DÁIL ÉIREANN

AN ROGHCHOISTE UM FHORMHAOIRSIÚ BUISÉID

COMMITTEE ON BUDGETARY OVERSIGHT

Dé Céadaoin, 22 Meán Fómhair 2021

Wednesday, 22 September 2021

Tháinig an Roghchoiste le chéile ag 3.30 p.m.

The Select Committee met at 3.30 p.m.

Comhaltaí a bhí i láthair / Members present:

Teachtaí Dála / Deputies	
Seán Canney,	
Pearse Doherty,	
Bernard J. Durkan,	
Mairéad Farrell,	
Michael Healy-Rae,	
John Lahart,	
Aindrias Moynihan,	
Ged Nash,	
Kieran O'Donnell,	
Patricia Ryan.	

Teachta / Deputy Neasa Hourigan sa Chathaoir / in the Chair.

Pre-Budget 2022 Scrutiny: Irish Fiscal Advisory Council

Chairman: Today the committee will engage with the Irish Fiscal Advisory Council to discuss pre-budget 2022 scrutiny. Members and all in attendance are asked to exercise personal responsibility in protecting themselves and others from the risk of contracting Covid-19. Members are strongly advised to practice good hand hygiene and leave at least one vacant seat between themselves and other attendees. They should also always maintain an appropriate level of social distancing during and after the meeting. Masks, preferably of medical grade, should be worn at all times during the meeting, except when speaking. I ask for members' full co-operation in this.

I welcome from the Irish Fiscal Advisory Council, IFAC, Mr. Sebastian Barnes, chairperson; Dr. Adele Bergin, Mr. Alessandro Giustiniani, Professor Michael McMahon, and Ms Dawn Holland, council members; and Dr. Eddie Casey, chief economist and head of secretariat.

Before we begin, I will read out a note on privilege to witnesses. I wish to explain some limitations to parliamentary privilege and the practice of the Houses as regards references they may make to other persons in their evidence. The evidence of witnesses physically present, or who give evidence from within the parliamentary precinct is protected, pursuant to both the Constitution and statute by absolute privilege. However, those giving evidence remotely and from a place outside the parliamentary precincts may not benefit from the same level of immunity from legal proceedings as a witness who is physically present does. They are again reminded of the long-standing parliamentary practice to the effect that they should not criticise or make charges against any person or entity by name or in such a way as to make him, her or it identifiable, or otherwise engage in speech that might be regarded as damaging to the good name of the person or entity. Therefore, if their statements are potentially defamatory in regard to an identifiable person or entity, they will be directed to discontinue their remarks. It is imperative that they comply with any such direction from me.

Members of the committee are reminded of the long-standing parliamentary practice to the effect that they should not comment on, criticise or make charges against a person outside the Houses, or an official either by name or in such a way as to make him, her or it identifiable. I remind members of the constitutional requirements that they must physically present within the confines of the place which Parliament has chosen to sit, namely, Leinster House or the Convention Centre Dublin in order to participate in public meetings. I will not permit a member to participate where they are not adhering to this constitutional requirement. Therefore, any member who attempts to participate from outside the precincts will be asked to leave the meeting.

I call on Mr. Barnes to make his opening statement.

Mr. Sebastian Barnes: The council would like to thank the Chair and members of the committee for inviting us. As you noted, Chair, joining me today are council members Ms Dawn Holland, Professor Michael McMahon, Dr. Adele Bergin, and Mr. Alessandro Giustiniani as well as our chief economist and head of secretariat, Dr. Eddie Casey. We value our engagements with the Oireachtas and see this as a very important part of our work. The council is an independent body established under the Fiscal Responsibility Act 2012. Its mandate is to assess and endorse the official macroeconomic forecasts, assess budgetary projections, compliance with the fiscal rules and to assess the fiscal stance. Its focus is on the overall fiscal stance, rather than on individual tax measures or spending items.

Last week, the council published its pre-budget 2022 statement as an input into the upcoming budget. The economy is recovering quickly from the pandemic as vaccinations progress and as individuals adapt to new circumstances. Upside risks to the official projections for the economy include the potential unwinding of large household savings and boost from the Government's planned budgetary expansion. However, jobs are likely to recover more slowly than spending and the long-term scarring effects on activity from the pandemic remain uncertain. Over the longer term, it is likely that Ireland's ageing population would tend to slow growth, with productivity growth also likely to moderate as it converges on norms for more mature economies.

The council welcomes the July summer economic statement, SES, as a significant step in the Government publishing a medium-term budgetary plan to 2025. This is something that was promised in the programme for Government. The SES includes more realistic spending forecasts for maintaining the existing level of services. This basically allows for pressures from rising prices and changing demographics that were not fully accounted for in past forecasts. The change in approach addresses a long-standing weakness in budgetary projections that the council had been concerned about. The SES also sets out a new spending rule and a debt objective. These approaches are also welcome and partly address recommendations made by the council in the past.

While the progress made in the SES was welcome, there were three key areas for concern. First, there has been a significant shift in policy for the medium term, leading to higher risk. While a sizeable fiscal response to Covid-19 was warranted, the sustained deficits now planned for future years would prevent the debt ratio from falling steadily to safer levels. The Government's own projections imply a deficit of close to 3% of GNI* in 2025, while the council's more positive view of the recovery would suggest something close to 1.5% if the Government sticks to its spending plans. Running significant budget deficits for several years during a period of strong growth and with high public debt carries risks.

