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Committee on Budgetary Oversight
Report on Proposal for a Sovereign Wealth Fund
October 2023

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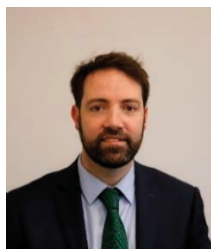
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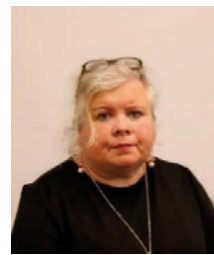
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Cathaoirleach's Foreword



On 10 May 2023, the Department of Finance published a scoping paper entitled “Future-proofing the Public Finances – the Next Steps” detailing the merits of establishing a long-term savings vehicle to assist with funding the additional fiscal costs associated with future demographic and other structural changes.

The establishment of a sovereign wealth fund is an important step in helping to secure the future fiscal needs of the State. The proposal notes that Ireland has experienced a significant increase in corporation tax revenue in recent years, which I should further add is due to the hard work and resilience of our business community and the dedication and ambition of our citizens working within and alongside this community. It is proposed that a significant portion of these receipts will be used to capitalise such a fund.

In recognising this success, we must also recognise the responsibility that comes with it, and in this regard, it is important that the purpose of such a fund is grounded in pragmatism – to help secure our fiscal sustainability in the face of several substantial challenges.

The first of these, and it is widely acknowledged, is that there are growing costs associated with our changing demographics and in this respect, we must view the wellbeing of our citizens as a priority, that they should enjoy a dignified and comfortable life into their older years. The wealth fund as proposed should assist in addressing this task and will act as a source of stability and support to our ageing population and help to guarantee their access to essential services.

Secondly, the costs associated with addressing and adapting to climate change and moving to a low carbon economy are becoming increasingly evident. This requires action and the State is committed to playing its part in addressing these challenges. The fund under discussion will go some way in allowing us to invest in sustainable infrastructure and to support initiatives that protect our environment.

Lastly, we are living in an age where the digital environment is constantly changing and advancing, and it is this digital transition that will need to be catered for also, through supporting people to adapt their skillsets to a new digital reality.

Having examined the proposal with the assistance of various witnesses, I am hopeful that the establishment of a Sovereign Wealth Fund will represent a pragmatic step in securing our nation's future.

On behalf of the Committee, I would like to thank all of the stakeholders who engaged with the Committee. Their input has been instrumental in allowing the Committee to explore what is a significant development in the State's fiscal future. I would also like to thank the Members of the Committee for their constructive engagement on the topic, which allowed the Committee to reach consensus on a report containing a number of recommendations which we believe should receive due consideration by Government.



Barry Cowen T.D.,
Cathaoirleach

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Summary of Recommendations and Observations

1. The Committee wishes to highlight the importance of the proposed fund having a strong investment policy regarding responsible environmental, social, and governance issues.
2. The Committee recommends that the proposed fund be proactive and rigorous in addressing any issues that may arise in terms of investments in conflicts or those companies that appear on United Nations list database of business enterprises.
3. The Committee recommends that the legislation underpinning the proposed fund, provide for the strict regulation and limitation of investments in the context of their environmental, social and governance. The legislation should set out strict parameters outlining the types of investments that may be entered into with regard to the ethical, environmental, social effects, etc
4. The Committee recommends that design and strategy of the proposed fund should be focused on securing an acceptable rate of return over the long-term, and not on short-term gains, subject to accepting adequate risk.
5. The Committee recommends that the broad investment strategy be set out in legislation.
6. The Committee recommends that the proposed new fund be focused solely on international markets and not the domestic market.
7. The Committee notes the potential negative consequences associated with investing a new fund in the domestic economy and highlights the need to operate the fund as distinct from the ordinary fiscal budget.
8. The Committee recommends that ISIF continue to operate as a domestically-focused investment fund.
9. The Committee recommends that management of the proposed fund be assigned to the National Treasury Management Agency, and that the NTMA be given the additional and adequate resources (staffing, expertise etc) to do so effectively.
10. The Committee recommends that the legislation underpinning the fund require the fund operate in a fully transparent manner, including the regular publication of all investments, fees, and performance-related compensation.

