funding of local service provision must be addressed.
- The Government will maintain the 12½% rate of corporation tax.
- Supports for small and medium enterprises will be reformed.

6.1 Introduction

The primary function of the tax system is to provide the resources to finance public expenditure. Taxation policy can also be used to incentivise growth, promote income and wealth redistribution and address social and environmental concerns. An efficient tax system must seek to minimise compliance costs and collection costs, while targeting tax avoidance and evasion.

The tax system of the future must be capable of raising the resources necessary to meet public demands in a manner that does not unduly impede economic development and maximises our economic growth potential. An economy that performs well also generates the resources necessary to meet policy ambitions. Decisions on taxation must take account of their economic effects and, as far as possible, must not weaken our ability to grow.

For this reason this Plan places two thirds of the required adjustment on expenditure (€10 billion) and one third of the adjustment on extra revenue principally through taxation (€5 billion). It is broadly accepted that this distribution of the burden of adjustments is less damaging to our future economic prospects than if it were more heavily placed on taxation.[33]

6.2 Approach

In raising the revenue necessary to underpin the overall Plan, revenue stability is important. All the measures must be credible; they must structurally reform aspects of the tax system and they must minimise distortions or undue impediments to economic recovery.

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[33] "Macroeconomic Effects of Fiscal Consolidation" by Daniel Leigh, IMF, 2010.

Revenue is generated by economic activity, not by increased tax rates. High tax rates and a narrow base of economic activity may raise far less revenue than lower rates on a much wider base. Accordingly, this Plan is concerned not just with the "*quantity*" of revenue to be raised but also with the "*quality*" of the measures adopted and their ability to deliver sustainable structural reforms. At the end of this process we must have confidence that we have a revenue system that is fit-for-purpose.

For these reasons, there must be an emphasis on base broadening across the tax system.

- We must increase the numbers paying tax. An income tax system where more than 45% of tax units pay no income tax is not sustainable.
- Tax expenditures and reliefs must be abolished or restricted: higher earners can not shelter themselves from paying their fair share of tax.

By broadening the base at both ends of the income spectrum, the nominal rates of tax can be kept lower while the effective rate can be raised in a way that is fairer to all.

We must strive to be fair. But we must also confront the pervasive structural problems of the income tax system and recognise that excessively high marginal tax rates damage economic activity.

Finally, it is important that we look at revenue raising measures across all areas – income, capital, indirect, expenditures, reliefs and incentives. The Government remains steadfastly committed to the maintenance of our 12½% corporate tax regime as the cornerstone of industrial policy. Research by the OECD[34] points to the importance of low corporate tax rates to encourage growth. In ranking taxes by their impact on economic growth, corporate tax was found to be most harmful. In other words, governments seeking additional tax revenues would be advised to consider increasing all other types of tax (property, consumption and income) before increasing corporate taxes.

6.3 Objective

The objective of the revenue raising plan is to introduce a set of measures that will increase Government revenues by some €5 billion or approximately 3% of GDP in 2010 terms. It is intended that approximately 40% of the policy adjustments will be front-loaded into 2011 with a heavy emphasis being placed on the structural reform of the income tax system.

The table below summarises the main revenue increases over the period of the Plan. A more detailed breakdown is set out in Annex 10.

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[34] Reference: 'Tax and Economic Growth', OECD Economics Department Working Paper No 620 July 2008

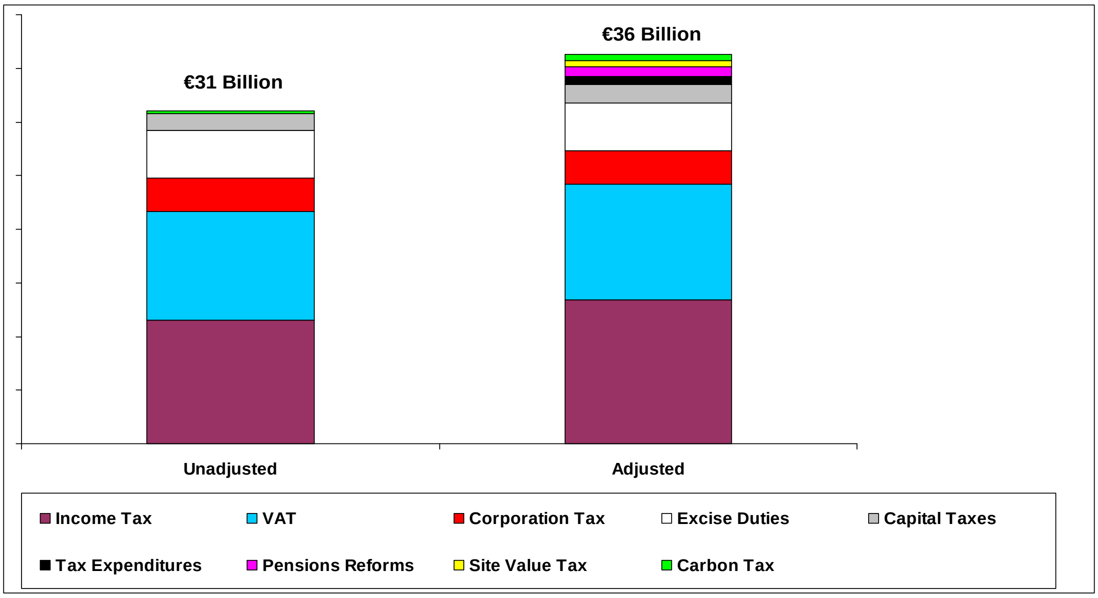
Table 6.1 Taxation Measures

	2011 €m	2012 €m	2013 €m	2014[35] €m	Total €m
Income Tax	1,245	260	210	160	**1,875**
Pensions	260	225	225	155	**865**
Tax Expenditures	405	100	100	60	**665**
Site Value Tax	-	180	175	175	**530**
Carbon Tax	-	220	-	80	**300**
Capital Tax	-	145	-	-	**145**
Value Added Tax			310	260	**570**
Other Measures	110	-	-	-	**110**
TOTAL:	**2,020**	**1,130**	**1,020**	**890**	**5,060**

This programme means that approximately one third of the total adjustment will fall on indirect/capital/charges, direct income tax and tax expenditures (including pensions) respectively.

With some two thirds of the total tax increases coming from sources other than direct tax (income or corporate), the Plan's overall objective is to minimise the impact of the adjustment on future economic prospects. The direct income tax increases make up just over 12% of the total budgetary adjustment of €15 billion.

Figure 6.1 Composition of Tax Adjustment, 2010 Basis

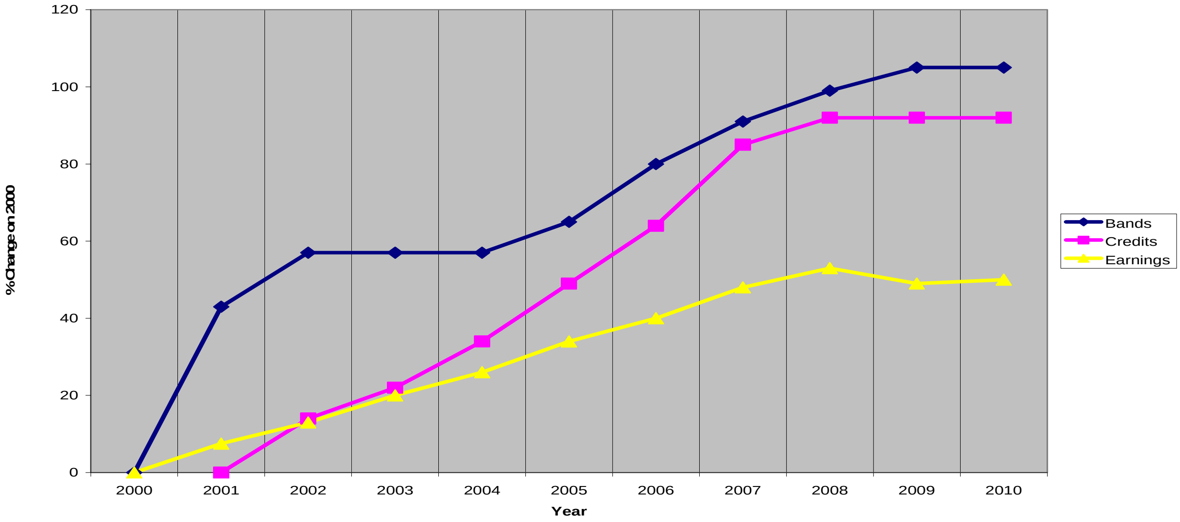


6.4 Income Tax

We have eroded the income tax base to an unsustainable level. This must be rectified if revenue-raising capacity and fairness are to be restored. During the period after 2000, the entry point to income tax increased from €7,238 to €18,300 and since the introduction of individualisation, bands widened by 105% for the single person and married two earners while credits increased by 92% since their introduction in 2001.

[35] Additional revenue of just under €300 million will be carried over into years after 2014 and will be fully realised by 2017.

Figure 6.2 Changes in Credits, Bands (single) & Earnings 2000 - 2010



The proportion of tax units exempt from income tax has increased from 34% in 2004 to an estimated 45% in 2010. At the same time the proportion paying at the higher rate has fallen from 23% to just 13% due, in part, to falling incomes.

Table 6.2 Distribution of Income Earners 2004-2010

	2004	**2005**	**2006**	**2007**	**2008**	**2009 Est.**	**2010 Est.**
Total	2,013,701	2,174,999	2,370,732	2,489,108	2,459,240	2,287,202	2,214,300
Higher	23%	21%	18%	16%	16%	14%	13%
Standard	43%	43%	43%	42%	42%	42%	42%
Exempt	34%	36%	39%	42%	42%	44%	45%

The overall burden and incidence of income taxation has increasingly fallen on a relatively small number of taxpayers. In 2010 we have reached a point whereby just 8% (earning €75,000 or more) will pay 60% of all income tax while almost 80% earning €50,000 or less contribute just 17% of income tax.

Had bands and credits evolved in line with wage developments, the amount of revenue raised from income tax, all other things being equal, would now be of the order of 1.5% of GDP higher than it is now. The measures in this Plan will be the equivalent of a reduction of 16.5% in the value of the credits and bands. It will rebase the income tax system at approximately 2006 levels.

It is, of course, possible to deliver the same outcome through a combination of measures including changing the tax rates themselves or restructuring PRSI and the associated levies on income. These options will feature in the Government's consideration of specific changes in advance of each Budget. But however delivered, the Government is committed to achieving the targeted direct income tax increases over the four years.

Over the course of this Plan it is intended fundamentally to reform the income tax system. The merging of the income levy, the health levy and PRSI into a Universal Social Charge was signalled in Budget 2010. The proposed wide scale abolition of reliefs and incentives (see below) will also facilitate the progressive rationalisation of how we tax income by more clearly aligning the income base for each charge. This will enable movement to a unitary income tax system and facilitate the closer integration of tax and social welfare over the Plan period.

Action Points

- Measures raising €1.9 billion equivalent to a reduction of 16.5% in the value of the credits and bands will be delivered over the Plan period.
- Fundamental reform of the income tax system and closer integration of tax and welfare.
- Approximately 65% of the total income tax adjustment to be delivered in 2011.

6.5 Pensions Tax Expenditures

The total gross tax cost of pension tax relief is just over €2.5 billion. Exemptions relating to PRSI and the Health Levy cost an additional €250 million or so. Public discourse about the cost of pension tax relief has been ill-informed and tends to distort the expectations of the savings that could be delivered by adjusting these reliefs.

There are three significant elements in the estimates of the cost of tax and PRSI/Health Levy reliefs for private pension provision as outlined in the Green Paper on Pensions. These are:

i. the estimated costs of tax relief on employee/self-employed/individual contributions to pension savings (over €1 billion),

ii. the estimated cost of the tax exemption for employer contributions as Benefit–in–Kind (BIK) in the hands of employees (about €500 million),

iii. the estimated cost of exempting from tax the accrued income and gains growth of pension funds (about €1 billion).