Even allowing for low interest rates into the future, the council estimates a one-in-four risk that the Government's debt ratio could end up on an unsustainable path. Ireland's deficit and net debt ratio could still be among the highest in the OECD by 2025, which increases the risks of higher borrowing costs if Ireland is viewed as an outlier, particularly as a relatively small, open economy. This leaves the public finances more exposed to shocks, particularly from unexpected falls in growth. It also reduces the likelihood that the Government could respond to future crises or future downturns by supporting the economy in the same way it did during the pandemic.

Second, key details of the fiscal plan are still lacking. The planned increase in public investment will see Ireland's public investment peak at around 6% of national income in the coming years. There is a good case for higher spending in areas such as health, climate change, and housing, particularly as interest rates are so low. Yet the speed and timing of the ramp-up of investments, as well as Ireland's weak track record with public investment management, means that capacity constraints might lead to higher costs. To assess the risks, more information is needed on the Government's investment plans and the underlying economic assumptions, particularly in relation to the new national development plan, the climate action plan, implementation of Sláintecare and around Housing for All. The Government should plan eventually to bring investment down to more normal levels.

Third, the new spending rule and debt objective need more work if they are to be useful. The spending rule is intended to constrain permanent voted spending to grow at the same rate as potential output, assumed by the Government to be around 5%. The council has recommended a spending rule for several years to ensure that spending grows in line with the Government's ability to pay. However, applying the rule now, when sharp permanent spending increases already took place in the last budget, means that the rule is likely to lock in a high path for spending. There are also a number of other design problems with the rule. It is too narrow, focused only on a portion of spending and ignoring tax cuts; it should be calibrated to improve the deficit rather than to maintain it; and it should be given a statutory footing and better linked to the debt objective, which is itself rather vaguely specified. The SES also did not explain how the budgetary plans comply with the existing EU and domestic fiscal rules.

In regard to budget 2022, the council's assessment is that the Government's €4.7 billion package of measures appears to be at the limit of what is prudent. The implied 5.5% expansion is modestly above estimates of the underlying potential growth rate of the economy but this would help to support the recovery. The council assesses that some of the temporary and targeted income and job supports may need to continue, depending in part on the public health situation.

Looking beyond 2022, the Government should prioritise between its plans for significant expansions in public investment, fast increases in current spending and a desire to cut taxes. By expanding all areas at once, the Government is effectively avoiding difficult choices and slowing the return of debt ratios to safer levels. This reduces the scope to ensure that future downturns or crises could be cushioned by strong fiscal support in the same way as we have seen during the pandemic. A more prudent approach would be to limit current spending to a slower pace of increase or not to implement tax plans to reduce taxes at the same time as a ramp-up in public investment is going ahead. I thank the committee and look forward to questions.

Deputy Pearse Doherty: I thank Mr. Barnes and his team for the presentation. I want to talk about tax buoyancy and the forecasts. Mr. Barnes's opening statement and the pre-budget statement published by the council last week focused on what could be described as a robust and quick recovery of the economy as restrictions ease and normal economic activity resumes. He said the council has developed a recovery scenario which differs from the macroeconomic projections in the SES. He described those as not being fully updated and not consistent with the Government's fiscal plans.

The council's recovery scenario sees modified domestic demand, which we know is a better measure of economic activity than GDP, rebounding faster than the projections in the SES. We also know that tax receipts returned to the Exchequer signalled a strong recovery with tax heads such as VAT, income tax and corporation tax coming in above profile. What accounts for the difference between the scenario outlined by the council and that in the SES? Is it the view of the witnesses, given the outdated projections in the SES which feed into the tax and fiscal forecasts, that tax revenue is likely to be higher and, therefore, deficits lower this year and in 2022?

In his statement Mr. Barnes outlined that the deficit will drop from a projection of about €20 billion this year to in the region of €15 billion. Can he give us any indication of what he thinks the position will be in 2022 as a result of those dynamics? Has the council developed its own projections to reflect the strong recovery? What is the view of the council in terms of how the Government should respond to such tax buoyancy? In other words, should any revision in tax revenue upwards in the Government's October forecast be committed to additional spending measures, used for tax cuts or used to improve the fiscal position?

Mr. Sebastian Barnes: I thank Deputy Doherty. It was a concern and disappointment to us that the SES, which is a major statement of Government policy, did not include updated macroeconomic projections. There were some updates on the international side, but the domestic parts failed to take into account two significant developments. The first was that the short-term news in the economy has been much more positive than it was when the special purpose entity, SPE, was set up in April. The second is that the fiscal stance has changed very significantly. It was a major flaw in the SES that it did not update the macroeconomic projections in what was a major statement of Government policy.

As a result of that, as the Deputy correctly noted we developed a recovery scenario because we thought that was a more realistic picture that took into account both of those things, namely a scenario where the economy recovers quite rapidly and where the long-term impact of Covid relative to the trend is relatively small because the economy has bounced back quite fast. To us, that suggests there will not be as big a long-term impact as we feared at one time. That is essentially good news.

In terms of the pace of recovery, the way to think about it is that this is a timing issue. We were always relatively positive about where the economy was going to end up; it is just that the recovery has happened earlier. That means that we see more of the recovery in 2021 and less in 2022. We get to the same position, but earlier. That is a good thing, but it does not change our view of the long or medium run. It is important to view it as a timing issue.

As the Deputy has noted, we have not done a very detailed analysis of the budget deficit for this year, but, as he reminded us, we think it could be around €15 billion or 7% of national income, which is somewhat less than what was set out in the stability programme update, SPU. It is still a big deficit.