11. The Committee wishes to highlight the importance of such a fund having strict withdrawal rules and recommends that the withdrawal rules, requiring parliamentary agreement, be clearly set out in legislation.
12. The Committee notes the sole focus in the Departments paper on the capitalisation of the proposed fund with excess corporation tax receipts. The Committee recommends that should other excess or additional funding (e.g., from renewable energy) be available in the future, consideration be given to increasing the capitalisation of the proposed fund.
13. The Committee notes that the fund could have a number of different uses and believes that further discussions and engagement is required before the legislation is passed.
14. The Committee notes the variations in the proposed plans concerning the establishment of one or two long-term savings vehicles/countercyclical public investment funds and their interaction or otherwise with the current National Reserve Fund. In this regard the Committee would like to be informed of any developments relating to the establishment of any new fund or funds by the Government.
15. The Committee recognises the merit in a counter-cyclical public investment fund and looks forward to greater detail being provided. The Committee however notes that by pooling resources a single fund is likely to be in a better position to maximise returns.

Introduction

On 10 May 2023, the Department of Finance published an analysis or scoping paper entitled “Future-proofing the Public Finances – the Next Steps”. This paper details the merits of establishing a long-term savings vehicle to pre-fund the additional fiscal costs associated with future demographic and other structural changes.

The Departmental paper notes that on the revenue side of government accounts, the most significant development in the Irish Public Finances in recent years has been the extraordinary growth of corporation tax receipts. It notes that from just over €4 billion in 2014, this revenue stream generated over €22.5 billion for the Exchequer last year. It further notes that this shift is the main reason behind the headline budgetary surplus recorded last year, and it is a key factor underpinning the projected budgetary surpluses set out in the Department’s spring 2023 forecasts.

However, there is a need to avoid building up permanent fiscal commitment on the basis of transitory revenue stream and in this regard, analysis by the Department of Finance suggest that in 2023 around €12 billion of corporation tax receipts will potentially be transitory or “windfall” in nature. In response, the Government decided to recapitalise the National Reserve Fund, transferring a cumulative €6 billion to this fund by mid-February.

The Departmental paper notes that on the expenditure side of the government accounts, demographic data confirms that Ireland’s population is aging rapidly and that this will impose significant costs on the public finances in the not-too-distant future. The Department estimates that by 2030 age-related spending will be €7-€8 billion higher per annum than at the beginning of this decade, simply to maintain existing levels of service. It further notes that the largest component of age-related costs is pensions, due in part to the decision not to increase the State pension age to 68 by 2028. After 2030 the paper notes demographic related pressures are set to intensify, with other more difficult to quantify costs relating to climate and digital transitions also likely to involve significant outlays.

Against this background, the Departmental paper considers some policy options to facilitate the inter-temporal smoothing of the fiscal costs associated with the

demographic, climate, and digital transitions, and in particular the merits of establishing some form of longer-term public sector savings vehicle, or sovereign wealth fund, to build up fiscal buffers.

The savings vehicle is to be capitalised by corporation tax receipts that are regarded as “windfall”, or those that cannot be explained by the State’s economic fundamentals. The paper sets out illustrative options for the proposed new fund, including the options for capitalising the fund and for withdrawals from it, as well as examining a number of international examples of how such funds operate.

Following the publication of this paper, the Select Committee on Budgetary Oversight held a series of three meetings to discuss the topic of how such a fund could operate in the Irish context.

Other Funds

The Department’s paper details the Irish experience in operating funds of this nature to date and notes these are the National Pensions Reserve Fund and the national Reserve Fund.

National Pensions Reserve Fund

It notes the National Pensions Reserve Fund was liquidated during the sovereign debt crisis but was intended to meet about one-third of the cost of social welfare and public service pensions payable from 2025 to 2055. The legislation provided for the transfer each year of a sum equivalent to at least 1% GNP from the exchequer to the NPRF. The National Treasury Management Agency, NTMA, was responsible for the day-to-day management of the fund, with an investment strategy allowing for funds to be invested both inside and outside the state.

National Reserve Fund

The paper details some aspects of the National Surplus (Exceptional Contingencies) Reserve Fund, NRF. This was established in 2019 as a form of ‘rainy day fund’ and under the legislation, in order to withdraw money from the NRF the Minister for Finance must be satisfied that the drawdown is necessary to –

- Remedy or mitigate the occurrence in the State of exceptional circumstances
- Prevent potential serious damage to the financial system in the State and ensure the continued stability of that system

- Support major structural reforms which have direct long-term positive budgetary effects

Under the legislation €500 million was due to be automatically transferred to the NRF every year until 2023. The NRF was capitalised with an initial €1.5 billion transfer from the ISIF in 2019 but the automatic transfer was paused due to the uncertainty surrounding Brexit. The full €1.5 billion was subsequently withdrawn in 2020 to help with the costs of the Covid-19 pandemic.

