

Opening Statement
Paschal Donohoe TD, Minister for Public Expenditure, NDP Delivery and Reform
Budget Oversight Committee
27th 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.

When I appeared here in July the Government had just published the Summer Economic Statement and the Committee discussed the agreed Budget parameters. Today I can address developments that impact on our budgetary considerations ahead of Budget Day on Tuesday, October 10th.

Context

As we all know, inflation has placed considerable pressure on households and businesses since late 2021 and right through into this year. In response the Government deployed numerous measures to reduce this burden, and help with the challenge of rising prices, particularly higher energy costs. There is no denying inflation continues to pose a policy risk, principally in finding the balance between responding with support while not adding to inflation growth. This is a challenge we think we have met successfully to date.

My Government colleagues and I allocated €12 billion in total expenditure and taxation measures since Budget 2022 to address the impact of price rises on the cost of living. These measures, both permanent and temporary in nature, were brought in to protect society from the worst effects of this historically high inflation with particular focus on the lowest income deciles in our society. Giving more help to those who need it most.

The utilisation of temporary measures prevented once off supports being built into the core annual expenditure of Departments while helping households and businesses with elevated costs. This also minimised the inflationary impact of Government interventions.

The success of the last two budgets can be seen in terms of both fiscal sustainability and the wide range of delivery of improvements to public services and infrastructure.

In terms of delivery, the previous budget packages supported strong economic performance in a number of ways.

- They sustained increased capital and infrastructural investment under the National Development Plan,
- they expanded service delivery across the public service to meet increasing demand from a growing population,
- they reduced the cost of key public services such as public transport, childcare, education and healthcare while
- the extension of the public sector pay deal delivered industrial peace in a challenging period.

We also delivered considerable support to meet the challenge of Covid and soon after, the challenge of a humanitarian response to the war in Ukraine.

Thankfully inflation has fallen from its historic high of an 8.1% average in 2022. This reduction is estimated to continue in 2024 and 2025. This forecasted reduction is welcomed by all and means the Government can plan to return to its Medium Term Expenditure Strategy for 2025. However, in the short term, it also means that the Government must once more respond to the immediate challenge of stubborn prices as we wait for the inflation path to smooth.

To that end discussions are being finalised within the estimates process to bring forward targeted, impactful measures that will benefit those most in need. These measures will be temporary in nature, limited and of a smaller proportion than that in the Budget last year when prices were at their highest.

Budget 2023 – Expenditure Strategy

To reiterate the Government's Budget 2024 strategy discussed at this Committee in July, this Budget will see the expenditure ceiling rise to €95.5 billion. Core spending next year will reach €91.2 billion, non-core spending will reduce to €4 billion in total and an additional €250 million will be made available for capital projects. The package is designed to assist us in dealing with the effects of a stubborn inflationary cycle while attempting not to add to that cycle. It reflects a significant, prudent and sustainable level of investment in the quality of life in Ireland and in our wider society.

Core Expenditure Package (Current and Capital)

It is important to plan an expenditure approach that responds to the economic environment but remains fiscally sustainable.

As set out in the Summer Economic Statement, this increased ceiling will provide for an expenditure budgetary package of €5.2 billion in 2024. This is an increase of 6.1% on the estimated core expenditure for 2023. This adjustment over the target 5% rate of growth in core expenditure (set out in our Medium Term Expenditure Strategy) balances the need to protect core public services, sustain our investment in the NDP while minimising the risk that the expenditure policy contributes to the inflationary cycle.

Approximately 3 per cent, or €2.3 billion, of the core current expenditure increase is available to meet existing levels of service (ELS) costs. This includes:

- The full year impact of measures carried over from Budget 2023;
- Funding for demographic developments, notably to support a growing and aging population;
- Meeting public service pay commitments including the final uplift from the extension to Building Momentum agreement.

Capital expenditure under the National Development Plan will increase by a further €0.9bn in 2024. Overall core capital investment will reach some €12.8 billion in 2023, including €0.2 billion from the National Recovery and Resilience Plan (NRRP). This represents an increase of 10 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 climate goals.

It is worth noting that capital spending has increased from €3.7 billion in 2015 to almost €13 billion this year. This clearly shows that capital expenditure has been prioritised in recent years and continues to be a Government priority.

The remaining amount of circa €2 billion will fund new measures in the Budget; to include measures in the social protection realm, childcare and health measures and a potential new public sector pay agreement. This will of course require appropriate prioritisation of the numerous demands across range of sectors.

Non-Core Provisions

Government is also providing €4.0 billion in non-core expenditure for temporary measures to provide humanitarian supports for refugees arriving from Ukraine and a more limited Covid-19 provision. There are also small provisions for funding from the National Resilience and Recovery Plan, Brexit related projects and Repower EU funds. As with last year, this approach facilitates responsive fiscal policy which can provide supports to key emerging issues while protecting day-to-day expenditure and investment.

Additional Capital

The Government has also agreed to provide additional capital funding, from banked windfall receipts, of €250 million to expedite projects in 2024 that are at

an advanced stage and are in line with Government priorities. In total €2.25 billion will be provided in additional 'windfall' capital between 2024 and 2026.

Including the additional windfall capital allocations, the year on year growth across the years 2023 to 2026 will be 6.7%, 10.2%, 9.8% and 7.7% respectively.

Budget 2024 negotiations will not require a focus on capital allocations for 2024 or 2025. After the Budget, there will be a focus on sectoral allocations from the NDP for 2026 to 2028 inclusive, to include the windfall funding for 2024, 2025 and 2026. My Department will communicate with Departments in November to commence this process of agreeing sectoral capital allocations out to 2028.

Expenditure Analysis

Managing the delivery of public services within budgetary allocations is, of course, a key responsibility of each Minister and their department. Officials in my Department are in regular communication with colleagues across all Departments to ensure expenditure is managed within the overall fiscal parameters and there are many measures in place to ensure the budgetary targets are met. Drawdowns from the Exchequer are monitored against published profiles and key data and information in relation to voted expenditure is published monthly with the Exchequer Returns.

Budgetary reform remains central to public expenditure management and to this end the Mid-Year Expenditure Report, published by my Department every July, provides details of the different processes that undertake effective measurement of the outcomes of public services or programmes and the delivery of value for money. These range from the Well-being Framework, the Green Budgeting initiative, Performance and Equality Budgeting and the annual Spending Review process - all examples of how we improve the evidence base to support ongoing improvements in public services and public policy.

Closing Remarks

In just under two weeks' time, I will be bringing forward a balanced, sustainable budget package to address, what is hopefully, the last of our inflationary challenges while providing for further investment in our economy, public services and infrastructure.

As I said to the Committee here in July, the careful management of the public finances over the past decade has allowed Government to;

- Provide increased resources for core public services, investing in the quality of life in Ireland to support a strong, fair and equal society into the future,
- Build more houses, schools and other essential infrastructural projects through the National Development Plan. These are critical projects that support our employment prospects, economic development and regional growth,
- Put in place supports that provide assistance to households and businesses to counter the challenges we have faced and continue to face, from the Covid pandemic to the ongoing war in Ukraine, through to the impact of global price pressures.

Our fiscal and expenditure policy has proven to be balanced in its response to crises while also being fiscally sustainable and responsible. This Budget will continue this balanced approach. There has been a decade of investment in our society by Government and Budget 2024 sees further growth in capital investment and public services. Such investment will deliver improvements to the lives of all of our citizens.

In framing this year's Budget however, the Government are more than cognisant that the economy is at full employment and that we must begin a smooth transition back to the 5 per cent expenditure targets to ensure long-run sustainability.

Thank you