Does Dr. Casey want to add anything specifically about 2022? It obviously depends on decisions taken in the budget. I do not think we have done a very detailed modelling of that. I do not know if there is any additional information he wishes to provide.

Dr. Eddie Casey: Not particularly. I refer the Deputy to the final page of our pre-budget statement in which we set out the revenue and spending projections consistent with that recovery scenario. He can see our projections for the deficit in 2022. It was to fall to €6.5 billion from €15.5 billion, which would have been about 2.6% of gross national income. The revenue forecasts were higher every year due to our assumption that domestic demand recovered at a faster pace, as Mr. Barnes said.

Deputy Pearse Doherty: We know the SES is outdated, and was outdated even as it was being published because the factors that were known at the time were not factored into it. The SES outlines the budgetary package of €4.7 billion for next year and considers a deficit of, I understand, 3.4% for 2022. Dr. Casey said that on the last page of the report, the council outlined its prediction for the deficit. Can he repeat those figures? We know that, for example, instead of a deficit of €20 billion for this year we are likely to see a figure of €15 billion. For next year, with the budgetary package outlined in the SES, what was it intended to be nominally? What is the view of the council, given the different factors, including the stronger recovery, the buoyancy and tax which will carry on to 2022, of what the deficit figure would be?

Dr. Eddie Casey: I am happy to give those estimates. In 2022, the Government SES projection was for a budget deficit of €14.4 billion whereas we would have had a figure of €6.4 billion. In 2023, it had a projection of €8.1 billion and our prediction was €4.5 billion. In 2024, it predicted a deficit of €7.6 billion and our figure was €4 billion. In 2025, its figure was €7.4

billion and our figure was €3.5 billion. This was in the recovery scenario.

It is worth saying that this is not necessarily our baseline assumption. It is, rather, what we think is the most likely outcome which we felt was a reasonably plausible scenario where lots of things go in the State's favour.

Deputy Pearse Doherty: I appreciate that. The data we are starting to see would lend us to think that is a likely scenario.

The council has been critical of the Government's plan for €0.5 billion in tax cuts. We know the cumulative effect of that over a four-year period. What it is planning to do will cost in the region of €5 billion in tax measures. I ask the witnesses to expand on that. Does the council believe that net tax cuts should be off the table, given the other pressures?

In its commentary, the council mentions a reduction in current spending if the Government was to deal with the tax cuts. Is the council suggesting that there is a difference between current and capital spending? There is a crisis in housing. The ESRI has called for a doubling in capital investment which is not what the Government has outlined in the SES. Does the council believe further capacity regarding capital spending as a catch-up programme is required to deal with the fact that houses have not been built in the numbers that were required over the past decade?

Mr. Sebastian Barnes: The council's concern was about the overall budgetary stance. There is now anticipated to be a deficit for several years which means that the debt ratio will not move substantially toward safer levels. The Government will essentially be putting more money into the economy than it takes out over this period. There is a risk of overheating eventually building up or cost pressures in specific sectors. That is the concern.

The origin of that concern is that the Government is increasing current spending in line with inflation. It is increasing the volume of current spending, ramping up investment and planning to cut taxes. It is trying to do everything at the same time.

In regard to the pressure on the public finances and the budget balance, a reduction of debt could be achieved by prioritising between those different items in the medium term. The council does not have a mandate and does not look at those specific items. However, if one accepts the case that the priority is to improve public services and that investment is extremely important, that raises questions about the relative importance of doing the other things. One has to wonder whether cutting taxes should be the priority and the prudent thing to do in the context of these other ambitions that the Government has.

On the Deputy's second point, there is a very important distinction between current and capital investment in economic terms. We know also that many of the needs of the economy are in terms of the capital. Public investment was very low for a long time. We are partly paying the price for that today. There is an important distinction. It is a good case to make public investment while interest rates are low. We recognise that case and that is why we are relatively comfortable in some sense with the run-up investment that is planned. However, it is a huge increase. There are legitimate questions about the capacity of the economy to catch up at that speed. Therefore, having a period of catch up clearly makes sense.

Investment at one point was maybe running at 2% of the national income. It will now go to 6%. If it only went to 4%, it would take an awfully long time for the economy to catch up. It is okay to overshoot, but that has to be managed carefully and it raises risks. This is a very high level of investment by historical standards in Ireland. It is essentially the highest ever share of national income in public investment. It is very high by international standards as well. It is a very sharp increase. That process has to be carefully managed, because it carries risks in terms of value for money but also in terms of macroeconomic management.

Chairman: Deputy Doherty has run out of time. I call Deputy Durkan.

Deputy Bernard J. Durkan: I have a couple of questions. What do the witnesses see as the biggest threat to the stability of our economy in the foreseeable future? Is it the likely potential change in corporate profits tax? Is it inflation, which appears to be an issue? Is it the extent of that will likely have to be undertaken in order to recover from Covid-19, and to recover from Brexit, if it is possible to do? What are the potential impacts of taxation, inflation and borrowing on our economy?

Mr. Sebastian Barnes: That is a very good and extremely difficult question. I do not think we have a solid analysis of which we think exactly that risk is. However, they are all significant risks. It is hard to say which one it is, although it could be something else. Three years ago, we would not have dreamt that the pandemic would hit us all with the consequences we have seen. There is a risk associated with corporation tax. There are clearly important changes afoot internationally and those may impact Ireland. Ireland is also very reliant on a small number of companies for corporation tax.