Reducing income tax relief on pension contributions to the standard income tax rate would only impact on employee/self-employed/individual contributions to pension savings and the full year saving from this would amount to about €500 million. Abolishing tax relief on employee/individual contributions would save the Exchequer about €1 billion in a full year. None of these reforms takes account of the behavioural change which would likely result from tax changes of this magnitude.

The estimated cost of tax exemption on the accrued income and gains of pension funds is a *"notional or imputed"* cost. It is in effect deferred income tax – the fund rolls up gross to provide a higher pension value which is then taxed in the hands of the pensioners as the pension is paid. Imposing an actual tax charge on pension fund growth would not yield anything like €1 billion and would effectively reduce the pension in the hands of the pensioner and the tax take at that point. Furthermore, removing the BIK exemption from employer contributions to occupational pension schemes would remove the rationale for making those contributions in the first place from the point of view of the employee.

It is not the case that only those on higher incomes benefit from pension relief. The bulk of employee/individual pension contributions attract tax relief at the marginal or 41% tax rate. This is reflected in the fact that individuals on gross earnings of not much over the average industrial wage and contributing to a pension arrangement benefit from tax relief at 41%. Some studies have suggested that the current tax arrangements are most beneficial to those on earnings of about €45,000 per annum (Life Strategies, May 2008).

The abolition of employee PRSI and Health Levy relief would bring the treatment of pension contributions in this area into line with the Income Levy treatment. Equity of the existing tax arrangements could be improved by further downward adjustments to the annual earnings cap for pension contribution purposes and to the maximum allowable lifetime limit for a tax-relieved pension fund (the Standard Fund Threshold – SFT), both adjustments would impact on higher earners.

The Plan provides for the elimination of employee PRSI and Health Levy relief on pension contributions in 2011. It also commits, among other changes in 2011, to reducing the annual earnings cap for employee/personal pension contributions by almost 25% from €150,000 to €115,000 and to reducing the SFT. These measures combined will yield approximately €200 million in a full year. Over the following 3 years of the Plan the rate of income tax relief on pension contributions will be reduced from 41% to 34% in 2012, to 27% in 2013 and 20% in 2014. This will yield an average additional €165 million in each full year giving an overall cumulative reduction in pension tax expenditures of €700 million. In addition, a consequential reduced rate of relief on the public service "pension-related deduction" will yield a further €240 million in a full year.

The abolition of employee PRSI and Health Levy relief and the reduction to standard rate tax relief on pension contributions may reduce saving for private pension provision. However, the Government is committed to raising €700 million from this sector over the period of the Plan and is willing to engage with the industry to examine alternatives to deliver this outcome. Pensions tax expenditures will be kept under constant review to ensure that abusive tax sheltering does not take place.

Action Points

- A €700 million full year reduction in pension tax expenditure and €240 million on relief for the public service "pension-related deduction".
- Removal of PRSI and Health Levy relief on pension contributions in 2011.
- Reduction in the annual earnings cap of 25% in 2011.
- Phased standard rating of income tax relief over 2012, 2013 and 2014.

6.6 General Tax Expenditures

In the same way as there are unrealistic expectations about what pension tax expenditures can contribute to budgetary correction there is a poor understanding of the scale of tax expenditures/incentives generally. Commentators often conflate tax expenditures in general with property based tax expenditures in particular and with those elements of revenue foregone that are the fabric of the income tax system.

There is frequent reference to the OECD proposition that by 2005 the cost of "*tax expenditures*" had become larger than the remaining income tax receipts. The figure published by the OECD put the value of tax expenditures at €11.49 billion. An analysis of these figures shows that:

- 80% or €9.72 billion of all the tax expenditures relate to personal allowances/credits/bands, pensions and savings;
- Of the remainder, 'interest relief' at €350 million and some portion of the €980 million for "social schemes" (urban/rural renewal etc) relate to property; and
- This leaves a balance of approximately €440 million in miscellaneous tax expenditures/incentives on the basis of the OECD estimate.

Most public commentary on this issue either misunderstands or ignores how these "expenditures" are broken down. Indeed, the Commission on Taxation did not regard a very large part of these costs to be tax expenditures, but rather part of the fabric of the income tax system (bands, allowances, personal credits)[36].

The tax costs associated with pensions and personal allowance/bands/credits, which make up 80% of the estimated expenditures, have been addressed earlier.

Interest relief on residential mortgages was abolished in Budget 2010 with a gradual phasing out of mortgage interest relief (MIR) up to end of 2017. Loans taken out on or after 1 January 2013 will not qualify for MIR and the relief will be abolished completely for the tax year 2018 and subsequent tax years. The full year saving will be €485 million. Any acceleration of the withdrawal of interest relief would place unacceptable financial pressures on households with the highest risks of being in negative equity. Any move in this direction would increase the risk of default. There will be no change to current arrangements.

Budget 2006 announced the termination, subject to certain transitional provisions, of Urban Renewal; Town Renewal; Rural Renewal; Accelerated Capital Allowances for Hotels; Capital Allowances for Holiday Cottages; Student Accommodation; Multi-Storey Car Parks; Third-level Educational Buildings; Sports Injuries Clinics; Park and Ride Facilities and General Rental Refurbishment Schemes.

[36] Page 11, Commission on Taxation Report.

Transitional arrangements provided for an extension of the deadline to 31 July 2008 for projects already in the pipeline where planning application conditions had been met. In addition, the amount of capital allowances available would be reduced to 75% in 2007 and 50% in 2008. Since 2006, most of the remaining property reliefs in the health and childcare areas have been abolished with similar transitional arrangements.

Given the structure of these schemes there are ongoing legacy costs as investors use their capital allowances. Those legacy costs will reduce with time as capital allowances are exhausted. The restriction of reliefs measure introduced in 2007 (and further enhanced in 2010) also curtails the ability of individuals to utilise these reliefs, thereby spreading the costs over a much longer period.

In current circumstances, it is no longer acceptable that measures abolished as far back as 2006 should continue to cost almost €400 million per annum. Accordingly, the Government is committed (in line with the Revised Programme for Government) to the phased abolition of these legacy reliefs over the period of the Plan.

As regards other tax expenditures, the Plan provides for the abolition of ten tax expenditures and the curtailment of a further six in Budget 2011. Over the remainder of the period 2012-14 tax expenditures will be kept under constant review with a view to further eliminating them from the tax system.

The measures to be abolished in 2011 are:

1 Tax exemption for patent royalties.

2 The investment allowance for machinery and plant and for exploration expenditure.

3 Approved Share Options Scheme.

4 BIK exemption on employer provided childcare.

5 The <u>accelerated</u> allowance for capital expenditure on farm buildings for pollution control.

6 The tax exemption for payments to National Co-operative Farm Relief Services Ltd.

7 Income tax relief for rent paid for private rented accommodation.[37]

8 Income tax relief for trade union subscriptions.

9 Income Tax Age Credit (phased over 4 years).

10 Income Tax Age Exemptions (phased over 4 years).

These measures will yield an estimated €280 million in a full year.

[37] Phase out on same timeline as MIR.

A further six expenditures will be curtailed or otherwise restricted as follows:

11 PRSI, Health and Income Levy charge on Approved Profit Sharing Schemes.

12 PRSI, Health and Income Levy charge on Approved Save-As-You-Earn Schemes.

13 PRSI, Health Levy charge for Unapproved Share Options.

14 PRSI, Health Levy charge for Share Awards.

15 Artist's exemption from Income Tax (Restrict exemption to €40,000 earnings).

16 *Ex-gratia* termination and pension lump sum payments in excess of €200,000 to be taxed.

These measures will yield an estimated further €75 million in a full year.

Action Points

- A €755 million full year reduction in general tax expenditures.
- Some €355 million of income tax expenditures will be abolished/curtailed in 2011.
- Legacy costs associated with property based incentives worth €400 million will be phased out over the period of the Plan.
- Expenditures will progressively be reviewed and removed from the system.

6.7 Value Added Tax and Indirect Tax

The level of indirect tax in Ireland is higher than average, with excise duties being especially high. Notwithstanding this, it is accepted that increases in indirect tax are less economically damaging than direct tax increases as they affect consumption rather than production.

Cross-border trade risks are now less than they may have been in the recent past. VAT rates have increased across Europe in response to the current crisis with some 23 Member States now having rates of 19% or more (including the UK who will be at 20% from 4 January 2011).

Accordingly, it is intended to increase the standard rate of VAT from 21% to 22% in 2013 with a further increase to 23% in 2014. The lower rate on labour intensive services will be left unchanged as any increase could harm employment. The Government will also examine further rebalancing of the VAT system and zero rated VAT items within the context of wider and ongoing EU level consideration of the matter.

In addition to this, a number of changes will be made to excise duties and licences in 2011 to the value of €110 million.

Action Points

- Standard rate of VAT to be increased by 1% in 2013.
- A further 1% increase in the standard rate of VAT in 2014.
- These VAT measures will increase yield by €620 million in a full year.

- Zero rated VAT items to be reviewed as part of EU level consideration.
- Miscellaneous 2011 excise measures amounting to €110 million in a full year.

6.8 Financing Local Services

One of the fundamental challenges we face is to put the funding of locally delivered services on a sound financial footing, to improve accountability and to better align the cost of providing services with the demand for such services.

The Plan commits to a funding platform for local Government on a phased basis. An interim Site Value Tax will be introduced in 2012, applicable to all land other than agricultural land and land subject to commercial rates. The interim measure will involve a fixed local service contribution of about €100 per annum (€2 per week) which will raise €180 million from households. The final Site Value Tax will be introduced in 2013 when valuations have been completed.

It is estimated that Site Value Tax will apply to 1.8 million households and zoned lands that would equate to an estimated further 700,000 houses. At an average of just over €200 per dwelling (or site) this would raises the €530 million full year amount targeted for the Plan period.

For full implementation of the tax, commercial rates will be moved to a site value basis also.

These measures will have significant implications for the financing of local authorities, including a lower contribution from the Exchequer and from motor tax revenues.

The Government revised the vehicle registration tax and motor tax systems on cars to be based on the CO2 emissions of the vehicle, rather than on engine size, with effect from 1 July 2008. This change has been highly successful in encouraging people to purchase lower emissions cars. However, the change in purchasing patterns, combined with other factors, is having an impact on revenue yields, especially in the case of motor tax over the medium term.

During the Plan the current CO2 bands and rates structures will be examined in the light of the overall reductions in CO2 emission levels being made by car manufacturers and the standards set internationally with a view to adjusting the bands in line with technological advances on 1 January 2013.

Action Points

- A Site Value Tax will be introduced in 2012 and completed by 2013
    - An interim fixed "household charge" of €100 per annum in 2012.
    - A full value-based addition will be introduced in 2013.
- These measures will yield €530 million in a full year.

6.9 Carbon Tax

The economic and social implications of climate change are immense and it is the responsibility of Governments everywhere to change behaviour to reduce our greenhouse gas emissions. The most effective way to achieve this is to put a price on carbon. This will encourage innovation by incentivising companies to bring low carbon products and services to the market. Accordingly, a carbon tax was introduced at a rate of €15 per tonne in the 2010 Budget.

But changing behaviour takes time. It is important to reinforce and encourage behavioural change through a gradual and progressive upward adjustment in the price penalty associated with the consumption of carbon.

It is proposed that over the period of this Plan the price of carbon will be doubled to €30 per tonne thereby contributing €330 million to the overall correction. This will entail a €10 per tonne increase in 2012 and a further €5 per tonne in 2014.