The NRF has a ceiling of €8 billion, although this can be changed by a resolution of the Dáil. In Budget 2023 the decision was made to recapitalise the NRF by €2 billion in 2022 and €4 billion in 2023 which would bring it up to 75% of its ceiling. The paper notes that as the NRF was created with the intention of being immediately available, it is invested in highly liquid financial assets which can be drawn quite quickly.

Illustrative Capitalisation Options

The Department's paper outlines some illustrative options for the National Reserve Fund. In the Departmental paper it should be noted that the NRF is proposed to be capitalised with some of the excess corporation tax receipts which would mean that the existing caps on the fund would need to be removed. However, it also noted that for a future-focused reserve fund to meet increased ageing-related and other costs and to ensure its real value is not diminished over time it would need to be invested in higher return assets with returns reinvested until drawdown begins taking place.

The Department lists three options for capitalising a fund in their paper and notes again that these are purely illustrative.

The following table (Table 2) shows the underlying balance and Corporation tax windfalls in € billions.

Table 2: Underlying balance and CT windfalls, € billion					
	2022	2023	2024	2025	2026
General Government Balance	8.0	10.0	16.2	18.1	20.8
Estimated CT windfalls	10.8	11.8	11.8	11.4	12.4
Underlying General Government Balance (GGB*)	-2.8	-1.8	4.4	6.7	8.4

Option 1

€4 billion is transferred to the Fund annually from 2024 until 2030. This is the quantum transferred to the NRF in 2023 and is less than half the estimate of windfall receipts in 2022.

Option 2

€4 billion is transferred to the Fund in 2024. Thereafter, the annual amount credited to the Fund increases by €2 billion annually until it reaches €12 billion in 2028. After 2028 annual transfers to the Fund remain constant at €12 billion until 2030. The rationale here is to gradually raise the annual transfer into the Fund up to the estimated 2023 windfall corporation tax receipts.

Option 3

€12 billion is transferred to the Fund annually from 2024 until 2030. This is approximately equal to the Department's forecast estimate of windfall corporation tax receipts in 2023. Only under Capitalisation Option 3 would the entirety of the projected estimated windfall corporation tax receipts and Exchequer surplus be transferred to the Fund.

The Department notes that the simulations below illustrate that only under the most favourable conditions only one capitalisation option fully offsets the projected increase in ageing related costs by 2030 and none do in 2035. Ageing-related costs are projected to increase exponentially after this. The key take-away, therefore, is that a longer-term, future-focused fund could only be a complement to, and not a substitute for, other necessary reforms.

Table 3: Illustrative options, annual transfers in € billion in today's terms

	2024	2025	2026	2027	2028	2029	2030	total
Option 1	10 (6+4)	4	4	4	4	4	4	34
Option 2	10 (6+4)	6	8	10	12	12	12	70
Option 3	18 (6+12)	12	12	12	12	12	12	90

Note: In 2024 an additional €6 billion is transferred from the NRF.

The Department model the potential contribution that the fund can make to future ageing-related costs under the 3 capitalisation options in 2030 and 2035, with two real-rate of return scenarios modelled, 3% and 5%. The modelling shows that even

under the most optimistic real-rate-of-return scenarios and the transfer of €12 billion a year, the drawdowns from a future-focused fund would not cover the whole of the increase in ageing-related costs by 2035.

Table 4: Comparative options, percentage of future-ageing related costs covered by annual drawdowns

	2030		2035	
	3 per cent	5 per cent	3 per cent	5 per cent
Capitalisation Option 1	22%	39%	16%	32%
Capitalisation Option 2	43%	78%	32%	63%
Capitalisation Option 3	56%	102%	41%	82%

Note: coverage refers to percentage of the projected increase on 2023 levels that is covered by drawdowns of the expected real return beginning in year t.

Illustrative Withdrawal Options

Withdrawal Option 1: Withdrawals can be made in pre-defined circumstances by resolution of Dáil Éireann, as currently in place for the NRF.