Inflation, if the economy runs a bit hot, and internationally is a very major question. The general consensus seems to be that many of the effects will be temporary. However, the truth is that we do not know if this could trigger something bigger.

The risk to the state of the public finances, as we said, it is not alarming, but it adds to the mix.

Of course, we know from Irish economic history that we must be cautious about what might happen in the future. Our recovery scenario is one where the economy, by relative standards, continues to do very well. That may not happen and we cannot be confident about that. There are many risks. That, for us, argues for relatively prudent management or fiscal policy.

Deputy Bernard J. Durkan: To follow up with another question, what are the possible effects of the loading of private savings, of which there is a considerable amount, onto the economy? Will that be likely to contribute to inflation? If so, how might that be controlled? For instance, some economist once said that if one inflates the economy by one means or another, it automatically follows that in order to have beneficial effects, one requires price controls. What would Mr. Barnes's comment be on that?

Mr. Sebastian Barnes: I will ask Professor Michael McMahon to answer that question on inflation.

Professor Michael McMahon: I will build on the last answer given. When thinking about the borrowing risk, my view would be that the risk is not that the borrowing is the trigger but rather that high levels of borrowing limits the ability of the economy to respond to other triggers that might arise.

I will respond to the Deputy's specific question about the effect of an unwind of savings. We know that saving rates have been high. This is partly because people have become more prudent, but partly also because there has been enforced lack of spending in the economy over the last 18 months during lockdown. The question about whether this will generate inflation depends a lot on how quickly and in which sectors people choose to spend the money. Again, touching on Mr. Barnes's opening statement, one concern would be that people have built up sufficient savings and they all decide to invest, for instance, in housing. At the same time, the Government is embarking a large expansion of its public construction projects. That would put quite a bit of pressure on that particular sector, which is already subject to many cost pressures coming through supply chains. These pressures are completely outside of the control of Ireland, namely, world steel prices, cement prices, etc. That would be a scenario where the likely inflationary effects would be larger and concentrated in particular sectors. If everybody spent their money on doing things that they did before, such as spending in the hospitality sector, there will probably be a less likely focus on inflation. This is because there will probably still be quite a lot of spare capacity. That is where we would currently probably see a need for any targeted support from the economy going forward. That unwinding of savings into those sectors would limit the need for the Government to continue to provide that targeted support. The Deputy's question is difficult to answer, because it depends on exactly how people choose to spend the money. However, this is something that we are very aware of as a potential thing to keep an eye on and see how savings choose to be unwound.

Deputy Bernard J. Durkan: I thank Professor McMahon. In relation to priorities for our economy, housing, health and education obviously remain the most prominent. Given that housing is related to our taxation system, in the sense that high house prices tend to result in higher wages, higher bills, and higher costs, how do the witnesses foresee house prices affecting the market, the economy and stability in the future and, particularly, in the next 12 months?

Mr. Sebastian Barnes: I would like to make three points in response. First, as well as housing, health and education, climate is a major issue. The investment needs that might be associated with that are potentially massive. That is something that we do not have much of handle on at the moment. That is where the climate action plan will be important. However, climate will require much more deployment of funds than health and education in the times come. This is not to say that health and education are not important.

The Deputy's second point, which is important, is the various things may be driving housing, including the Government's investment plans and,as Professor McMahon said, private savings. One of the things that will do is that it will give a cyclical boost to the economy in the years ahead. That will partly feed back to the Government in terms of revenue. This would be a good thing. However, that is not necessarily sustainable as a source of revenue, if there is to be a temporary boom in housing. It would be nothing on the scale of what we saw in the early 2000s. However, it is one thing that will flatter the public finances in the years ahead. If one look at our projections for deficit, which is around 1.5% in 2025, the underlying position is much worse than that. It is a structural deficit, at 2% or 3%. We need, therefore, to be careful that we do not get confused by putting money into the economy, which would make public finances look better than they really are in an underlying sense.

The impact of house prices is always difficult to assess. We have private savings acting and we also have Government policy. One of the things we are calling for is more economic analysis around Housing for All. While there is a lot of information about what the Government is planning to do, there is not much of an economic assessment of what it expects the outcomes to be or on how it expects it to work. This information would be important in assessing whether that money will have a positive impact on the economy. We need to see a much better economic assessment from the Government on what it is planning to with Housing for All. That will help-fully tell us something about what Government thinks will happen to rents and house prices as a result of its own policies.

Deputy Bernard J. Durkan: I apologise for omitting climate from my list. We do not have much of time left for questions. Incidentally, I raised it in the House a couple of times already. One of the most important things about climate is alternative energy, renewable energy, and the speed with which our economy can deliver those. To my mind - I have done a good lot of work on this over the years - we have not made sufficient provision so far. We make regular efforts through wave and wind energy but they are related. The wind energy will provide renewable energy for two thirds of the requirement in terms of time. One third requires to be provided for elsewhere. There are limited areas there. The problem would appear to be a lack of investment in those areas in the early days. We need investment now. We needed investment four or five years ago but we could not provide it because we had no money four or five years ago, or ten years ago.

We need new investment in offshore wind energy or else we need more onshore energy. Either way, we need to focus on that as a means of providing alternative renewable energy and doing it efficiently and cost-effectively. How are we placed to achieve that, given that we have to do that in the short term? We have only ten years.