Carbon taxes will be a feature of economies across the world in the coming years. At a time when national Budgets are under pressure, it makes sense to choose tax options that can have external benefits such as reducing import dependency, reducing emissions and driving innovation.

A rate of €30 per tonne at the end of four years confirms Ireland's commitment to pricing carbon at a rate that can have positive and lasting domestic benefits and contribute to lowering Ireland's share of global emissions that remain a risk to future generations.

Action Points

- The price of carbon will be doubled over four years.
- The price will be progressively increased from €15 to €30 per tonne.
- These measures will yield €330 million.

6.10 Capital Taxation

In recent Budgets the rates for Capital Gains Tax (CGT) and Capital Acquisitions Tax (CAT) were increased from 20% to 25% and the DIRT rate now stands at 25% and 28% for savings products with less frequent payment of interest.

The Plan envisages that this process will continue. The base for CGT and CAT will be broadened while the level of reliefs and exemptions for these taxes will be reduced. In 2012, the current single CGT rate of 25% will be changed to a system of differing rates for different levels of gains. A similar system will be introduced for CAT where the current tax-free thresholds will be reduced to reflect the fall on asset values over recent years and the very generous nature of these thresholds.

In line with the commitments on tax expenditures in this Plan, reliefs and exemptions from CGT, CAT and Stamp Duty will either be abolished or greatly restricted to ensure that there is an adequate base for these taxes and that all of society makes a fair contribution to the correction of the public finances. A cautious estimated yield of just €145 million is included given the uncertainty of current market conditions and asset price values generally.

Action Points

- The structures and thresholds in the CAT and CGT systems will be reformed in 2012.
- A range of capital tax expenditure will be curtailed.
- These measures will yield €145 million in a full year.

6.11 Corporation Tax

The Irish Government's position on corporation tax is unambiguous. The Programme for Government clearly states that the Government *guarantees that the 12½% rate of corporation tax will remain*. Nothing is changed by this Plan. That commitment is protected, in an EU context, by the principle of unanimity in taxation matters.

While taxation has to play a part in restoring balance to our public finances, this will not apply to our corporation tax rate. A low rate of corporation tax on export-orientated activity has been a cornerstone of our industrial policy since the 1950s and the 12½% rate is now part of our international 'brand'. The contribution from the corporate sector will be made through the maintenance and creation of high value employment.

The Commission on Taxation recommended that "*a low stable corporation tax rate should remain a core aspect of Irish tax policy to support economic activity in the long term*". Ireland's low corporate tax rate is based on an open and transparent system that does not discriminate based on company size or ownership. It is a low tax rate applied to a broad base. Over one thousand manufacturing companies in Ireland are already experiencing an increase in their corporation tax rate from 10% to 12½% as the transitional provisions of the 10% manufacturing rate of corporation tax come to an end in 2010.

The Government's commitment to the maintenance of a competitive and transparent corporate tax offering has been steadfast over the last three years. Notwithstanding the very real challenges, we have continued to evolve the regime to support the knowledge economy.

We have used the tax system to support research and development, the acquisition and exploitation of intellectual property, new start-up companies and to improve corporate energy efficiency. We have also maintained our competitive position in International Financial Services. These changes have resulted in continued investment in Ireland by multinational companies that see this country as a good place to do business. We will continue to work with business for the delivery of the employment that will be the lifeblood of our economic recovery thereby copper-fastening our ability to meet our financial obligations as a State.

Action Point

- There will be no change in the 12½% rate of corporation tax.

6.12 Small and Medium Enterprises

The importance of the role of small and medium sized enterprises in Ireland's economy cannot be overestimated. They supply goods and services on which larger companies rely. Small firms directly support 700,000 jobs.

Over the last two years the Government has placed support for this sector at the heart of its strategy for economic recovery.

Government is investing in small firms in their earliest stages of development via Enterprise Ireland's €175 million seed and venture capital programme and through the €500m Innovation Fund.

The Business Expansion Scheme has been operating for 26 years but funds raised under the Scheme since 2008 have declined significantly and businesses have complained that the Scheme is too administratively complex. For these reasons, the Government has decided, subject to European Commission approval, to transform the old BES Scheme into a new and better-focussed Business Investments Targeting Employment Scheme (BITES).

A simple and efficient certification process will be introduced. The maximum amount that can be raised by companies in a 12 month period will be increased significantly, as will the lifetime amount that can be raised per company.

In addition, some of the money raised from abolishing tax expenditures will be redirected to support enterprise.

Action Point

- A new "Business Investment Targeting Employment Scheme" will be introduced in 2011 to replace BES.

6.13 Impact of the Main Income Tax changes

The impact of this Plan on personal income is set out below. The calculations are based on the technical assumption that the main adjustment will be made through reductions in personal tax bands and credits. As discussed elsewhere, this could also be delivered by alternative means with different results.

(i) Entry Point to Income Tax

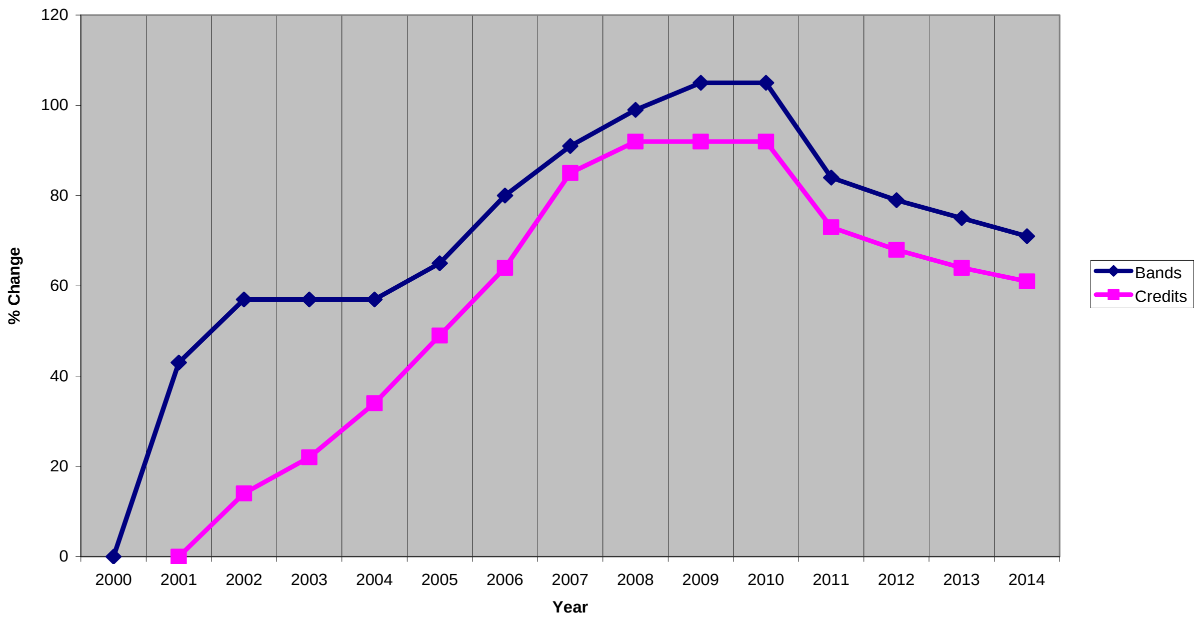
An aggregate 16.5% reduction in the value of bands and credits will reduce the entry point to Income Tax for a single PAYE person to approximately €15,300, a fall of €3,000 from €18,300 in the 2010 tax year by 2014.

(ii) Net Pay

By 2014, net pay for a single person on €55,000 will be reduced by €1,860 per annum (€36 per week) or 4.8%. The net pay for a married one-income family on €55,000 will be reduced by €2,310 per annum (€44 per week) or 5.4%.

For those making tax relieved pension contributions, net income would fall a further 2.5% at this income level in the private sector.

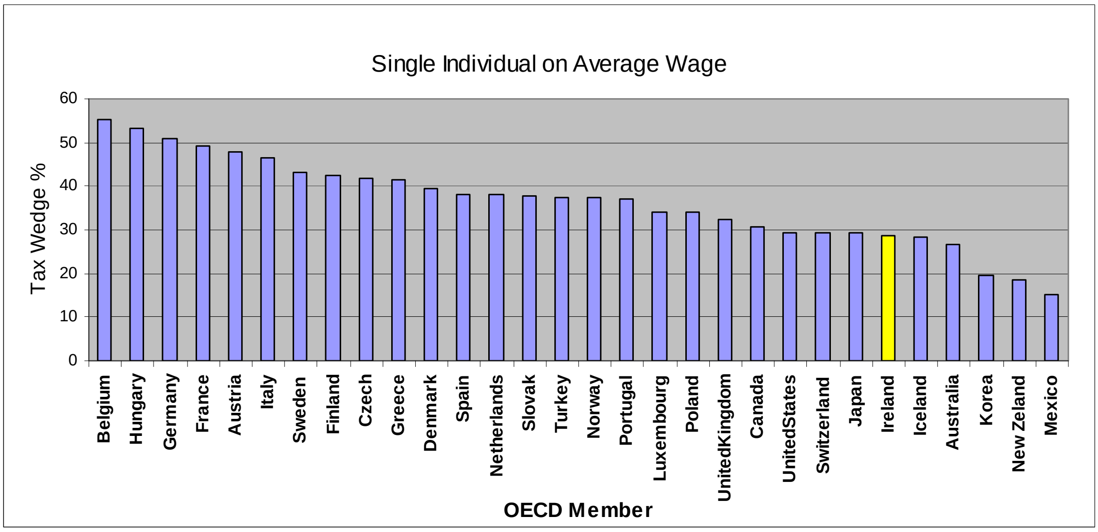
Figure 6.3 Changes to Credits and Bands (single) from 2000 to 2014 (proposed)



(iii) Tax Wedge

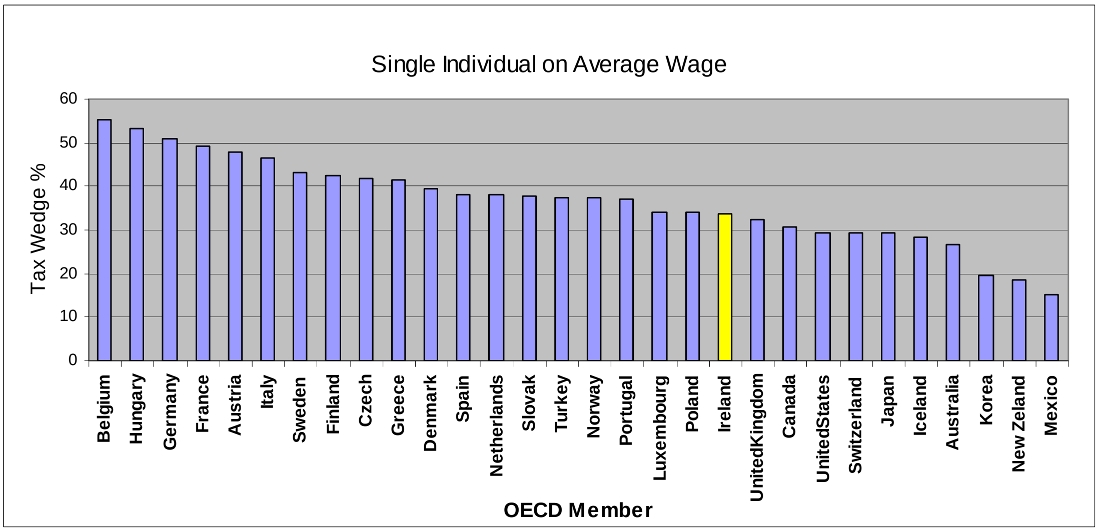
The overall tax wedge on average earnings for a single individual will increase from 28.6% in 2009 to 33.7% by 2014.