Withdrawal Option 2: Annual withdrawals from the Fund cannot be greater than the expected real rate-of-return on the capital. However, drawdown of the capital is only allowed in order to contribute to future increased ageing-related expenditure.

Withdrawal Option 3: Annual withdrawals from the Fund cannot be greater than the expected real rate-of-return on capital and drawdowns can only start once the capital of the Fund is sufficiently large so that the annual expected return on the Fund can make a significant contribution to future ageing related costs.

Sovereign Wealth Fund – Issues to Consider

Environment, Social and Governance Issues

During discussion on the types of investments that the proposed fund might enter into, the Committee noted its concerns that it would be important to avoid investing in companies and businesses that are engaged in or supporting conflicts. In this regard the Committee heard from representatives from the National Treasury Management Agency that the Ireland Strategic Investment Fund, ISIF, and the National Pensions Reserve Fund before it, operated an environmental, social and governance policy and sought to be at the forefront of the deployment of ESG as a factor in running its operation, how it invests the fund and to be cognisant of the responsibility the NTMA have in managing state funds. The NTMA noted that the ESG programme involves a number of elements and advised that they have a number of active exclusions in operation at the moment, including antipersonnel landmines and cluster munitions, fossil fuel companies, companies involved in the manufacture of nuclear weapons then more broadly, carbon-intensive companies. They advised that in each of those cases they operate a list that filters out businesses from their investments. They further noted that they have a policy of active ownership and engagement and integration of ESG into all their investment decisions and they work either directly with the investment managers or the investee companies in the Irish portfolio to engage around issues that involve ESG. They added that they are often engaging with companies around diversity, especially in management structures and board membership.

The NTMA further added that with ESG there is a two-tier approach across the market. The first approach is to engage to see if they can persuade the companies to change what they are doing, such as to cease operations, operate in a more transparent way or to open up what their activities are in order that other investors can come in and other stakeholders can see what they are doing.

In their discussions with Mr Svein Gjedrem, the topic of ethical investment was also raised. In this context the Committee queried whether, in the Norwegian context, whether the Norwegian wealth fund could be described as taking an ethical

approach and were there kinds of investments which the Norwegian fund would in principle not involve itself in. Responding to this, Mr Gjedrem advised that there are responsible investments and where there are companies not fulfilling reasonable ethical standards then the fund should disinvest from those companies. He notes the Norwegian wealth fund does not invest in tobacco companies for instance, and that there are therefore companies that they withdraw from based on some general principles. Mr Gjedrem also noted that there is active communication between the fund as an owner of companies and the companies themselves on ethical issues in such companies. He noted that companies can, and most are willing to, improve their ethical standards through good dialogue with their owners.

Professor Stephen Kinsella also raised the issue of ESG, and while noting that the Ministers report does not mention this component, he suggested that the proposed fund would have a strong economic, social and governance framework.

Recommendations and Observations

1. The Committee wishes to highlight the importance of the proposed fund having a strong investment policy regarding responsible environmental, social, and governance issues.
2. The Committee recommends that the proposed fund be proactive and rigorous in addressing any issues that may arise in terms of investments in conflicts or those companies that appear on United Nations database of business enterprises.
3. The Committee recommends that the legislation underpinning the proposed fund, provide for the strict regulation and limitation of investments in the context of their environmental, social and governance. The legislation should set out strict parameters outlining the types of investments that may be entered into with regard to the ethical, environmental, social effects, etc.

Investment Strategy/ Principles of Fund

The fund's investment strategy has been highlighted as a key area for consideration by the witnesses before the Committee.

Investment Strategy

In discussing the investment strategies of sovereign wealth funds, representatives from the NTMA noted that the National Reserve Fund is managed very conservatively with a very short time horizon on the investment strategy. In this regard they noted that it is currently invested in Irish Exchequer notes, generating a low-risk, high liquidity positive return but added that they are developing a short-term investment strategy which would see it diversify into a few equally low-risk and highly liquid asset classes.