Mr. Sebastian Barnes: The Deputy is right. Our assessment is that the existing plans are a long way short of what needs to be delivered. A lot of investment needs to take place and we are essentially waiting for the national development plan to articulate that. The climate action plan is extremely important as well.

We are macroeconomists. We do not know the ins and outs of the engineering solutions and these kinds of things, but those things need to be spelled out. It is on such a big scale that it is one of the key issues overhanging the economy.

Deputy Bernard J. Durkan: Have I time for a final question?

Chairman: I am sorry, Deputy Durkan. I am afraid you are out of time.

Deputy Bernard J. Durkan: Out of time - not for the first time in my life. Thank you, Chairperson.

Chairman: Thank you, Deputy Durkan.

Deputy John Lahart: I welcome the council members, as usual. I just have one criticism to make. I have enjoyed reading the report but we got it far too late. Maybe they do not expect us to read anything beyond the summary but there are 70 pages in it. I got an opportunity this morning to start reading it. I found it really interesting.

The summary captures it. Mr. Barnes managed to incorporate what I saw as some of the key elements into his opening statement.

There is so much in this. I have said to the Chair previously that I like to take a non-partisan approach in the Oireachtas Committee on Budgetary Oversight and assume the role of an outside onlooker who is trying to represent the best interests of all of the people. Terribly noble and all as that sounds, I mean not to take a political approach to it.

Here we are again. This is the fifth annual pre-budget report stating we cannot rely on corporate tax. It is truly appalling that governments have failed to deal with this. The first steps were taken in budget 2020. That is very regrettable.

The rainy day fund had been suggested in 2016. Even the worst critics of the former Minister, Mr. Charlie McCreevy, would say he had the special savings interest account, SSIA, scheme developed to try to stop people spending and to put some of their money away so that it would not boost the economy. There was €20 billion in the National Pensions Reserve Fund which helped to reduce the impact of the crash, although not by much. We have no such measures in place at present.

They mentioned human resource shortages and challenges. I do not know if we are fully across that yet or if we fully know what the impact of material shortages will be. It seems to be much more acute in terms of materials in some other countries and I am wondering why that is.

There is so much to respond to but I want to make one point to the Irish Fiscal Advisory Council, IFAC. I think IFAC could help the budgetary oversight considerably in this. It was a suggestion made by Mr. Mark Little, the former RTÉ correspondent, Washington correspondent and general bright guy. IFAC is covered to comment on this under its role of assessing the fiscal stance. We have, as a budgetary oversight committee, in the past number of years looked at gender-proofing budgets. The only way to politically protect decision-making in budgets is a suggestion Mr. Little made, not for that reason but to future-proof budgets. Ministers of the day need to be held to account for budgetary decisions they take now that will have a negative or disproportionate impact on generations coming down the track. If that became an institutionalised requirement, it would help to head off some of these things that IFAC has pointed to.

Personally, I will be looking for spending on MetroLink and all the rest of it, and fighting for the budgets that are available. That is the politics side of the House and I accept that. I do not see any contradiction in it. To be quite honest, nobody anticipated tax cuts after the year and a half we have been through. They see the State heading for a €250 billion debt. They see the State having honoured that unwritten contract between itself and its citizens and their families and non-citizens to protect them when times get really tough. The State stood up to that challenge and the public recognise there was a huge cost to that.

I would like to see the future-proofing of budgets. I will return to this theme. Every Minister for Public Expenditure and Reform, every Minister for Finance and every Department head and Minister will have to ask what will be the impact of this decision on an 18-year-old, on a 25-year-old, on a 30-year-old, etc., and whether it will incur a disproportionately heavy debt burden on them on top of the climate action burden that is already on their shoulders to carry. I am off my soapbox there but I will come back to it.

Mr. Barnes does not mention Brexit. He might comment on that. I was very taken with his final comments about climate action that this could end up being much more costly than we anticipated. Mr. Barnes gives some figures there and some context to it. There are three issues I would like responses on. What are IFAC's views on Brexit, the future-proofing of budgets and the climate action piece? I ask Mr. Barnes to develop that theme a little more.

Mr. Sebastian Barnes: I thank Deputy Lahart for those thoughtful comments, including the fact that we should send him a copy of the report as soon as we have it next time. Let me respond in a slightly different order to the Deputy's questions. I will ask Dr. Adele Bergin to come in on Brexit and Professor Michael McMahon to come in on the general issues.

One point Deputy Lahart is right about is that as a medium-term strategy, the SES talks about how certain things will be dealt with, mostly the increase in public investment. It does not talk about some other subjects which are important. One of the neglected subjects is corporation tax. It assumes there will be a €2 billion loss, as the Government has been assuming for some time, from international tax developments but that is not developed. There is no institutional response to that. It is just baked into the figures. The rainy day fund solution and the prudence account that we talked about at some point could all be good ways of dealing with that, but it is not really addressed. There is also not much on the implementation of Sláintecare, which is another major initiative that does not really figure much in the discussion on the SES. Where that fits into the whole arithmetic could be better articulated. As I have said, there is a lack of detail about many aspects, including the climate aspect that the Deputy talked about and how that fits in and whether it has been allocated.

The Deputy is right in terms of some of these deeper questions about the public finances. As we have said, there is a need to prioritise between higher investment, higher current spending and taxation. The consequence of not prioritising is taking more risk and shifting the burden onto the next generation. In the past, we have re-emphasised how hard choices needed to be taken to meet the objective that the Government had, which was, essentially, to bring debt down at a steady pace to a more prudent level. In fact, what has happened is those hard choices have been avoided and we have ended up taking more fiscal risk. That was precisely the risk we warned about a year ago.