Figure 6.4 Comparison of Tax Wedges of OECD Member 2009



As a result, Ireland will move from its 2009 position as sixth lowest tax wedge in the OECD to eleventh lowest. Ireland will have the second lowest tax wedge of the EU members of the OECD from its 2009 position of lowest tax wedge.

Figure 6.5 Comparison of Tax Wedges of OECD Member 2014



This possible outcome assumes, of course, that there are no income tax changes in the tax systems of other OECD and EU members between now and 2014.

(iv) Marginal Tax Rates

Over the 2010-14 period of the Plan, the top marginal rates would remain the same at 52% for PAYE workers and 55% for self-employed.

Annex 1

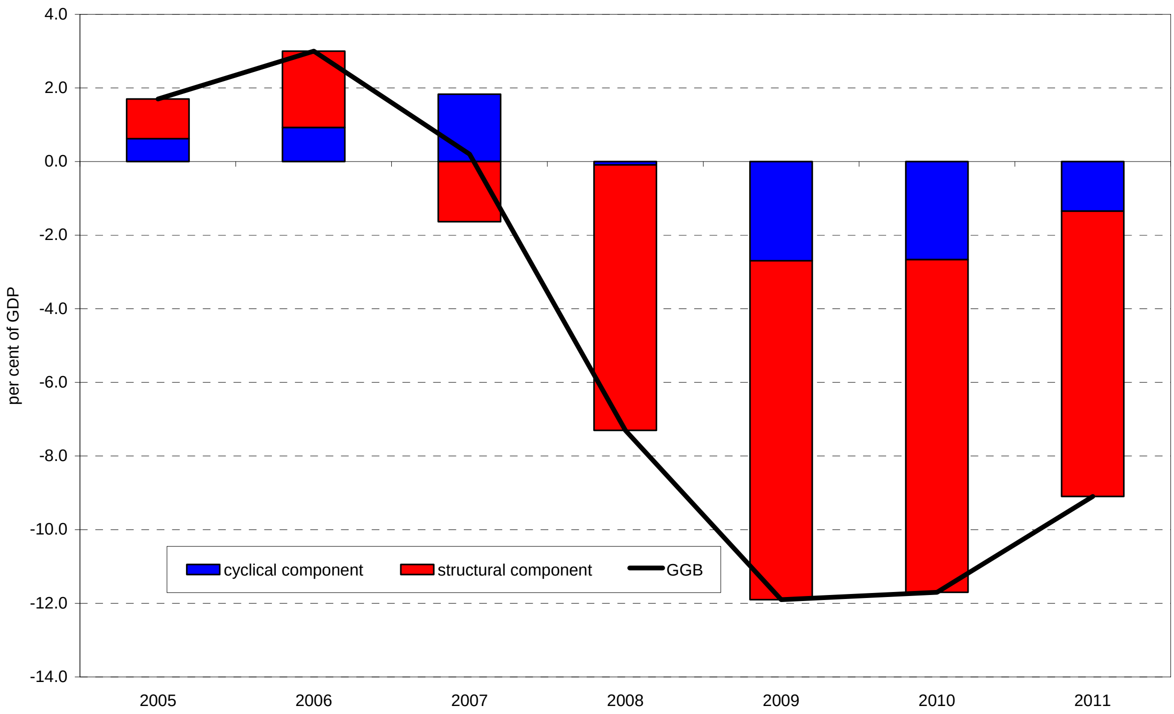
Macroeconomic and Budgetary Data

The Structural Balance

The structural budget balance is typically the main target of budgetary policy. This is the balance which would prevail if transitory elements in net Government lending arising from economic fluctuations are removed. Thus, at the current juncture, the structural deficit is the permanent component of the headline deficit that will not be eliminated by economic recovery. It is this structural deficit that policy should seek to eliminate.

Unfortunately, decomposing the deficit into its permanent and transitory components is subject to considerable uncertainty, as neither of these can be measured directly and must be estimated, and all approaches are subject to at least some limitations, especially for an open economy such as Ireland. With this in mind, the headline balance is decomposed into its cyclical and structural components in the figure below; the methodology is based on the harmonised approach developed by the EU Commission and the Member States.

Figure A.1.1   The Structural Balance*



*The structural balance excludes once-off items.

Annex 2

Macroeconomic and Budgetary Data
Economic Tables, Technical Analysis, Risks and Sensitivity Analysis

Risks to the Outlook

The current economic environment remains surrounded by considerable uncertainty, both at a domestic and global level. In Europe as a whole, for example, it is still not clear what impact consolidation plans will have on activity levels in the coming years, given that sentiment levels have generally continued on an upward trend since measures were announced. Against this backdrop the risks surrounding the growth outlook - stabilisation in real GDP this year, followed by moderate output growth in the period 2011 to 2014 – appear to be broadly balanced. Upside risks to the outlook come primarily from the external side. In particular, the expectation that exports will increase by an average of less than 5% over the forecast horizon may turn out to be somewhat pessimistic, given that it is weaker than the historical relationship between exports and import growth in our main export markets would suggest. It is also possible that the clarity provided by this plan could result in a more rapid restoration of domestic confidence than is currently anticipated, while the structural reforms announced by the Government could see employment recover more rapidly. In general, however, domestic risks are tilted towards the downside. The most significant of these risks is that households maintain savings rates at current very high levels which would represent a continued constraint on personal consumption.

Comparison of Forecasts

Table A.2.1, below, compares the Department of Finance’s 2011 forecasts for real GDP, real GNP, HICP inflation and employment growth with the latest published forecasts from a number of other institutions. The latest consensus forecast – a monthly publication by Reuters based on a survey of around 10 private sector institutions in Ireland – has also been included, to provide an indication of the private sector’s view. In terms of economic growth, expectations for next year have generally been revised down since the start of 2010. While there is a divergence between the Department of Finance’s growth outlook and that of the other institutions, this primarily reflects budgetary development. The forecasts are of a broadly similar vintage, but the Department’s forecast is the only one that takes full account of the size of the consolidation that is now planned for next year. Nevertheless, even taking account of the need to do more in 2011, there remains a general consensus that the Irish economy will see a return to positive, but below trend, growth next year. In the case of inflation, prices are generally expected to begin to increase once again in 2011 following successive years of decline, while employment is forecast to stabilise over the course of next year.

Table A.2.1 Comparison of Macroeconomic Forecasts for Ireland in 2011

Institution	Publication	GDP	GNP	HICP	Employment
Department of Finance	National Recovery Plan	1¾	1.0	¾	-¼
ESRI	QEC, Autumn 2010	2¼	2	½	-0.5
Central Bank of Ireland	Bulletin, October 2010	2.4	1.7	1.1	-0.4
IMF	WEO, October 2010	2.3	n/a	0.5	0.7
Consensus	Reuters Poll, October 2010	2.0	1.7	1.6	n/a

Sensitivity Analysis

The economic forecasts underpinning the public finance projections in this Plan are based on a total consolidation figure of €15 billion over the 2011-2014 period. This is the size of adjustment considered necessary to deliver a General Government Deficit of below 3% of GDP by 2014. However, the Plan is not only about bringing order to the public finances by 2014, essential though that is. The Plan also sets out the Government's strategy for economic growth, for jobs and for structural economic reform. Implementing these strategies and these reforms will assist greatly in generating the economic growth that will help to put the public finances back on a sustainable trajectory.

In the event that economic growth was to be stronger over the 2011 – 2014 period than is currently forecast, it may be the case that the €15 billion adjustment would result in an improved deficit target. If, on the other hand, economic conditions were to weaken significantly, a consolidation of €15 billion would not be sufficient to achieve the stabilisation of the debt ratio over the period and achieve a deficit ratio of less than 3% of GDP by 2014.

To illustrate how the public finances would respond to a growth path different from the one assumed in the baseline, the ESRI's macro-econometric model (HERMES) was used to simulate a situation in which the level of output was 1% different throughout the forecast period due to (a) changes in interest rates or (b) changes in world demand. The model's estimates suggest that a 1 percentage point reduction in output would lead to deterioration in the General Government Balance (GGB) of about 0.3% to 0.6%, depending on the source (see Table A.2.2). This finding is broadly symmetrical, in that higher growth would improve the GGB by a similar amount. It is important to highlight that the estimates should be seen as indicative and are subject to considerable uncertainty. Also, it is assumed that there is no fiscal policy response to the changed budgetary position over the period. In reality such a response would occur if desirable in the interests of budgetary sustainability.

Table A.2.2 Impact on the Budget balance of a 1% change in level of output

	2011	**2012**	**2013**	**2014**
Baseline GDP Growth (%)	1.7	3.2	3.0	2.8
Baseline GGB (%)	-9.1	-7.0	-5.5	-2.8
1 percentage point change in the level of output due to a change in interest rates				
Cumulative impact on GGB (% GDP)	0.3	0.4	0.4	0.4
GGB range	-9.4 to -8.8	-7.4 to -6.6	-5.9 to -5.1	-3.2 to -2.4
1 percentage point change in the level of output due to a change in world growth				
Cumulative impact on GGB (% GDP)	0.6	0.6	0.6	0.6
GGB range	-9.7 to -8.5	-7.6 to -6.4	-6.1 to -4.9	-3.4 to -2.2

Annex 3

Debt-Deficit Dynamics

The key question as far as sustainability of the public finances is concerned is: when is the ratio of debt to GDP going to stabilise? When this point is reached depends on the relationship between four variables: the average interest rate on the debt, the growth rate of nominal GDP, the primary budget balance (the budget balance excluding interest payments), and the ratio of outstanding debt to GDP. When the interest rate exceeds the growth rate, a primary budget surplus is required to stabilise the debt ratio, with the size of that surplus dictated by (i) the size of the margin between the interest rate and growth rate and (ii) the size of the debt ratio. In the more benign circumstances of the growth rate exceeding the interest rate, stabilisation of the ratio is consistent with running a primary deficit below a certain limit, a limit determined by the interest rate – growth rate margin and the debt ratio.

Table A.3.1 sets out the forecast nominal GDP growth rate, the projected average interest rate on General Government Debt, the primary balance as a percentage of GDP and the end-year debt/GDP ratio for each of the years 2011 to 2014 that are consistent with this Plan. The conditions for stabilising the debt ratio are fulfilled in 2014. In that year, a substantial primary surplus is projected in circumstances where the average interest rate on the debt is only marginally higher than the rate of nominal GDP growth. As a result, the debt ratio is projected to fall.

Indeed, the trajectory of the debt ratio throughout the forecast period is somewhat lower than the relationship between these variables would suggest. The reason for this is that it is projected that Exchequer cash balances, which have been built up as a precautionary measure by the NTMA and are counted as part of the General Government debt, will be run down over this period. If for whatever reason, these cash balances were not used to help fund the budget deficit, the debt ratio would evolve as indicated in the final row of the table below.

Table A.3.1: Debt-Deficit Dynamics – The Baseline Scenario

	2011	**2012**	**2013**	**2014**
Nominal GDP growth (%)	2.5	4.2	4.3	4.6
Average interest rate (%)*	3.4	3.9	4.4	4.7
Primary budget balance (% of GDP)	-5.9	-3.2	-1.2	1.9
General government debt (end-year, % of GDP)	100	101	102	100
*General government debt (end-year, % of GDP)***	*102*	*106*	*108*	*106*

** year t interest payments divided by end-year t-1 general government debt*

*** assuming that Exchequer cash balances are not used to fund the deficit*

Obviously, if interest rates evolve in a different way from that assumed and/or the actual growth rate of nominal GDP is different from forecast, debt stabilisation will occur at a level and/or at a point in time different from what is projected in the above table. Either higher than assumed interest rates on government debt or lower than forecast GDP growth would push up the trajectory of the debt-GDP ratio and would tend to delay stabilisation of the ratio, even assuming an unchanged profile for the primary budget balance. Moreover, either of these events would actually tend to worsen the primary budget balance. On the other hand, if interest rates turn out to be lower than assumed and/or GDP growth is higher, the debt ratio would follow a lower trajectory and would tend to start falling sooner than in the scenario envisaged in this Plan.