When discussing the investment strategy of the Norwegian fund, Mr Svein Gjedrem advised that the strategy is characterised by the broad diversification in almost all equity and bond markets in the world, the harvesting of risk premia, a moderate degree of active management, responsible management including cost efficiency in the management and transparency. Mr Gjedrem noted that the investment strategy is anchored in the parliament so that the most important choice for government and of the risk profile is the choice of the equity part of the fund. Mr Gjedrem also outlined that for the Norwegian fund, starting in 1998 40% was invested in equities, increasing to 60% in 2007 and to 70% in 2017. He advised that this means the absolute risk is quite high but that this is to allow for the handling of large losses in the short term in order to receive a long-term return from equity investment. Mr Gjedrem noted that it is the huge fluctuations in the return when you invest in equities that will also give the long-term high return.

Relating to this Mr Gjedrem, noted that Ireland, like other countries, has an issue with pensions and increases in the long-term pension expenditure and further noted that there is a case for saving money for the longer term. He added that it was important not to run into cost problems – the Dutch disease – due to high and

fluctuating incomes, and noted the importance of using the fund to solve the long-term pension-financing issues in the Irish economy.

Recommendations and Observations

4. The Committee recommends that design and strategy of the proposed fund should be focused on securing an acceptable rate of return over the long-term, and not on short-term gains, subject to accepting adequate risk.
5. The Committee recommends that the broad investment strategy be set out in legislation.

Domestic or International Investments

The Committee also discussed the potential investment strategies of what such a proposed fund might entail and where such investments would be made. During these discussions queries were raised as to whether such a fund would complement existing funds such as the Ireland Strategic Investment Fund, ISIF, and whether the proposed fund should be active in investment domestically or whether it should be solely internationally focused.

Discussing this, representatives from the NTMA noted that currently ISIF is active in the development of housing through leveraging other market players and investment up and down the capital structure but noted that though finance is an important factor, it is not the only constraint and the presence of another investor is not necessarily going to change the dynamic, and further advised that they would not be sure that another und with sovereign wealth is necessarily a net benefit in addressing that challenge.

The Committee also queried what role the proposed fund might have in driving greater regional development. Responding to this the NTMA advised that one of ISIFs themes was regional development but that was later discontinued and a regional focus is across all four of their investment themes at present. In this regard they noted that they are focused on trying to drive activity in the regions across early-

stage company development, scaling companies, infrastructure and urban regeneration but advised that ISIFs mandate is fundamentally a commercial one, and does not operate as a delivery mechanism for policy-driven financial spending. Infrastructure that does not provide a return is not something they are in a position to be involved in. In this regard the NTMA noted that the proposed new fund is likely to be commercial in its approach to investing also and its objective will be to maximise return. The NTMA also advised that there are challenges with regards State Aid implications and that they must be explicit that the investment returns their funds are making are commercial and that other commercial investors would make and seek the same risk-adjusted returns.

With reference to the above discussion on the operation of ISIF and how that fund might or might not operate alongside the proposed new fund, the Committee notes that the majority of ISIFs investments are indigenous. Given the potential scale of the proposed new fund therefore, the Committee queried whether it would also invest domestically. Discussing this with the NTMA, they advised that the ISIF is much more appropriately sized for the opportunity set in Ireland but even with that, they noted that they are unlikely to invest the entire €9 billion in Ireland, and they are exploring the limits of what can be deployed commercially using sovereign development funding in the Irish market. In this regard they advised that looking to another fund to duplicate or replicate any of the activity of ISIF would not necessarily be as efficient.

Professor Kinsella also voiced concerns if the proposed new fund were to invest in the domestic economy in areas such as private infrastructure or land and noted that it would be likely that this would crowd out private sector investment which would not be wanted. Professor Kinsella also noted that while the proposed new fund would be small in size in relative terms, it would be a large amount relative to the overall Irish economy, and investing such large amounts in the Irish economy would risk overwhelming certain parts of the economy. He added that if the fund can invest on a global level and the overall goal is to derive the largest possible return from the fund, then one should look globally to do so.

Mr Svein Gjedrem, when discussing the operation of the Norwegian Sovereign Wealth Fund, noted that one of the core principles of this fund is that the fund is invested abroad only. Mr Gjedrem added that by investing only abroad contributes to avoiding what he calls “Dutch Disease” - where an unsustainable cost level in the domestic economy leads to an increase in the economic development of a specific sector and a decline in other sectors. Mr Gjedrem noted that although the size of the fund as outlined in the Department’s paper is not as high as the oil income received by Norway, it is substantial and noted that if it is spent domestically it will influence Ireland cost level and have structural impacts on other parts of the Irish economy.