Maybe Professor McMahon will want to come in on the long-term issues. Then if Dr. Bergin wants to come in on Brexit, that would be helpful.

Professor Michael McMahon: I thank Mr. Barnes and Deputy Lahart. This relates somewhat to Deputy Durkan's point about taking action and when in the process you take it. As Mr. Barnes was pointing out, our mandate is to assess the overall fiscal stance. We know that. It is not currently in our remit to discuss whether the adjustments fall more on one generation than another but when you assess the current fiscal stance, it is important to know the direction of travel. When we published the first long-term sustainability report last year, what was striking as we went through the analysis, and what stood out in the report, was how if actions were deferred until they became very apparent and the glaring headlights were a couple of feet away, the actions that needed to be taken at that later point would be much larger and as, Mr. Barnes alluded to, fall on a generation of people who are 15 or 20 years down the road. We proposed - and this applies both to the ageing population and issues such as climate, on which much more work needs to be done - it is exactly right to have that longer-term view when making these assessments. Early actions that mitigate things can be taken and, as Deputy Durkan said, in some cases, it feels as though we should have taken early action years ago. We do not have that ability, but we do have the ability to start thinking about and making the changes now. That is the sense in our assessment of the proposed configuration of current spending, increases in investment and tax cuts being at the limit of what we think is prudent, especially when projecting further down the road, knowing that these hard choices will have to be made. That is the basis for why this focus on the long term is a really important one that we can do as part of our assessment of the macro aggregate fiscal stance.

Deputy John Lahart: I want to comment on the generational point.

Chairman: I ask Dr. Bergin to go ahead.

Dr. Adele Bergin: I was going to come in on the Deputy's question on Brexit. We have looked at this in more detail in some of our previous reports. It is important to note that the ultimate impact of Brexit is quite difficult to predict. Some research suggests that in the long run, Brexit may reduce the level of output in the economy by approximately 3%, but that is a long-run estimate and the Deputy's question probably refers more to the short run, which is difficult to predict. Trying to disentangle the data on Brexit impacts from those on Covid is especially challenging. In the report, the initial disruptions we had seen in the earlier part of the year have been mitigated, to some extent. There is also the possibility of challenges in some sectors occurring at the same time as opportunities for expansion in others. In our most recent report, there probably was not a huge amount on Brexit, but that is because the view has not changed. There was not a huge amount of new information on which to report.

Deputy Seán Canney: I thank the council for its attendance. Is it a case that Brexit has not hit us yet, in that many of the trade agreements are still in place and being kicked down the road a bit? Do the witnesses see, over the next year or two, a more dramatic change in our trading arrangements? We may be living with a false sense of security. When do they think the fiscal rules will come back into play and what impact will they have on our economy? How will the corporate tax changes being discussed reflect on our economy? The last question relates to inflation and the problems we have with increasing construction costs. While they may level out, they will not go back down. We also have a scarcity of skilled workers. How do the witnesses see that panning out in our quest to deliver housing and all that goes with that?

Mr. Sebastian Barnes: There were many very good questions. On Brexit, as deadlines get delayed and the new regime is not fully implemented, it may be that we are living in an unusual period, but, as Dr. Bergin said, it is hard to read the data, partly because Covid is going on and many other factors are distorting the numbers. There are many moving parts in the flow of trade, be it to the North, the UK or the Continent, and it is hard to read. That is why we did not say much about it. We are still carefully watching, but it is difficult to read.

On the EU fiscal rules, there is what is called the general escape clause, which the EU has said will likely apply until the end of next year. For the moment, the Commission is providing advice but it is not enforcing the rules as they stand. The existing rules should kick in at EU level at that point and, of course, the domestic rules also apply. One question is whether there will be a change to the rules. There is significant discussion about that. The European Commission has a consultation out. It is unclear what the direction of that is and whether anything will change.

One of our concerns is that the Government has not explained how the running of persistent deficits over several years is consistent with the EU fiscal rules. On the face of it, it does not look as though it is, but the Government should explain its strategy. There may be special circumstances related to the high-level investment Ireland is planning in the years ahead, but the current EU rules do not make any allowance for that. The Government needs to think about this and it may constrain its plans. It needs to make the case, if it wants to go ahead with what it is doing. It is a constraint, which was not addressed in the summer economic statement, SES. This is unfortunate, given these are the fiscal rules to which Ireland is committed.

The third aspect is corporation tax. There is significant discussion internationally and things may change, as a result. It is still very hard, even at a political level, to know what will happen, both internationally and in the US, which is obviously of major interest to Ireland. There are two main channels for the effect. One is a loss of corporation tax revenue. The Government is assuming a loss of €2 billion in its baseline. Our baseline is a bit higher. The kind of work we have done would suggest that with a more prudent approach, more than €3 billion, and potentially, an even bigger figure. The other effect is on the economy. Either some firms will with-draw from Ireland, which seems relative unlikely, or new firms will stop coming here, because it is viewed to be less attractive when some of the tax advantages have gone.

What is difficult is that revenue is concentrated around a small number of companies and the very detailed things one would only know if one was the tax director of one of these companies could have an impact on whether a company continues to pay tax here and it is very hard to predict. That is why we argue that Ireland needs to reduce its dependency on that, because there is significant risk. A lot of money is coming in from a small number of sources, which could change relatively fast.