Table A.3.2: Debt-Deficit Dynamics - Sensitivity Analysis

	2011	2012	2013	2014
Pessimistic Scenario*				
Nominal GDP growth (%)	1.5	3.2	3.3	3.6
Average interest rate (%)	4.4	4.9	5.4	5.7
Primary budget balance (% of GDP)	-6.3	-4.0	-2.4	0.3
General government debt (end-year, % of GDP)	102	106	110	113
*General government debt (end-year, % of GDP)***	*104*	*111*	*116*	*119*
Optimistic Scenario*				
Nominal GDP growth (%)	3.5	5.2	5.3	5.6
Average interest rate (%)	2.4	2.9	3.4	3.7
Primary budget balance (% of GDP)	-5.5	-2.4	0.0	3.5
General government debt (end-year, % of GDP)	97	96	94	89
*General government debt (end-year, % of GDP)***	*100*	*101*	*100*	*95*

** see text for explanation*

*** assuming that Exchequer cash balances are not used to fund the deficit*

Table A.3.2 explores the sensitivity of the trajectory of the debt-GDP ratio to variations in the interest rate assumptions and GDP forecasts. In the pessimistic case the average interest rate on the debt is raised by 1 percentage point and the annual GDP growth rate is lowered by 1 percentage point for each year of the 2011-2014 period. In this scenario, the conditions for stabilising the debt ratio are not met by 2014: the primary surplus achieved in that year is too small to offset the effect of the interest rate being significantly above the GDP growth rate.

In the optimistic scenario, where the interest rate trajectory is set 1% lower and the GDP growth rate 1% higher than in the base case, the conditions for stabilising the debt ratio are met in 2013. By that year, the primary deficit has been eliminated and in 2014 a large primary surplus is achieved, with the result that the debt ratio (helped also by the running down of Exchequer cash balances) falls significantly. Even on an underlying basis, the debt ratio is falling decisively by 2014 in this scenario.

In the baseline scenario, the average effective interest rate on the debt in 2011, calculated as projected interest payments in 2011 divided by end-2010 General Government Debt, is estimated at 3.4%. A key reason for this seemingly low figure has to do with the fact that, of the €149 billion stock of debt that will be outstanding at end-2010, almost €31 billion comprises the promissory notes issued by way of support to the banking system during the year. In 2011, the first funding of the promissory note programme, amounting to €3.1 billion, will take place and will generate interest payments of around €200 million on an annual basis.

Annex 4

Budgetary Data

Table A.4.1 Budgetary Projections 2010-2014

	2010	2011	2012	2013	2014
CURRENT BUDGET					
Expenditure	€ bn	€ bn	€ bn	€ bn	€ bn
Gross Voted Current Expenditure	54.8	52.8	50.9	49.4	48.0
Non-Voted (Central Fund) Expenditure	6.4	6.8	8.8	10.0	11.0
Gross Current Expenditure	**61.2**	**59.7**	**59.7**	**59.4**	**59.1**
less Expenditure Receipts and Balances	13.8	12.7	13.0	13.4	13.9
Net Current Expenditure	**47.4**	**47.0**	**46.7**	**46.0**	**45.2**
Receipts					
Tax Revenue	31.5	33.4	36.3	39.2	42.2
Non-Tax Revenue	2.7	2.0	1.1	0.9	0.9
Net Current Revenue	**34.2**	**35.4**	**37.5**	**40.1**	**43.1**
CURRENT BUDGET BALANCE	**-13.2**	**-11.6**	**-9.2**	**-5.9**	**-2.1**
CAPITAL BUDGET					
Expenditure					
Gross Voted Capital	6.1	4.7	4.3	3.9	3.5
Non-Voted Expenditure	1.4	4.5	4.2	4.0	3.9
Payment to the NPRF			0.4	1.4	1.4
less Capital Receipts	0.4	0.3	0.3	0.3	0.3
Net Capital Expenditure	**7.1**	**8.8**	**8.6**	**9.0**	**8.5**
Capital Resources	**1.6**	**2.0**	**1.6**	**1.8**	**2.1**
CAPITAL BUDGET BALANCE	**-5.5**	**-6.9**	**-7.0**	**-7.2**	**-6.5**
EXCHEQUER BALANCE	**-18.8**	**-18.4**	**-16.2**	**-13.1**	**-8.5**
GENERAL GOVERNMENT BALANCE	**-49.9**	**-14.7**	**-11.7**	**-9.6**	**-5.0**
% of GDP	*-31.7*	*-9.1*	*-7.0*	*-5.5*	*-2.8*
UNDERLYING GENERAL GOVERNMENT BALANCE	**-18.5**				
% of GDP	*-11.7*				

Rounding may impact on totals

Note: This Plan is based on the information available up to mid-November 2010. The figures referred to in the document may change as a result of policy decisions taken by Government after publication.

Annex 5

Macroeconomic and Budgetary Data

Macroeconomic Prospects

Table A.5.1 Macroeconomic Prospects

	2010 *% change*	**2011** *% change*	**2012** *% change*	**2013** *% change*	**2014** *% change*
Real GNP	-2	1	2½	2½	2½
Nominal GNP	-4½	2	3½	4	4¼
Nominal GNP *(level)*	125,500	127,900	132,500	137,600	143,400
Real GDP	¼	1¾	3¼	3	2¾
Nominal GDP	-1½	2½	4¼	4¼	4½
Nominal GDP *(level)*	157,300	161,200	168,100	175,400	183,500
Components of real GDP					
Private Consumption	-1¼	0	1	1½	1¾
Government Consumption	-4	-3	-2	-2¼	-2
Investment	-21¼	-6	5¼	5	5¼
Exports of goods and services	6¼	5	5	4½	4
Imports of goods and services	2¾	2¾	3	3¼	3
Contribution to real GDP growth					
Final domestic demand	-4¾	-1¼	¾	1	1¼
Changes in stocks	1½	¼	0	0	0
External trade balance	3½	2½	2½	2	1¾

Table A.5.2 Price developments

	2010	**2011**	**2012**	**2013**	**2014**
GDP Deflator	-1¾	¾	1	1¼	1½
HICP	-1½	¾	1	1¾	1¾

Table A.5.3 Labour market developments

	2009 %	**2010** %	**2011** %	**2012** %	**2013** %	**2014** %
Employment, persons	1,929,000	-4	-¼	1¼	1½	1¾
Unemployment rate (%)	11¾	13½	13¼	12	11	9¾
Labour productivity, per employee (GNP) %	-2¾	2	1¼	1¼	¾	½

Annex 6

Performance Budgeting

'Performance Budgeting' is the term used to describe ways of strengthening the focus upon what is delivered with public funds, and factoring this into the resource-allocation process, in preference to the traditional approach of focusing narrowly on the financial inputs.

Ireland's system of resource allocation centres upon the traditional Vote accounting framework, whereby financial allocations are authorised by the Dáil and accounted for on a subhead-by-subhead basis. In recent years, this has been complemented with the *Annual Output Statement (AOS)* approach, which includes information on public service performance and outputs.

In its 2008 Review of the Irish Public Service, the OECD was broadly supportive of the AOS concept, and called for improvements to build performance information into the budgeting process. This approach has been taken up in the Government's *Transforming Public Services* agenda.

Proposed Approach

The Government has decided to integrate key, high-level performance information as part of the annual Estimate, rather than continue to present such information in two separate documents – the Estimate and the AOS – which are hard to reconcile with each other. This approach to 'performance budgeting' will involve:-

- full alignment between the subhead structure of the Estimate and the 'Programme' structure used in the AOS and Statement of Strategy;
- integration of Administration subheads alongside the corresponding Programme subheads, to show the full costs of delivering each Programme; and
- inclusion of concise, high-level performance and impact information as part of the annual Estimate.

The Government will progress this initiative by way of a pilot project, involving a policy-focused area (the Department of Finance and the wider Finance Group of Votes) along with an area focused on operation and service delivery (the Department of Agriculture, Fisheries & Food). The 2011 Estimates for these areas will be prepared on the new Programme Estimate basis, and the new approach will be rolled out to other Departments from 2012.

Annex 7

Multi-Annual Expenditure Framework

Multi-annual expenditure planning is already in place in a number of other countries, both in the EU and further afield; and this approach features strongly in the recent Commission Communications on Enhancing Economic Policy Coordination, and in the deliberations of the Van Rompuy Task Force.

The essence of this system is to set fixed expenditure ceilings for each of a multi-year cycle for each main area of expenditure, rather than just for one year as is currently the case. This would require public commitments to ongoing budgetary discipline, and a political commitment to observe the proposed limits (subject to the normal discretion of any new political administration to re-configure and to re-prioritise areas of expenditure, and the overall composition of fiscal policy, as it considers appropriate).

Based on the experience of other countries, and taking into account the background and preparatory work that has been undertaken within the Irish public service for some time, the Government proposes to introduce a Medium Term Expenditure Framework (MTEF) on the basis outlined below.

(i) *Aggregate Expenditure Levels* – The starting point for an MTEF is a Government decision on an overall, 'top down' upper limit for aggregate Voted current spending for the multi-year period ahead, consistent with its broader medium-term budgetary plan. For the period 2011-2014, the Government's National Recovery Plan sets out the overall parameters in this regard.

(ii) *Governmental Expenditure Assessment (GEA)* – A comprehensive review of all areas of Government spending should be conducted every 2-3 years to assess the relative contribution of each area towards meeting Government commitments, and to evaluate its relative priority in terms of resource allocation policy. For the purpose of this Plan, the Government has been in a position to draw upon the extensive analytical work undertaken by all Government Departments, and by the Department of Finance, over the course of 2009 and 2010. In future years, a separate GEA exercise would be undertaken periodically by the Department of Finance, and reflecting the priorities identified in any new or revised Programme for Government.

(iii) *Ministerial Current Expenditure Envelopes* – Once the Aggregate Expenditure Levels are decided, and in light of the outcome of the GEA/review of expenditure priorities, the Government applies cash ceilings for current expenditure within each Ministerial Vote Group, so that programmes can be managed and prioritised within a fixed, determinate 'envelope' of spending over the multi-annual period.

(iv) *Current Carryover provision:* As in the case of the existing Multi-annual Capital envelopes, the current envelopes will include provision for limited carryover of unspent moneys from one year to the next, to promote effective budgetary management and Value for Money (VFM) within Departments.

(v) *Numbers Policy and Administrative Budget Agreements* – The other multi-annual expenditure management mechanisms currently in use – namely the Employment Control Frameworks (ECFs) for controlling staff numbers and the Administrative Budget Agreements (which apply to the civil service) – would be subsumed into the overall multi-annual framework set out above.

Implementation

The publication of this Plan represents a first decisive step in the implementation of the MTEF. Under the Plan, overall expenditure limits are specified for the period to 2014, with the establishment of Ministerial Current Expenditure Ceilings for the coming years.

The specific expenditure savings to be implemented in 2011 and later years are detailed in Chapter 4 of this Plan, with further details for each expenditure area in Annex 8.

During the course of 2011, and each subsequent year, a primary task of each Minister, and in turn of each Head of Department and Office, will be to refine and re-formulate the specific policy measures – including medium-term, structural measures – that will allow for the fixed expenditure ceilings to be adhered to over the years ahead.

On this basis, the specific expenditure reduction targets set out in this Plan, for each area of expenditure, will de delivered.

Annex 8

Detailed Information relating to Expenditure Measures

Chapter 4 of this Plan outlines the current expenditure savings required in the years to 2014 in order to put the public finances on a more stable footing, with a focus upon each of the broad categories of expenditure. This Annex sets out the savings to be secured in 2011 on the basis of a range of specific measures in each spending area, as well as the scale of further savings to be delivered from each area in the period 2012-2014. Further details for Social Protection and the Book of Estimates will be published on Budget day, December 7th.