Mr Gjedrem also advised that by investing abroad only, it means that there are more protections against special interests and that the fund is not invested for special purposes, so it does not operate as a second fiscal budget in parallel with the ordinary budget. Expanding on this Mr Gjedrem noted that when it has been very important that the ordinary fiscal budget was protected and that fiscal discipline was not influenced by way of special interest groups, companies and groups of companies, were the fund to be invested domestically.

Mr Gjedrem also noted that in the 1970s and 1980s there was pressure from Norwegian companies that wanted to Norwegian government to co-finance their internationalisation as a passive co-owner of their investments and there was also a great deal of interest in using oil funds to simulate the building of a financial centre in Oslo but noted that it was important that they did not do so. In this regard he noted that at present companies have access to capital in national and international markets and do not need to be supported by the Norwegian government.

Recommendations and Observations

6. The Committee recommends that the proposed new fund be focused solely on international markets and not the domestic market.

7. The Committee notes the potential negative consequences associated with investing a new fund in the domestic economy and highlights the need to operate the fund as distinct from the ordinary fiscal budget.
8. The Committee recommends that ISIF continue to operate as a domestically-focused investment fund.

Management, Transparency, Operation of the Fund

In discussing the management of the proposed new fund, the Committee heard from representatives from the NTMA that the choice of vehicle to manage the fund is really a policy matter for Government, but noted that the indications they have received is that the fund will be operated within the NTMA structure. They noted that given that they are already managing sovereign wealth and other funds there is strong logic to that.

The Committee further notes that the performance of the Ireland Strategic Investment Fund, ISIF, since it was established in 2014 has been impressive, with €2.1 billion of accumulated returns on a fund size of €9 billion.

Professor Kinsella also mentioned the issues of transparency, governance, and operations and noted that sovereign wealth funds exist on a spectrum from essentially completely opaque and almost personal wealth all the way to maximally transparent. He noted that if it is assumed that the NTMA will oversee the management of the fund and similar levels of transparency can be expected, he nonetheless queried whether there would be private operators allocating the funds. In this regard he noted in his submission to the Committee that many funds use a variety of external asset managers for sovereign wealth funds liquid investment and advised that the choice of benchmarks, by which to measure the performance of both internal and external managers, will be extremely important. Professor Kinsella also noted that aligning the funds objectives with its investment strategy with the individual incentives of those working on the fund will be key, for example ensuring part of their compensation is much longer dated for example, including up to 8 to 12

years in duration, means their compensation will be much smoother and their behaviours consequently quite different to private equity.

Recommendations and Observations

9. The Committee recommends that management of the proposed fund be assigned to the National Treasury Management Agency, and that the NTMA be given the additional and adequate resources (staffing, expertise etc) to do so effectively.
10. The Committee recommends that the legislation underpinning the fund require the fund operate in a fully transparent manner, including the regular publication of all investments, fees, and performance-related compensation.

Withdrawal Procedure

In discussing sovereign wealth funds generally, the Committee noted the need to guard against excessive or inappropriate withdrawals from a potential sovereign wealth fund. The Committee notes that such a fund might be at risk from political choices that might be made into the future and in this regard note that the legislation underpinning such a fund would be of significant importance. The Committee also notes that the State has already had the experience of the National Pensions Reserve Fund, NPRF, which was initially established for the purposes of meeting the cost to the exchequer of social welfare provisions and public service pensions to be paid from 2025 until 2055 or later, but was utilised in the aftermath of the financial crash. The Committee notes the withdrawal of funds from the National Surplus (Exceptional Contingencies) Reserve Fund, NRF, to assist during the pandemic to support businesses and jobs is a good example of the usefulness of such a fund.

In discussing withdrawal thresholds, the NTMA advised that it would be too early to remark on what type of withdrawal thresholds would be in place for the proposed new fund, and advised that one of the most significant threats to the approach of establishing such a fund is unexpected events and withdrawal that are on different timelines from the investment strategy. In this regard the NTMA noted that the longer

the term of the investment strategy, the more the fund is exposed to and the less liquid a fund will be. The NTMA outlined that Ireland is very unusual in the way that we are a country that had a sovereign fund that ended up having the be deconstructed due the external factors in an unexpected way, and advised that it is important in the construction of any fund that those things are dealt with and addressed.