There are big concerns around costs and capacity in construction. The Government, in Housing for All, has not really explained how it sees these issues playing out and how it sees the capacity in the sector developing. This has economic implications. If there was just a big run-up in costs in those sectors, that could be destabilising to the rest of the economy. It could also just reduce the value for money. There is no point just spending more money and having more demand for construction, if there is no more supply coming. These are things that need to be monitored, particularly as the scale of the investments becomes so large.

Deputy Ged Nash: Does the notion that we could end up losing €2 billion or, as far as Mr. Barnes is concerned in another assessment, €3 billion in corporation tax to the Exchequer, as a result of the OECD process, need some revision?

Mr. Sebastian Barnes: It is uncertain, so the distribution of risks has probably not changed that much. One notable aspect is that these tax revenues are coming in very strongly. The overall level is significantly higher than it was a few years ago, especially from the international sector. It might be thought, then, that some of the money coming in may well be money that is at risk. Perhaps, then, some of those risks have increased, but it is hard to tell and the only thing to do is to take a relatively prudent approach to this issue.

Deputy Ged Nash: That is fine. Is there potential to extrapolate, in as far as it is possible to establish this aspect, where this situation is going to land ultimately? I refer to the idea we may lose considerable revenue, as has been anticipated, because we are committed to signing up to Pillar 1 of the base erosion and profit shifting, BEPS, II process. If our minimum effective rate of corporate tax does ultimately go up to approximately 15%, or slightly higher, is there potential for us to lose on the swings and gain on the roundabouts in that overall context?

Mr. Sebastian Barnes: We have not done an assessment of a change in the rates. We usually look at the overall fiscal stance rather than specific rates, so I cannot give an answer to that query, unfortunately. It is a good question, though.

Deputy Ged Nash: I am interested in this aspect because, to the best of my recollection, the figure of a potential €2 billion loss, and possibly the figures Mr. Barnes has given, may have arisen from an assessment that was done before any statement concerning what might, potentially, be the new agreed minimum effective rate. Would Mr. Barnes agree that there is potential for us to lose some resources from Pillar 1, but that that loss may be balanced out and become a very different story in the context of gains in the context of the Pillar 2 experience, assuming, of course, that companies do not change their behaviour dramatically?

Mr. Sebastian Barnes: It is a complicated issue and that behavioural side is important. Also important is the interaction of several different things, including what happens in the United States. There are many moving parts in this situation. As I said, much of this corporate tax revenue comes from a small number of companies with specific situations. We have not done an analysis. The detailed analysis we have done is top down and based on looking at Ireland as an outlier in several areas and then assuming that revenues will come back to a more normal level in that regard. It is not, however, a detailed analysis of the scenario described by the Deputy. To my knowledge, no such detailed analysis has been published by the Government. It is a hard issue to quantify.

Deputy Ged Nash: The €2 billion figure has become received wisdom and it has not been challenged by anyone. That concerns me because we have not factored in any potential gains which may accrue from a marginally higher rate of corporate tax being applied. What I am hearing from Mr. Barnes is that IFAC has not done that assessment either. It may not have had the material available to allow it to arrive at a figure and I also appreciate there is no real clarity because we are not at the end of this process yet. That is my understanding of what Mr. Barnes is saying.

I have another question regarding tax. I do not believe any responsible person could stand over the ongoing feasibility of the three-card trick, as I have described it, where we can continue to invest in current and capital expenditure and cut taxes and not expect some difficult consequences to arise in that regard. That is the kind of stance Ministers had set themselves against, at least until recent articulations of Government policy. The Government has now stated it will continue to borrow and spend and invest in current and capital expenditure while cutting taxes at the same time. I am glad Mr. Barnes has drawn attention to that issue.

The presentation from IFAC and its style suggests it is advising the Government essentially to ditch its plan for tax cuts because it is not prudent if it intends to do all the other things it is politically committed to doing. Is that the message that is being repeated here? In the context of the spectrum of options and the information available, is IFAC advising the Government to avoid engaging in cutting tax at this sensitive time in our recovery?

Mr. Sebastian Barnes: The important thing is that the Government needs to make a choice. It is the elected Government, obviously, and it can decide which of those things is the most important. Looking at the discussion and the needs of the country, however, especially in areas such as housing and combating climate change, for example, which means investment is definitely a high priority in those areas, that raises a major question concerning the relevance of tax cuts in this current context.

Deputy Ged Nash: Given the poor level of general Government expenditure, the priority ought to be investment in the kinds of capital infrastructure projects we all agree should be prioritised. Turning to carbon budgeting, and while that does not necessarily involve the fiscal or Exchequer position, does IFAC have an input into that process? I ask that because, in truth, we cannot separate the carbon budgeting process from the fiscal process and the fiscal position overall.

Mr. Sebastian Barnes: The short answer is we do not have an input into that process. The areas of climate change and carbon budgeting are things, however, that we look and assess from the outside with great interest. Detailed assessments have been made in other countries of how they are going to meet their climate commitments in respect of the policies required and the resultant expected economic impact. I refer to the amount of investment, the shifts in employment patterns and specific changes in taxes that would follow. We would like such a detailed assessment to be done for Ireland. It is one of the things we hope we will get more information on in the climate action plan. That would then allow us to think more carefully about the fiscal implications of what will be major societal change with many impacts on the public finances. In that context, changes in areas such as carbon taxes may raise additional revenues. Additional expenditures, however, may also be required in the current form to compensate some of the people affected by some of the climate policies. In addition, major capital investment will be required and that will contribute to the kind of growth model we will have. There are many moving parts in this context.

