

# **PUBLIC FINANCE REPUBLIC OF IRELAND**

## **Diploma level examination**

**11 June 2007**

From 2.00pm to 4.00pm  
plus ten minutes reading time from 1.50pm to 2.00pm

### ***Instructions to candidates***

*There are **four** questions on this question paper*

*Answer **three** questions in total*

***One** compulsory question from **Section A***

***Two** of the three questions from **Section B***

*The question in Section A carries **40** marks*

*The questions in Section B each carry a total of **30** marks*

*Where a question asks for a specific format or style, such as a letter, report or layout of accounts, marks will be awarded for presentation and written communication.*

**SECTION A (Compulsory)**

1

Ashfield University is a well-established university. Whilst having received excellent ratings for its teaching and research, it has suffered from a steadily deteriorating financial position in recent years. In two weeks' time the senior management team is meeting to review the university's financial position and Jim Slatford, Finance Director, is finalising the papers for the meeting. One concerns the level of the university's grant income and how that might be enhanced. The university has recently appointed a bids writer to seek to improve the content of its grant applications.

However, the new bids writer has complained of inadequate systems being in place to support the work of grant application and monitoring. He also feels that the university is failing to tap into sources of funding from the European Union's structural funds, which could be a much more significant source of income now that the region, within which Ashfield is located, has been reclassified as an Objective One area. The new bids writer has requested Jim to allocate more resources to the university's grants unit but Jim has yet to decide whether to agree to the request.

A second option for the university is an examination of a greater use of charging across its services. In recent years, rival universities have been known to introduce new charges for use of car parks, student recreation facilities and in respect of library membership for non-registered students.

The third option involves the consideration of PPP finance in the university's forthcoming building projects. The Department of Education and Science has made it clear that it is amenable to any viable proposals in this area.

• **Requirement for question 1**

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|-----|--|----|
| (a) | Describe the European Union (EU) structural funds and their purpose and explain the significance to Ashfield of it being located within an Objective One area. | 5  |
| (b) | Describe the main tasks and responsibilities Ashfield University would need to undertake to source EU grants.  | 6  |
| (c) | Set out the advantages and limitations from the EU perspective associated with the use of ear-marked matching grants.  | 14 |
| (d) | Outline the factors that the university should take into account in deciding whether or not to impose new charges as a revenue raising measure.                | 8  |
| (e) | (i) Briefly outline the key differences between PPP projects and traditional procurement methods.  | 3  |
|     | (ii) Set out the advantages to the university of engaging in the PPP option.   | 4  |

**(40)**

**SECTION B (Answer two from three questions)**

2

The 2007 Budget was framed within the context of strong economic growth of 5½%. The government is equally anxious to ensure that the public finances remain sustainable in the long term, in particular given the age-related spending pressures that are expected to arise in the next 20-30 years. If we are to remain within the terms of the Stability and Growth Pact, it is essential that policies be put in place now to ensure that this happens. The 2007 budget was also notable in that environmental concerns were addressed through a range of policies.

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• **Requirement for question 2**

- (a) Explain the circumstances under which the terms of the Stability and Growth Pact are deemed to be met. 4
- (b) If fiscal adjustments need to be made in the future to ensure that the terms of the Stability and Growth Pact are met, what might be the political and economic consequences of these? 6
- (c) Using appropriate economic theory, state the rationale which lies behind the government's commitment to increase taxation upon activities that cause significant environmental damage? 4
- (d) Outline the other aspects of market failure, which can justify the raising of taxation by government. 10
- (e) How can financial management reform play a part in future decisions on spending re-allocation? 6

**(30)**

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3

The current Government's period in office has been characterised by continued public sector borrowing and investment in response to its view that the public services had suffered from historic under-investment. Consistent with its ongoing commitment to modernisation, the Government has also reformed a number of the institutions involved in the administration of government borrowing and investment.

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• **Requirement for question 3**

- (a) Explain why responsibility for the issue and management of government bonds and bills was, in 1990, taken from the Department of Finance and given to the newly established National Treasury Management Agency (NTMA). 4
- (b) What are the main considerations that the NTMA would take into account in carrying out its responsibilities for issuing bonds and managing debt? 6
- (c) Trace out the likely effects on the Irish and wider European economy of the NTMA raising a significant amount of money via the sale of government bonds to the Irish private sector. 10
- (d) Describe how government policy concerning public sector borrowing has evolved from pre-Keynesian days until now. 10

**(30)**

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# 4

A significant feature of the present Government's reform of public services has been the introduction of contestability between actual and potential providers and choice for consumers. These reforms have amounted to an extension of the role of market forces within the public services beyond that generated by the policies of marketisation of previous administrations.

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- **Requirement for question 4**

- (a) With reference to the Local Government sector, discuss the role that charging plays in its financial affairs. 4
- (b) Set any two arguments against charging in the public sector. 4
- (c) Describe the Casemix system in the Irish health service. 4
- (d) Public services are often required to price at full cost.
  - (i) Explain the economic justification for this requirement. 4
  - (ii) Explain any problems this creates for the pricing policies of the organisations concerned. 4
- (e) With reference to the theory of Baumol's disease, explain why technological investment may reduce upward pressure on prices of public services. 10

**(30)**

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