Professor Stephen Kinsella also advised that the withdrawal rules will need to be studied very carefully and noted in his submission to the Committee that such rules should be established so as to effectively ringfence any removal of underlying capital under all but the most emergent of scenarios, perhaps requiring an Oireachtas supermajority, for example. In this regard Professor Kinsella notes that when the principle of such a fund is withdrawn, the compounding of that fund is diminished and as such, the withdrawal of funds from the fund needs to be carefully considered and advised that no individual Minister for Finance should be empowered solely to do so.

Recommendations and Observations

11. The Committee wishes to highlight the importance of such a fund having strict withdrawal rules and recommends that the withdrawal rules, requiring parliamentary agreement, be clearly set out in legislation.

Sources of Fund

Professor Kinsella further notes that even arriving at the largest amount outlined in the departments paper, around €90 billion if most of the windfall is saved, it still places it as a very small sovereign wealth fund relative to the larger ones. He notes that this is resulting from one source of assets, which is the result of corporation taxes and there is no discussion about other sources of revenue. In this regard he remarked that there is no discussion as to whether any potential revenue from offshore wind might be used to capitalise the proposed fund, or whether one-off sources of fund might be used.

Recommendations and Observations

12. The Committee notes the sole focus in the Departments paper on the capitalisation of the proposed fund with excess corporation tax receipts. The Committee recommends that should other excess or additional funding (e.g., from renewable energy) be available in the future, consideration be given to increasing the capitalisation of the proposed fund.

Use of Fund Returns

In discussing the Departments paper, “Future-proofing the Public Finances”, Professor Stephen Kinsella noted that the proposed sovereign wealth fund is intended to be used to support and ageing population, and thus it is in reality a National Pensions Reserve Fund 2.0, essentially storing up funds for pension payments that will have to be made in the future.

Professor Kinsella also queried the position that such a sovereign wealth fund should be used solely to address ageing costs. Whilst acknowledging and welcoming the attempt to manage such costs Professor Kinsella noted that there will likely also be fiscal challenges posed by climate change which will require capital expenditure. Professor Kinsella notes that it could be the case that we had a fourth fund, one which could be used for climate related challenges but advised that this is not how sovereign wealth fund should work and added that funds should be pooled because then they can be compounded. In this regard he advised that it makes sense to have one large sovereign wealth fund that is fed from multiple sources and has multiple uses.

Professor Kinsella did however note that the reason the focus is on addressing the challenges posed by changing demographics is because this is a known and more quantifiable issue, and the Committee also notes that such challenges as posed by climate change and digital transformation are noted in the Departments paper.

Recommendations and Observations

13. The Committee notes that the fund could have a number of different uses and believes that further discussions and engagement is required before the legislation is passed.

Clarification on Certain Issues

The Committee notes that during discussions on the Summer Economic Statement on 12 July 2023 with Minister for Finance Michael McGrath, the Minister advised the Committee that there was yet to be a government decision made as to the intention to establish two funds, both a long-term savings fund and a counter-cyclical public investment fund, and how much money is to be capitalised in each of those.

In light of this development the Committee queries whether the Departmental paper mentioned above, although illustrative, is now somewhat outdated along with the figures and projections contained therein.

The Committee further notes that the Department's illustrative options in the scoping paper suggest that the current funds in the National Reserve Fund would be added or subsumed into a proposed new long-term savings fund and in light of the Ministers comments the Committee would like clarification on the National Reserve Funds future status.

The Committee also notes that the Summer Economic Statement states that "additional capital expenditure of €2.25 billion, from windfall receipts, will be made available over the period 2024 to 2026 to boost delivery of critical infrastructure projects and to make a contribution to the existing Climate Action Fund for nature restoration and for other Government priorities". In this regard the Committee queries how such funding measures arising from windfall corporation tax receipts will impact and interact with the proposed future funds.

Recommendations and Observations

14. The Committee notes the variations in the proposed plans concerning the establishment of one or two long-term savings vehicles/countercyclical public investment funds and their interaction or otherwise with the current National Reserve Fund. In this regard the Committee would like to be informed of any developments relating to the establishment of any new fund or funds by the Government.
15. The Committee recognises the merit in a counter-cyclical public investment fund and looks forward to greater detail being provided. The Committee however notes that by pooling resources a single fund is likely to be in a better position to maximise returns.