Table A.8.1 below shows the overall current expenditure position for each Departmental spending area. The table shows that the range of measures to be introduced in 2011 will deliver full-year structural savings amounting to about €2.7 billion. This front-loading of the expenditure adjustment means that a balance of just under €4.3 billion must be secured over the remaining three years of the consolidation period, to deliver overall current expenditure savings amounting to €7 billion by 2014.

Table A.8.1 Savings to be achieved in 2011 and remaining savings in the period to 2014

	2011 Measures* (First Year, €m)	2011 Measures* (Full Year, €m)	Further Measures (by 2014, €m)	Total (€m)
Agriculture, Fisheries & Food	75	101	120	221
Communications, Energy & Natural Resources	8	12	8	20
Community, Equality & Gaeltacht Affairs	19	27	8	35
Defence	28	46	60	106
Education & Skills	182	312	379	690
Enterprise, Trade & Innovation	14	37	10	47
Environment, Heritage & Local Government^	84	91	220	311
Finance	32	60	25	85
Foreign Affairs, including ODA	42	37	150	187
Health & Children	746	765	680	1,445
Justice & Law Reform	74	230	140	370
Social Protection	861	915	1,910	2,825
Taoiseach	8	11	24	35
Tourism, Culture & Sport	17	26	50	76
Transport	32	39	100	139
Other measures^	0	0	400	400
Total:-	**2,221**	**2,709**	**4,283**	**6,992**

*Includes Net Public Service pay and administrative savings. It excludes the effects of adjustments to Public Service pension levels. In 2011, these changes are expected to cost about €130 million, however by 2014 it is estimated that they will yield savings of some €8 million.
^These savings are contingent on enactment and implementation of legislation to raise revenues from water charges and the planned Local Service Contribution to finance local services.
Rounding may impact on totals.

The following sections provide further detailed information in relation to each of these spending areas, other than Social Protection, for which the relevant details are set out in Chapter 4.

Agriculture, Fisheries & Food

The Agriculture sector will contribute savings of €221 million by 2014. The specific savings targets for implementation in 2011 are set out in the table below.

	Yield 2011, €m	**Yield Full year €m**
Agriculture		
The key adjustments include programme savings, payroll savings and other running cost savings as set out below:		
Programme		
▪ Reduced expenditure on REPS	35.7	35.7
▪ Reductions in the Disease Eradication area due to reduced instances of disease in 2010	6.3	6.3
▪ Reduced expenditure on ERS due to scheme closure	5	5
▪ Reduction in Intervention costs	4.5	4.5
▪ Efficiencies in the running costs of State Bodies	3	3
▪ Other savings (including some running cost reductions)	5.5	5.5
▪ Payroll savings	6	26
Other		
▪ Non pay administrative savings	9	15.1
Total Agriculture Savings	**75**	**101**

Agriculture, Fisheries & Food 2012-2014

Achieving the targeted savings will require the adoption of further measures yielding some €120 million in the years to 2014. Consolidation will need to focus on streamlining a range of programmes. Options to be considered include prioritisation of financial support in schemes to active farmers, also taking into account CAP reform.

An alternative funding model to support the horse and greyhound industries will be introduced.

Communications, Energy & Natural Resources

The CENR area will contribute savings of €20 million by 2014. Specific measures for implementation in 2011 are outlined in the table below.

Communications, Energy and Natural Resources	**Yield 2011, €m**	**Yield Full Year, €m**
The key adjustments include a reduction in funding for TG4, payroll savings and non-pay savings as set out below:		
▪ Exchequer funding for TG4 will be reduced with the shortfall made up from RTE licence fee income yielding a net programme saving of €6.2m on the Vote	6.2	6.2
▪ Payroll savings	0	3
▪ Non-pay Administrative Savings	1.7	2.8
Total CENR Savings	**8**	**12**

Communications, Energy and Natural Resources 2012-2014

Achieving the targeted savings will require the adoption of further measures in the years to 2014 to save an additional €8 million. Further consolidation will need to focus upon rationalising and scaling-back of certain activities funded from this area.

Community, Equality & Gaeltacht Affairs

The CEGA area will contribute savings of €35 million by 2014. The expenditure savings proposed for implementation in 2011 are outlined in the table below.

Community, Equality & Gaeltacht Affairs	**Yield 2011, €m**	**Yield Full year, €m**
The key adjustments include reduced programme allocations particularly in community schemes, payroll savings and efficiencies in administrative non pay costs.		
Developing Communities • Reduced allocations across community development programmes / projects • Adjustments in supports for the community & voluntary sector and volunteering	8.7	8.7
Other programmes		
Tackling Problem Drug Use • Savings across community based drugs projects	0.4	0.4
Rural Development • Reduced funding for rural recreation	0.6	0.6
Gaeltacht & Island Development • Reduced funding for Gaeltacht schemes / services	1.4	1.4
Promotion and Maintenance of the Irish Language • Savings across Irish language support programmes.	0.6	0.6
Equality • Reduction in funding for equality and integration projects	0.9	0.9
Disability • Reduction in funding for disability projects	0.6	0.6
Other Services • Reductions in other programmes and administration.	1.8	1.8
Other		
▪ Payroll savings	1	6
▪ Non-pay administrative savings	3.1	5.5
Total CEGA savings	**19**	**27**

Community, Equality & Gaeltacht Affairs 2012 – 2014

Over the period to 2014, the full range of grant assistance programmes will have to be reviewed for further efficiencies and consolidation to secure an additional €8 million in savings.

Defence

The Defence area will contribute savings of €106 million by 2014. The savings targets and specific measures for implementation in 2011 are outlined in the table below

Defence	**Yield 2011, €m**	**Yield Full year , €m**
The key adjustments include reduced allowances for overseas deployment, payroll savings and efficiencies in administrative non pay costs.		
▪ Reduction in the provision for allowances for overseas deployment by the Defence Forces. Reduction in the number of civilian employees attached to military installations. Acquisition of replacement equipment, building and maintenance projects will be deferred or cancelled.	25	25
▪ Payroll savings	2.5	20
▪ Non-pay Administrative Savings	0.1	0.4
Total Defence Savings	**28**	**46**

Defence 2012 – 2014

Achieving the further targeted ongoing savings of €60 million by 2014 will require the adoption of a number of measures additional to those outlined above. This will involve a critical appraisal of every area of activity within the Defence Forces, including overseas duties and domestic services, with a view to maximising efficiency in every area, including procurement. Should it prove difficult to achieve the savings at the targeted personnel level, it may become necessary to consider further personnel reductions.

Education & Skills

The table below outlines the measures to be adopted in 2011 to achieve the saving required. These structural measures have a significantly higher medium-term impact, thus lessening the need for further policy savings from this sector in future years. Structural changes early in the adjustment process can yield substantial future savings, particularly in the area of pupil staffing ratios. Allocations from the National Training Fund will also be reduced and the impact on training and employment supports will have to be managed within the reduced allocation. The Government will continue to place an emphasis on providing training for the unemployed, in particular those cohorts that are in danger of becoming distanced from the labour market. The Education & Skills area, including FÁS, will contribute savings of €690 million by 2014.

	Yield 2011, €m	**Yield Full year , €m**
Education and Skills		
The key adjustments in the education sector include some one off measures as well as structural measures with significant medium-term impacts. The key adjustments are:		
School Transport		
▪ Operational efficiencies and other savings measures in the school transport scheme	4.5	17
School Funding:		
▪ 5% Reduction in all capitation grants, including grants for Adult Literacy, Community Education, School Completion Programme, Youthreach.	22.2	22.2
Education Fees:		
▪ Replace Student Services Charge with a flat higher education student contribution of €2,000, and introduce €200 charge for PLC students.	31	31
Student Support:		
▪ Savings in the student support scheme	22	51
Third Level:		
▪ 5% cut in non-pay grant to Universities/IOTs etc.	14	14
NEPS:		
▪ Cap numbers at current level of 178	3	3
FAS/Training Allowances & similar Support Payments		
▪ Savings measures	21	21
Payroll savings		
▪ Reduce teacher numbers by a combination of measures	24	97.6

▪ Supervision and substitution: 3rd class period under Croke Park Agreement & tighten measures in rules for scheme	10	10
▪ 10% reduction in salary for new entrants and all entrants to start on 1st point	1	12
▪ Additional reductions in PS numbers	11	19
Other		
▪ Non-pay Administrative Savings	4	9.1
▪ Management of emerging expenditure pressures and other estimated savings	14	5
Total Current Savings:-	**182**	**312**

Education 2012 – 2014

The Government's prioritisation of education investment to date and over the period of the Plan is clear with more favourable treatment of teacher and Special Needs Assistants (SNA) posts under public sector numbers policy and the moratorium on filling vacancies. However, it is essential that a significant reduction is achieved in teacher payroll (including substitution) costs over the period of the plan through more efficient deployment of existing teacher numbers, reduction in teacher numbers and/or other productivity, efficiency and pay-related measures that deliver reductions in payroll (including substitution) costs.

The Plan provides for a further reduction in teacher payroll costs, from the school year 2012/13. In advance, the Department of Education and Skills will consult with the education partners and provide them with an opportunity to contribute to the process of identifying a range of measures that Government can consider. If alternative feasible measures to deliver these savings cannot be identified, appropriate increases in the classroom teacher allocation schedule will be introduced.

There have been significant increases in the number of SNAs in recent years. In that regard, while no reduction in SNA numbers is proposed over the period of the plan, it is intended to cap SNA numbers at the 2011 level and introduce a new system to facilitate the management of these finite SNA resources in a proactive manner.

The issue of a higher student contribution to the cost of higher education is discussed in Chapter 4.

Enterprise, Trade & Innovation (ET&I)

The Government sees the ET&I area in particular as a driver of the innovative, smart economy that will lay the basis for sustainable growth and employment creation into the future, as detailed in Chapters 1 and 2 of this Plan. In securing balanced savings from the ET&I area, there will accordingly be a need to preserve and to promote those areas of activity that feed into the Government's overall growth strategy. The Enterprise area will contribute €47 million of savings by 2014. Specific measures for implementation in 2011 are outlined in the table below.

	Yield 2011, €m	Yield Full year, €m
Enterprise, Trade and Innovation		
Savings will be secured across the range of programme activities and supports provided in the ET&I area as follows:		
Programme		
▪ Administrative Budget (including NERA and the ODCE)	0.7	0.7
▪ Industrial Relations/Social Partnership	0.8	0.8
▪ Rationalising expenditure on Consumer Affairs	0.5	0.5
▪ Targeting of funding for Science, Technology & Innovation	2.4	2.4
▪ Curtailment of allocations for Enterprise Agencies through operational efficiencies	0.8	0.8
▪ Realignment of funding for the Health & Safety Authority	0.5	0.5
▪ Miscellaneous	0.3	0.3
Other		
▪ Payroll savings	4	23
▪ Non pay administrative savings	4.5	8.2
Total ET&I Savings	**14**	**37**

Enterprise, Trade & Innovation 2012 – 2014

Achieving the further targeted ongoing savings of €10 million by 2014 will require the adoption of further efficiencies and programme adjustments. Given the strategic priority of this area, the additional savings contribution over the period 2012-2014 will be kept to a minimum amount.

Environment, Heritage & Local Government (EHLG)

Savings of up to €311 million are proposed to be implemented by 2014 from the EHLG area (which includes Exchequer support for the Local Authorities). Specific measures for implementation in 2011 are outlined in the table below.

