Opening Statement by Mr. Oliver Gilvarry (Assistant Secretary, Banking and Financial Stability Division Department of Finance) to the Committee on Finance, Public Expenditure and Reform, and Taoiseach in relation to pre-legislative Scrutiny of the General Scheme of the Future Ireland Fund and Infrastructure, Climate and Nature Fund Bill.

Wednesday, 22 November 2023

Cathaoirleach, members of the committee, thank you for the invitation and the opportunity to attend here today, to discuss the Future Ireland Fund and Infrastructure, Climate and Nature Fund Bill.

My name is Oliver Gilvarry and I am the Assistant Secretary of the Banking and Financial Stability Division of the Department of Finance. With me is my colleagues John McCarthy – Chief Economist, Pat Leahy, Rose O'Connor and Jack Neilan O'Connor.

We are also joined by colleagues from the National Treasury Management Agency.

I will now outline the general scheme of the Future Ireland Fund and Infrastructure, Climate and Nature Fund Bill.

The general scheme was agreed by the Government in October and the drafting process is currently underway with the help of the Office of Parliamentary Council.

This Bill seeks to establish two funds – the Future Ireland Fund and the Infrastructure Climate and Nature Fund. The structure along with the retention of the Irish Strategic Investment Fund (ISIF) provides a basis to:

- save and invest resources to deal with known and unknown long term pressures on expenditure;

- support counter cyclical capital expenditure and help address specific climate and nature problems; and

- maintain a stream of investment in the domestic economy though ISIF.

The Bill can be considered to be in three main parts:

- the establishment of the Future Ireland Fund;

- the establishment of the Infrastructure, Climate and Nature Fund; and

- the management of these funds by the NTMA

Future Ireland Fund

Turning to the Future Ireland Fund.

Over the coming decades there are expected to be significant pressures on both public expenditure and revenue. These pressures have been outlined in the Department of Finance's scoping paper in early 2023, by the Irish Fiscal Advisory Council (IFAC) and by the Commission on Taxation and Welfare.

These costs are not solely related to the ageing of our population such as increased pension costs, increased demands for health care and long-term care but also from the impact of climate neutrality and the digitalisation of economies.

Analysis by the Department of Finance suggests that annual age-related expenditure will be €7-8 billion higher by the end of the decade compared to the start, with costs set to increase exponentially thereafter. It is important to note that these only relate to the costs of maintaining the existing levels of service.

For each year from 2024 to 2035, it is proposed that 0.8 per cent of GDP will be invested in the Future Ireland Fund that roughly equates to €4.3 billion in 2024. In 2024 an additional c. €4.1bn from the National Reserve Fund will also be transferred to the Fund. The investment return will be retained within the Fund helping it to grow through returns on returns or compounding.

The Fund will be maintained over the longer term with the returns on the Fund used to support Government expenditure thereby benefiting future generations.

No payment is envisaged from the Fund until 2041. This allows the fund to build up over time through investment and compounding so that it can contribute significantly to public expenditure needs from 2041 onwards and for future generations.

Infrastructure, Climate and Nature Fund (ICNF)

In Ireland, fiscal policy has tended to be pro-cyclical and capital spending has been particularly susceptible to pro-cyclicality. An adequately capitalised fund is a good means to support counter-cyclical fiscal policy.

It is also recognised that there are increasingly significant environmental challenges not just in climate but also in degradation in the biosphere and impacts on water quality.

Each year €2 billion will be invested in this fund from 2024 to 2030, building a total contribution to the fund of €14 billion. The contribution in 2024 will come from the dissolution of the National Reserve Fund. Any investment return remains with the Fund.

The Fund has two components:

- counter cyclical support for infrastructure projects and
- support for climate and nature projects; and

The climate and nature component is subject to a cap of €3.15bn on expenditure between 2026 and 2030. This is intended to fund capital projects when specific objectives have not been met for climate such as reductions in greenhouse gas emissions or in the areas of nature and water quality such as deterioration in areas of special conservation or reductions in biodiversity.

When access to that element of the Fund is triggered by the relevant Ministers, based on the criteria outlined, the process will be managed by the Minister for Public Expenditure, National Development Plan Delivery and Reform with guidance developed by his Department.

The counter-cyclical element in the ICNF has substantial value in cushioning future economic shocks and maintaining growth-enhancing investment through periods of lower or negative growth.

The creation and existence of this Fund would ensure that the State has resources available in a future downturn to support capital expenditure through the business cycle, instead of reducing capital expenditure in a pro-cyclical manner. In turn, this would avoid generating backlogs in capital projects due to a lack of spending during economic downturns.

Up to 25% of the fund, less any commitments to climate and nature expenditure, can be used in a year. The Minister for Finance and the Minister for Public Expenditure, National Development Plan Delivery and Reform would co-ordinate this process so that the necessary amount is drawn from the Fund in any one year.

This is to ensure that the resources of the fund are deployed appropriately.

Investment policy and strategy

Both funds will have a broad investment policy set out in legislation and post enactment a more detailed investment strategy will be prepared by the NTMA with input from the Ministers for Finance and Minister for Public Expenditure, National Development Plan Delivery and Reform. It is envisaged that the Fund's investment strategy would operate in accordance with ESG principles to be set out in the legislation.

Management and operation of the Fund

The Heads of the Bill provides for the funds to be vested in the Minister of Finance and managed and controlled by the NTMA. The funds would be subject to audit by the Comptroller and Auditor General.

Dissolution of the National Reserve Fund

As I had referred to earlier, it is intended that as part of the development of the Funds, the National Reserve Fund would be discontinued and its assets allocated to the Future Ireland Fund (c. €4.1 billion) and to the ICNF (€2 billion).

Conclusion

To conclude the intention of this legislation is to enable the State put aside resources to manage the future challenges we know we will face in the coming years.

It will also help support capital spending in downturns, preventing a repeat of past occurrences where capital projects are delayed or cancelled due to economic circumstances.

Alongside supporting Ireland's climate and nature commitments, in the event we are or are likely to miss stated targets in those areas.

I and my colleagues' welcome questions from the Committee.