Appendix 1: List of Witnesses

Wednesday 24 May 2023

The National Treasury Management Agency

- Mr Nick Ashmore, Director of the Ireland Strategic Investment Fund
- Mr Ian Black, Chief Financial and Reporting Officer

University of Limerick

- Professor Stephen Kinsella

Wednesday 31 May 2023

- Mr Svein Gjedrem, Former Governor of the Norwegian Central Bank

Wednesday 05 July 2023

Department of Finance

- Mr Matthew McGann, Principal Officer

Appendix 2: Link To Meeting Transcript

- [Wednesday 24 May 2023](#)
- [Wednesday 31 May 2023](#)
- [Wednesday 05 July 2023](#)

Appendix 3: Link to Opening Statements

- [Mr Nick Ashmore, Director of the Ireland Strategic Investment Fund, National Treasury Management Agency](#)
- [Prof. Stephen Kinsella, Professor of Economics, University of Limerick](#)
- [Mr Svein Gjedrem, Former Governor of the Central Bank of Norway](#)
- [Mr Matthew McGann, Principal Officer, Department of Finance](#)

Appendix 4: Orders of Reference

219. (1) There shall stand established as soon as may be, following the reassembly of the Dáil subsequent to a General Election, a Standing Committee, to be known as the Committee on Budgetary Oversight, to examine and, where it considers it appropriate, report to the Dáil on—

(a) the overall fiscal position, including—

- (i) the aggregated position on revenue and expenditure and the General Government Balance, including structural targets;
- (ii) medium-term projections for the public finances;
- (iii) macro-economic forecasts and developments;
- (iv) general fiscal governance including the application of fiscal rules and risks to the fiscal position; and
- (v) matters arising from the introduction of a supplementary Estimate or Estimates that, in its opinion, have or may have significant budgetary implications: Provided that the Committee shall advise the appropriate Committee or Committees of any decision on its part to undertake such consideration and the reason or reasons therefore;

(b) public expenditure policy, including—

- (i) the expenditure position having regard to the Government Expenditure Ceiling and the expenditure benchmark under the Stability and Growth Pact;
- (ii) Ministerial Expenditure Ceilings applying to individual Estimates or groups of Estimates for the Public Services where significant variations from the expenditure profile could potentially impact on the overall fiscal position; and

- (iii) the adequacy of planned and actual aggregate levels of capital expenditure and the policies and practices in relation to capital expenditure, including public procurement policy and public private partnership policy, intended to ensure the achievement of value for money.

- (c) Exchequer receipts policy.

(2) The Committee may consider a matter of public policy with significant impact on the budgetary position or on the overall fiscal position: Provided that prior to the commencement of such consideration, the Cathaoirleach of the Committee shall consult with the relevant sectoral Committee established pursuant to Standing Order 95.

(3) The Committee may also consider the overall framework for parliamentary engagement throughout the course of the budgetary cycle and may make recommendations thereon to the Committee on Standing Orders and Dáil Reform for that Committee's consideration under Standing Order 119(1)(b): Provided that, in so doing, the Committee shall consult with—

- (a) the Committees established pursuant to Standing Order 95 on any recommendations which, in the opinion of the Committee, impact on their role or remit; and
- (b) the relevant Minister or Ministers on any recommendations which, in the opinion of the Committee, impact on the role or remit of a Department or Departments, and shall notify the results of such consultations to Committee on Standing Orders and Dáil Reform.

(4) The Committee shall have the following powers:

- (a) power to send for persons, papers and records as defined in Standing Orders 96(3) and 99;
- (b) power to take oral and written evidence and submissions as defined in Standing Order 96(1) and (2);

- (c) power to appoint sub-Committees as defined in Standing Order 96(4);
- (d) power to engage consultants as defined in Standing Order 96(14);
- (e) power to travel as defined in Standing Order 96(15).

(5) Every report which the Committee proposes to make shall, on adoption by the Committee, be laid before the Dáil forthwith, whereupon the Committee shall be empowered to print and publish such report, together with such related documents it thinks fit.

(6) The Committee shall consist of fifteen members, none of whom shall be a member of the Government or a Minister of State, and four of whom shall constitute a quorum: Provided that—

- (a) the Committee and any sub-Committees which it may appoint shall be constituted so as to be impartially representative of the Dáil; and
- (b) the provisions of Standing Order 106 shall apply to the Committee



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