	Yield 2011, €m	**Yield Full year, €m**
Environment, Housing & Local Government		
There will be reductions within the housing, local government, heritage and community areas. In addition payroll and administrative savings are targeted. The key adjustments include the following:		
Programme		
▪ Lower Exchequer contribution to the Local Government Fund. Off-setting measures in the local government sector will be introduced	62	62
▪ Savings will also arise from efficiencies in		
- Environmental protection measures	9	9
- Built and Natural Heritage Programmes	7	7
- Scheme of support to Voluntary and Community Fora	1.2	1.2
▪ Use Cash Reserves in Agencies (RPII & Heritage Council)	0.75	-
Other		
▪ Payroll savings	1	7
▪ Non-pay administrative savings	2.6	4.2
Total EHLG Savings:-	**84**	**91**

Environment, Heritage & Local Government 2012 – 2014

Savings and offsetting measures within the local government sector in 2012-2014 will allow the Exchequer to end its contribution to the Local Government Fund. The introduction of water charges and the local charge as proposed by the Government will lead to significant additional revenues from 2014.

Finance Group of Votes

The Finance Group includes the Revenue Commissioners and the Office of Public Works as well as the Department of Finance. Savings of €85 million will be implemented by 2014. The savings measures for 2011 are set out in the table below.

	Yield 2011, €m	**Yield Full year, €m**
<u>Finance</u>		
The key adjustments include programme savings, payroll and administrative savings		
▪ A range of measures predominantly in the OPW, Revenue and Finance areas	26	26
▪ Payroll savings	5	28
▪ Non pay administrative savings	0.8	6
Total Finance Savings:-	**32**	**60**

Finance Group of Votes 2012 – 2014

Achieving these savings targets will require the adoption of further measures in the years to 2014 including:

- Economies and efficiencies on all Votes;
- Rationalisation of Departmental accommodation needs;
- Reduction on maintenance spending and spending on visitor centres;
- Efficiencies in tax collection through structural reform of the taxation system

Taken together, these measures should contribute towards additional savings of €25 million by 2014.

Foreign Affairs, including ODA

Savings of up to €187 million will be implemented from the Foreign Affairs area by 2014. Specific measures for implementation in 2011 are outlined in the table below.

	Yield 2011, €m	Yield Full year, €m
Foreign affairs The key adjustments include programme savings, payroll and administrative savings		
Programme savings		
▪ Curtailment of the allocation for Overseas Development Assistance (ODA)	35	35
▪ Introduction of passport fees for over 65s	2.3	2.3
▪ Rationalisation of the allocation for Overseas missions	0.5	0.5
▪ Other programme savings	0.5	0.5
Other		
▪ Payroll savings	1.0	1
▪ Non-pay administrative savings	3.0	-2.5
Total Foreign Affairs Savings	**42**	**37**

Foreign Affairs 2012 – 2014

Achieving additional ongoing savings of the order of €150 million by 2014, in addition to the savings outlined in the table above, will require a reduction in ODA to more affordable levels consistent with international targets. Further efficiencies and economies in the diplomatic service will be made.

Health and Children

The table below outlines the measures to be adopted in 2011 to achieve the €746 million saving required in the Health area.

	Yield 2011 €m	Yield Full year, €m
Health and Children The following are the key adjustments in the Health and Children area:		
Programme		
▪ Vote 39 and its agencies (including savings in Admin Budget and allocations to Health agencies) and Vote 41 childcare and youth scheme savings	36	36
▪ Procurement and Demand Led Schemes savings	444	454
Other		
▪ Payroll savings from proposed numbers reduction in the HSE, including the VER/Severance Package, and other savings and efficiencies in non-core pay costs	259	257
▪ Non-pay Administrative Savings:-	7.5	18.4
Total H&C Savings:-	**746**	**765**

Health 2012 – 2014

As the above table shows, additional savings of €680 million will need to be implemented in the Health area by 2014. The main focus will be on protecting essential healthcare services, and continuing to achieve efficiencies in pay and non-pay costs, including through changes in the way services are delivered (e.g. by making increasing use of the day-care procedures and reducing average lengths of stay and better bed management). Other measures that will be implemented over this period include:

- Cost savings in community schemes through measures which also achieve greater graduation of supports across those on different income levels, remove poverty traps/employment disincentives and better support health policy objectives;
- Building upon the success of the Fair Deal Scheme, the introduction of an approach to community support for older people which takes need and financial means into account on a nationally consistent basis;
- Changes in the existing range of dental services and supports provided through the healthcare and social protection systems in order to improve access to essential dental services for those most in need;
- Further increases in the charges for private/semi-private treatment in public hospitals to achieve full cost recovery; and

- The introduction of clinical guidelines to improve prescribing behaviours in order to generate savings in drug costs, where appropriate, and reduce other treatment costs by providing more effective drug treatment.

Justice & Law Reform

The Justice sector includes the Garda Síochána, the Prisons and Courts Services, as well as the Department of Justice & Law Reform. This area will contribute savings of €370 million by 2014. Specific measures for implementation in 2011 are outlined in the table below.

As this area of expenditure is staff-intensive, savings will be made through progressive scaling back in existing numbers levels, with associated administrative efficiencies. Structural reform and numbers reduction measures from 2011 deliver a progressively higher full-year impact out to 2014.

	Yield 2011, €m	Yield Full year, €m
Justice		
The range of schemes and programmes in the Justice sector will be adjusted on the basis set out below:		
Vote 19		
▪ Criminal Legal Aid – fees and structure changes	5	10
▪ Asylum savings on accommodation & other costs	5	10
▪ Probation Service – better targeting of resources	5	10
▪ INIS – savings on foot of lower numbers of asylum seekers etc	-	30
Vote 20		
▪ Garda Management Efficiencies	20	25
Vote 22		
▪ Courts –efficiencies across network of Courts	5	15
▪ Procurement Savings	10	20
All votes		
▪ Payroll savings	18	100
▪ Non-pay administrative savings:-	5.6	10.1
Total Justice Savings:-	**74**	**230**

Justice 2012-2014

Achieving these savings targets will require the adoption of further measures in order to generate savings of €140 million. These will include:

- Reductions in overtime, allowances and travel costs;
- Reductions in transport spending;
- Further economies in the cost of Civil & Criminal Legal Aid, INIS, Asylum Accommodation and Probation Service; and
- Efficiencies and economies across the whole Vote Group.

Taoiseach's Group of Votes

The Taoiseach's Vote Group comprises the Votes of the Department of the Taoiseach, the Central Statistics Office (CSO) and the Law Offices (i.e. Office of the Attorney General and Office of the Chief State Solicitor). Savings of up to €35 million will be implemented from the Taoiseach's Group of Votes by 2014. The table below sets out the specific measures for implementation in 2011.

Taoiseach's Group of Votes The focus of savings in the Taoiseach's Group of votes is primarily aimed at administrative efficiencies given that most of the expenditure across this group of votes comprises administrative budgets.	**Yield 2011, €m**	**Yield Full year €m**
Department of the Taoiseach		
▪ Reduction in the administrative budget	1.0	1.0
▪ Programme Savings	1.4	1.4
Office of the Attorney General		
▪ Rationalisation of administration expenditure	0.1	0.1
CSO		
▪ Curtailment of administrative costs (€2 million of the savings in 2011 are once-off and arise in Census 2011 and Household Budget Survey)	3.0	1.0
Other		
▪ Payroll savings across all votes	1	4
▪ Non-pay administrative saving	2.0	3.6
Total Taoiseach's Group Savings:-	**8**	**11**

Taoiseach's Group 2012 – 2014

The 2011 savings will be intensified in the period 2012–2014 through the continuation of administrative and operational efficiencies and the increased prioritisation of work programmes to meet emerging demands placed on the Department of the Taoiseach, the Legal Offices and CSO. The outputs of the Law Offices, in particular, are demand-driven and the Offices, in addition to securing economies and increased operational efficiencies, have been exerting strong control on expenditure on legal fees. This will be continued over the coming years. The outputs of the CSO are similarly demand-driven to a large degree and respond to European Union and national statistical obligations. The CSO has also achieved operational savings and continues to prioritise work programmes in light of emerging budgets. The 2011 allocation for the CSO includes significant additional resources to provide for conducting the 2011 Census of Population. These resources will be reduced in 2012 and in subsequent years.

Tourism, Culture & Sport

The Tourism, Culture & Sport area will contribute savings of €76 million by 2014. The specific measures for implementation in 2011 are outlined in the table below.

Tourism, Culture & Sport	**Yield 2011, €m**	**Yield Full year, €m**
The savings measures for this area comprise programme savings across the arts, culture and sport sectors as well as payroll and administrative savings. The key adjustments are set out below:		
Programme savings		
▪ Reduction in tourism expenditure through operational efficiencies, prioritisation of activities and more focused tourism marketing investment	5	5
▪ Reduced funding for sporting bodies and agencies including Irish Sports Council and National Sports Campus	3	3
▪ Reduced allocations to cultural institutions and cultural projects	5	5
Other		
▪ Payroll savings	0	6
▪ Non-pay administrative savings	4.0	7.2
Total Tourism, Culture & Sport Savings:-	**17**	**26**

Tourism, Culture & Sport 2012 – 2014

Additional savings amounting to €50 million will be required post 2011 involving:

- reductions in the allocations to sporting bodies and grants to local sports organisations;
- reduction in allocation to the Arts Council and other Cultural activities; and
- better focusing and prioritisation of Tourism spending.

Transport

Savings of up to €139 million will be implemented from the Transport Vote by 2014. Specific measures for implementation in 2011 are outlined in the table below.

Transport	Yield 2011, €m	Yield Full year, €m
The adjustments in the Transport area comprise a variety of programme measures as well as payroll and non-pay savings. The following are the key adjustments for the Transport area:		
Administration		
▪ Achievement of administrative savings	0.18	0.18
Roads		
▪ Across the board reduction in maintenance expenditure on national, regional and local roads.	9	9
▪ Reduction of the Exchequer grant to the Road Safety Authority. Where operational efficiency savings fall short of meeting this reduction, the authority can seek to raise service fees up toward a level that represents full cost-recovery.	5	5
▪ Operational efficiency savings arising from increased use of online motor tax service – reduced postal costs and bank clearing charges.	0.5	0.5
Public Transport		
▪ Reduction in subvention to public transport companies, agency rationalisation and administrative savings.	10	10
Aviation		
▪ Regional Airports – Curtailment of support for regional air services from mid-2011.	5.5	5.5
Other		
▪ Payroll savings	0	5
▪ Non-pay Administrative Savings	2.1	3.3
Total Transport Savings	**32**	**39**

Transport 2012 – 2014

The breakdown of the additional savings target of €100 million by 2014 for the Department of Transport includes:

- Further reductions in road maintenance expenditure;
- Further reduction in the administrative provision for agencies generally and through post-merger administrative provisions for the National Road Authority and the Railway Procurement Agency, arising from normal overhead consolidation – staff, back office support, administration, office space etc;

- Future funding requirements for agencies should be increasingly met from a raising of fees towards full cost recovery levels; and
- Further rationalisation of services through implementation of the Deloitte Report will mean reduced levels of subvention in future years.

Revised Gross Current Ceilings

Taking account of all of the measures outlined above, Table A.8.2 below sets out the new expenditure ceilings that will apply for each Vote Group in the years to 2014. These are the pre-Budget Estimates adjusted for the savings set out in Table A.8.1.

