

**Opening Statement**  
**Michael McGrath TD, Minister for Public Expenditure and Reform**  
**Budget Oversight Committee**  
**14<sup>th</sup> September 2022**

Chair, and members of the Committee, I would like to thank you for the opportunity to meet with you today as part of the pre-Budget scrutiny process.

Since I last appeared before the Committee in July, there have been a number of developments that impact on our budgetary considerations.

**Cost of Living**

As inflation continues to rise in the short term, my Government colleagues and I are cognisant of the financial impact and the strain this places on people, businesses, and wider society. To this end, we have deployed a number of measures over the past year to reduce the inflationary burden on households.

Budget 2022 set out a €1.2 billion package of expenditure measures across a range of sectors to assist with the cost of living pressures. These measures included increases in weekly social protection payments, the Fuel Allowance and Working Family Payment' social and affordable housing funding, health affordability measures and enhanced student and childcare supports.

Since December 2021, over half a billion euro of additional expenditure measures have been put in place to support citizens facing increased costs. These included the Electricity Credit of €200 for all domestic account holders, a 20% average fare reduction for public transport services until the end of this year and additional fuel allowance payments.

Government is committed to continue doing its part to assist households and businesses in the face of a rising cost of living. This is the key objective framing

Budget discussions. The urgency of this task underpinned Government's decision to bring forward Budget Day to 27<sup>th</sup> September.

We will seek to ease the burden for lower and middle-income families who are facing difficult choices. As ever, we will balance the need to provide supports while ensuring we do not add to inflationary pressures.

Discussions are now underway as part of the estimates process to bring forward targeted, impactful measures capable of timely implementation including in Quarter 4 this year. A comprehensive package will be announced on September 27.

### **Public Sector Pay**

A vital piece of the jigsaw for Budget 2023 is public sector pay, which accounts for one third of total current expenditure. I am pleased that proposals have now been agreed to extend the current public service pay agreement, Building Momentum, to the end of 2023.

Subject to ratification, the proposals will see a 3% increase in pay for public sector workers, backdated to 2 February 2022; a 2% increase from 1 March 2023; and a further 1.5% or €750 from 1 October 2023. This is in addition to 1% provided on 1 February this year and a further 1% or €500 due on 1 October 2022 agreed under the original Building Momentum agreement. In total, the adjustments provided for in 2022 amount to 5% for the majority of public servants.

I believe the proposed pay increases strike the right balance between providing a deal that is fair to public servants in the midst of cost of living challenges and one that is sustainable and affordable for the taxpayer. It is important to invest in our public service workforce to attract and retain the staff we need to deliver quality frontline services for a growing population.

If the proposed agreement is ratified, it enables the government to move quickly to alleviate some of the impact of inflation on our public service workers, as well as securing industrial peace. Under the proposed agreement, the benefits for those on lower levels of pay will again be higher than the headline percentage increases.

### **Budget 2023 – Expenditure Strategy**

To reiterate the Government’s Budget 2023 strategy as discussed at this Committee back in July: Budget 2023 will see an expenditure ceiling of €90.3 billion. Core spending next year will reach €85.8 billion. This significant overall level of resources will enable continued investment in the quality of life in Ireland and support a strong, fair and more equal society into the future.

As set out in the Summer Economic Statement, this will provide for an expenditure budgetary package of €5.7 billion over 2022 and 2023. This is an increase of €1.7 billion relative to what was originally provided for in the Medium Term Expenditure Strategy. This temporary adjustment balances the need to protect core public services while ensuring that budgetary policy does not become part of the inflation problem. It is important to ensure our approach is responsive to the challenging economic environment but also fiscally sustainable.

Approximately 3 per cent of the core current expenditure base will be available to meet existing levels of service (ELS) costs. This includes:

- Continued investment in the public sector workforce, as set out in existing Building Momentum pay deal, as the delivery mechanism for a wide range of critical services;

- Funding for demographic developments including supporting a growing population and the changing profile of our citizens; and
- The full year impact of measures from Budget 2022 which are being implemented on a phased basis

Capital expenditure will increase by a further €800m in 2023. Overall core capital investment will reach some €11.7 billion in 2023, with an additional €0.2 billion as part of the National Recovery and Resilience Plan (NRRP). This represents an increase of 7 percent, in line with the National Development Plan 2021-2030. This funding will provide for key investment across sectors including health, education and transport while also delivering progress towards our ambitious climate goals.

The remaining amount, some €2.7 billion, will be available for new current expenditure measures across 2022 and 2023. The recently proposed extension to the Building Momentum public sector pay deal will account for approx. €1.4 billion of this amount, comprised of pay and associated pension costs. Other new measures, such as Social Protection supports and other Government commitments in relation to housing, education health, will be announced on Budget Day. This will require appropriate prioritisation of the numerous demands across range of sectors.

Government is also providing €4.5bn in non-core expenditure for temporary measures. This approach facilitates responsive fiscal policy which can provide supports to key emerging issues while protecting day-to-day expenditure and investment. This expenditure will provide humanitarian supports for displaced persons arriving from Ukraine and more limited Covid-19 provision in respect of the continued response to the effects of the pandemic and Brexit.

Each year on Budget Day, attention is primarily focused on new current expenditure measures and increases in funding that are necessary to maintain existing level of services. While these changes in expenditure are important, the vast majority of public expenditure supports the provision of ongoing current expenditure and capital investment.

It is important to keep sight of the totality of public spending, and ensure that the overall level of expenditure remains affordable over the longer term and deliver sustainable improvements in public services and infrastructure. The Mid-Year Expenditure Report 2022, published by my Department in July, provides further detail on the different processes for effective measurement of outcomes. These processes, including Well-being Framework, Green, Equality and Gender Budgeting, and Spending Review, are examples of how we can improve the evidence base to support ongoing improvements in public services.

## **Conclusion**

In thirteen days' time, I will bring forward a spending package to address the inflationary challenges we are now facing while also providing for investment in our economy, public services and infrastructure. The Budget will balance the need to provide supports to the most vulnerable now with investing in the future of our economy and society. While fiscal policy must be responsive, we must maintain focus on long-term priorities, investing in quality of life in Ireland through our public services.

ENDS.