Table A.8.2 Current Expenditure Ceilings by Vote Group, 2011 – 2014

	2011 €m	2012 €m	2013 €m	2014 €m
Agriculture, Fisheries & Food	1,346	1,136	1,057	1,029
Communications, Energy & Natural Resources	337	333	330	325
Community, Equality & Gaeltacht Affairs	265	258	254	250
Defence	925	891	869	841
Education & Skills	9,200	9,020	8,950	8,875
Enterprise, Trade & Innovation	392	369	355	344
Environment, Heritage & Local Government*	599	555	492	370
Finance	1,265	1,257	1,203	1,189
Foreign Affairs, including ODA	728	721	725	712
Health & Children	14,094	13,848	13,736	13,674
Justice & Law Reform	2,321	2,125	2,009	1,960
Social Protection	20,152	19,338	18,494	17,901
Taoiseach	201	162	155	141
Tourism, Culture & Sport	296	274	256	234
Transport	681	634	602	560
Unallocated Adjustment	20	-10	-80	-380
Total:-	**52,823**	**50,910**	**49,408**	**48,024**

*These Environment, Heritage & Local Government provisions are contingent on enactment and implementation of legislation to raise revenues from water charges and the planned Local Service Contribution to finance local services

Annex 9

eGovernment and ICT

eGovernment

- Since 2008, the Government has ensured a renewed focus on achieving progress with eGovernment. This has resulted in the development of a comprehensive eGovernment Strategy, detailed eGovernment plans in individual civil and public service bodies, and a Rolling Programme of priority eGovernment projects. The current Rolling Programme contains 20 key projects. This will change over time as projects are completed and new ones come on-stream.
- The current eGovernment Strategy focuses on enhanced delivery of information electronically, enhanced electronic delivery of services, and enhanced use of shared technology approaches. It recommends ways of overcoming some of the difficulties and barriers there are with putting certain information and services online. The eGovernment plans of individual bodies are being developed in accordance with these recommendations.
- As a consequence, most public bodies now publish comprehensive information on their services and schemes online, a wide range of public services are now either fully or partially available online, and many public bodies are now using shared technology approaches to deliver these. The result of this renewed focus is evidenced by Ireland's improvement from 17th to joint 7th in the last EU Commission e-Government Benchmark and by the hundreds of facilities now available online from the Public Service. Additionally, Ireland is now considered to be one of the best performers in eProcurement by the EU Commission.
- The Department of Finance is responsible for overseeing and co-ordinating this effort and reports regularly to the Cabinet Committee on Transforming Public Service on the rate of progress being achieved to ensure that the focus is maintained at the highest levels.
- The following activities are now underway/being planned:
    - Preparations are being made to publicise the extent of online information and services, to ensure that people and businesses are more aware of what is available and to encourage greater uptake of the online channels;
    - The Department of Finance and the Citizens Information Board (CIB) are developing a single Government portal providing access to information on public services, online access to these services, and detailed location and contact information on public bodies. The intention is to launch the new portal early in the New Year;
    - The Department of Finance has developed a central system to provide a single view of the identity of Public Service customers (known as the Single Customer View), and has successfully piloted it and a range of associated applications with public bodies. This solution will be instrumental in helping public bodies to improve the quality of customer identity data, improve assurances around identity claims, remove duplication of effort

from recording and checking processes, and facilitate the provision of online identity services. The Department is now working on the legal basis necessary to put this solution into production with the intention of doing that during the course of 2011;

- o Further phases of the eGovernment Strategy are being considered:
    - online channels become most effective and give the most opportunity for driving efficiencies and cost-savings when utilised extensively. A range of mechanisms, including administrative and legal ones, will be explored to enhance the uptake of electronic services and self-service;
    - while there is already a great deal of back-end integration between the systems and processes of public bodies, there is scope for doing more. Mechanisms for doing this will be explored and advised on;
    - a number of public bodies already publish some of their datasets online. The potential for doing this more generally is being explored both within the Public Service and with academic and private sector organisations. This exploration will seek to identify how such publishing can be done in a way that provides value to the general public and facilitates the development of both free and commercial products;
    - a number of public bodies have already used online collaboration facilities with varying degrees of success. The lessons from these early adopters are being examined to determine how best to exploit collaborative technologies to give citizens and businesses more insight on developments as they occur, greater involvement in policy deliberations where applicable, and greater access to mechanisms for giving their views; and
    - a comprehensive Identity Management Policy for the public service is being developed. This is necessary given the dependence on many schemes and services on proper identification of customers, the need to facilitate greater personalisation in the delivery of services, and the need to comply with international legislation and obligations. Once the research and consultations are completed, a proposal will be submitted to Government for consideration. It is intended to do this during the course of 2011.

Central ICT Arrangements

- The Department of Finance has taken the lead in implementing a range of shared ICT approaches for the Public Service. These include:
    - o Government Networks which provides all public bodies with a high-capacity, secure and resilient central Government Network to facilitate easy interconnectivity between them, protected access to the Internet, direct access to shared central services and applications, and interconnectivity with a wide range of voice and data service providers;
    - o A nationwide secure digital radio communications infrastructure for all of the emergency and security services of the State; and

    - A range of ICT procurement frameworks covering PCs, laptops, printers, mobile voice and data services, fixed voice and data services. These frameworks have resulted in savings of 35%-50% in costs to public bodies.
- The use of these procurement approaches has now been mandated on all public bodies to ensure that the maximum savings possible are garnered over the lifetime of this Plan.
- Other ICT procurement opportunities, especially in the areas of software licensing and support, are being examined to determine if similar approaches can be employed.
- The Department of Finance is working with other public bodies and a range of private companies to determine an appropriate approach for Government 'Cloud Computing'. A number of pilots are being planned. Although it will take a number of years to test and deploy models and facilitate migrations, Government Cloud Computing has the potential to facilitate considerable efficiencies and cost savings through reduced duplication and resource utilisation.

Annex 10

Taxation Measures

Table A.10.1 Taxation Measures: Plan Yield from measures taken in the years 2011–14 (€million)

	2011	2012	2013	2014[38]	Total
Income Tax	1,245	260	210	160	**1,875**
Pensions	260	225	225	155	**865**
Tax Expenditures	405	100	100	60	**665**
Site Value Tax	-	180	175	175	**530**
Carbon Tax	-	220	-	80	**300**
Capital Tax	-	145	-	-	**145**
Value Added Tax			310	260	**570**
Other Measures	110	-	-	-	**110**
TOTAL:	**2,020**	**1,130**	**1,020**	**890**	**5,060**

- The figures in Table A.10.1 set out the total revenue raised as part of the Plan during the correction period to end 2014.
- This amounts to a cumulative revenue adjustment of €5.06 billion between 2011 and 2014.
- Additional revenue of just under €300 million will be carried over into the years after 2014 and will be fully realised by 2017.
- The full year impacts of all measures are set out in Table A.10.2 and the timing of the revenue flows are set out in Table A.10.3.

Table A.10.2 Taxation Measures: Yield by Budget Year and Full Year

	First Year	Full Year
Budget 2011	€1,400 million	€2,020 million
Budget 2012	€880 million	€1,130 million
Budget 2013	€810 million	€1,020 million
Budget 2014	€890 million	€1,185 million[39]

[38] Additional revenue of just under €300 million will be carried over into the years after 2014 and will be fully realised by 2017.
[39] See previous footnote.

Table A.10.3 Taxation Measures: Detailed breakdown, source and timing (€million)

	2011	2012 *(c/f)*	2013 *(c/f)*	2014 *(c/f)*	**PLAN TOTAL**	*(c/f) 2015/17*	*Full Year*
1. INCOME TAX							
Increases equivalent to:							
-10% bands & credits etc.	+945	*(+300)*			**1,245**		*1,245*
-2½% bands & credits		+200	*(+60)*		**260**		*260*
-2% bands & credits			+160	*(+50)*	**210**		*210*
-2% bands & credits				+160	**160**	*(+50)*	*210*
(Sub-Total)					*(1,875)*		*(1,925)*
2. PENSIONS[40]							
-PRSI/HL relief etc.	+155	*(+105)*			**260**		*260*
-7% Pension Relief		+155	*(+70)*		**225**		*225*
-7% Pension Relief			+155	*(+70)*	**225**		*225*
-7% Pension Relief				+155	**155**	*(+75)*	*230*
(Sub-Total)					*(865)*		*(940)*
3. EXPENDITURES							
Income tax expenditures	+160	*(+145)*			**305**	*(+50)*	*355*
Property Incentives 'Tail'	+60	*+(40)*			**100**		*100*
Property Incentives 'Tail'		+60	*(+40)*		**100**		*100*
Property Incentives 'Tail'			+60	*(+40)*	**100**		*100*
Property Incentives 'Tail'				+60	**60**	*(+40)*	*100*
(Sub-Total)					*(665)*		*(755)*
4. LOCAL FINANCING							
Site Value Tax		+180			**180**		*180*
Site Value Tax			+175		**175**		*175*
Site Value Tax				+175	**175**		*175*
(Sub-Total)					*(530)*		*(530)*
5. CARBON							
+€10 Carbon Tax (€25)		+160	*(+60)*		**220**		*220*
+€5 Carbon Tax (€30)				+80	**80**	*(+30)*	*110*
(Sub-Total)					*(300)*		*(330)*
6. CAPITAL							
CGT and CAT Reform		+125	*(+20)*		**145**		*145*
(Sub-Total)					*(145)*		*(145)*
7. VAT							
o Standard Rate +1%			+260	*(+50)*	**310**		*310*
o Standard Rate +1%				+260	**260**	*(+50)*	*310*
(Sub-Total)					*(570)*		*(620)*
8. Other Tax Measures	+80	*(+30)*			**110**		
(Sub-Total)					*(110)*		*(110)*
TOTAL	**1,400**	**1,500**	**1,060**	**1,100**	**5,060**	*295*	*5,355*

[40] Includes impact on 'pensions related deduction' of a cumulative €240 million.

Annex 11

List of main abbreviations in this Plan

BES	Business Expansion Scheme
BIK	Benefit-in-Kind
BITES	Business Investments Targeting Employment Scheme
BOP	Balance of Payments
CAT	Capital Acquisitions Tax
CEGA	Community, Equality and Gaeltacht Affairs
CEO	Chief Executive Officer
CER	Commission for Energy Regulation
CGT	Capital Gains Tax
CIB	Citizens Information Board
CIP	Capital Investment Programme
CRO	Companies Registrations Office
CSO	Central Statistics Office
DETI	Department of Enterprise, Trade and Innovation
EBS	Educational Building Society
EI	Enterprise Ireland
ERO	Employment Regulation Order
ESB	Electricity Supply Board
ESRI	Economic and Social Research Institute
FÁS	Foras Áiseanna Saothair
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GMS	General Medical Services
GNP	Gross National Product
HICP	Harmonised Index of Consumer Prices
HR	Human Resources
HSE	Health Service Executive
ICT	Information and Communication Technology
IDA	Industrial Development Authority
IFSC	International Financial Services Centre
IMF	International Monetary Fund
INBS	Irish Nationwide Building Society
IP	Intellectual Property
MAN	Metropolitan Area Networks
MNC	Multi-National Companies
MIU	Major Inter-Urban Routes
NAMA	National Asset Management Agency
NCC	National Competitiveness Council
NCSA	Non-Commercial State Agencies
NCSSB	Non-Commercial State Sponsored Bodies
NMW	National Minimum Wage
NPF	National Pensions Framework
NPRF	National Pensions Reserve Fund
NPS	National Procurement Service
NTMA	National Treasury Management Agency
ODCE	Office of the Director of Corporate Enforcement
OECD	Organisation for Economic Co-operation and Development
OPW	Office of Public Works
PAYE	Pay-As-You-Earn

PIAB	Personal Injuries Assessment Board
PIK	Payment in Kind
PLC	Post Leaving Certificate
PRSI	Pay Related Social Insurance
R&D	Research and Development
REA	Registered Employment Agreement
SFI	Science Foundation Ireland
SFT	Standard Fund Threshold
SME	Small and Medium Enterprises
SPU	Stability Programme Update
STI	Science, Technology and Innovation
VAT	Value Added Tax
VEC	Vocational Education Committee
VFM	Value for Money
VTOS	Vocational Training Opportunities Scheme