The Office of Budget Responsibility, OBR, in the UK, for example, has done some good analysis in this area. It has, essentially, taken work done by the British climate body and translated that in a detailed way into its fiscal implications projections. It is one of the pieces of work that must be done and it is the kind of area where IFAC could have more of a role. At the very least, it is an area we will be considering very carefully because it could be one of the major factors in considerations of the public finances in the years ahead.

Deputy Ged Nash: That would be a useful evolution of the role of IFAC and important from a broad public policy perspective. In his opening statement, Mr. Barnes stated that to "To assess the risks, more information is needed on the Government's investment plans and the underlying economic assumptions, particularly in relation to the new national development plan". We expect the revised national development plan, NDP, will be published in the weeks to come. Will Mr. Barnes elaborate on the type of information IFAC needs to allow it to assess the impact of the NDP from a fiscal perspective? Will IFAC be publishing an assessment of the NDP from a fiscal perspective? I ask that question given the significance of the scale of resources that will be deployed over the duration of this ten-year plan. Is that IFAC's intention?

Mr. Sebastian Barnes: That is not the plan, but I expect that aspect to be covered in our next fiscal assessment report. It will be one of the major issues. Much additional information is required, but three types stand out. One is the need to have a clear idea of what the Government is planning to spend money on. For example, will more funds be allocated to construction, which would consequently push more resources to that sector, or will more money be spent on machinery for wind farms, etc., which is imported? Very different impacts would result for the domestic economy in each of those contexts. It would, therefore, be very useful to know that information. In economics jargon, different things will have different multipliers and we need to have that kind of information.

The second thing required is to understand the Government's economic analysis of how it thinks these projects are going to work. We can imagine some of them will generate revenue for the Government and the economy. Other projects may be more concerned with just limiting economic damage. That kind of assessment will help us to understand what fiscal impact will result from the flow of money associated with these investments. Value for money, of course, is also an issue in this regard.

We also need to know what the Government intends to do beyond 2025. Government investment up to the end of 2025 is currently set at 6% of national income and we have a large structural deficit. One scenario concerns Government thinking stemming from a view that there will be a surge in investment up to 2025 and that it will then be intended to bring the level of investment down to a new normal of something like 4% rather than 6%. However, if the Government intends to carry on investing at 6%, that has different implications for the public finances in the long term. We really need to know how it thinks about this increase in investment. Is it just a surge for five years or is this going to be the new normal for ten years or beyond? That is going to be a key piece of information.

Deputy Ged Nash: I thank Mr. Barnes.

Chairman: I thank Deputy Nash. As Deputy Healy-Rae is not available, I call Deputy Mairéad Farrell.

Deputy Mairéad Farrell: I have two questions. Deputy Pearse Doherty discussed the recovery scenario projections for the deficit for 2022. I wonder what the baseline projection for 2022 and beyond is.

Mr. Sebastian Barnes: As Dr. Casey explained earlier, one of the problems with the summer economic statements is that they did not set out what seemed to us to be an up-to-date baseline that reflected the two pieces of big news, one being the speed of the recovery and the second being the fiscal stimulus that was coming. That is why we developed that scenario. It is a relatively positive scenario that nothing really goes wrong and the economy returns fairly close to its trend, and continues to grow quite fast. We think that is a pretty reasonable baseline to think about. There are downside risks relative to that. It could be the impact of the pandemic is much more long-lasting than we thought, there could be bad news on the corporation tax side, and the risks to that scenario are probably either balanced or a bit on the downside. We do not have a separate baseline. It is a kind of working assumption but it is not necessarily a fully worked out view.

Deputy Mairéad Farrell: I have one other question. I am looking at the recovery scenario projections for 2022 in table A.1 and table A.2 of appendix A. With regard to the spending for 2022, there is almost €4 billion in the difference. If we compare the summer economic statement fiscal projections for 2022, the spending would be €109.983 billion and then, in table A. 2, for 2022, it is €106.183 billion. We are talking about nearly €3.8 billion. Will Mr. Barnes explain that difference?

Mr. Sebastian Barnes: I will pass that question to Dr. Casey, who has the report in front of him.

Deputy Mairéad Farrell: Sorry about that.

Mr. Sebastian Barnes: I do like the test format.

Dr. Eddie Casey: I love exams. Basically, where we adjusted the forecast was in regard to the extent of temporary Covid-related spending that we saw continuing into next year. In this recovery scenario, there is an assumption that we do not really need the same level of health spending on an emergency basis linked specifically to Covid. We might need other health spending related to, say, deferred treatments and things like that but, specifically related to Covid, it assumes those things would not materialise. Then, also related to other things like additional unemployment spending and additional expenditure on pandemic unemployment payments and the employment wage subsidy scheme, those types of things would have been much lower. A final thing was the buffers allocated to various Departments just in case there was a need for additional Covid spending there. If we look at the figures that were included for 2022, in the official projections there were lots of buffers included, right across the board, just in case a Department happened to again need additional funding to meet various stresses related to Covid. Our assumption for the recovery scenario was that a lot of this money would not really be necessary if the economy was to be basically opened up towards the end of this year and to continue without any further reintroduction of restrictions, or the like.

Deputy Mairéad Farrell: To follow on from that, for clarity, IFAC anticipates that the recovery will be stronger, and that is where that is from.

Dr. Eddie Casey: Exactly. Specifically, those temporary amounts that were set aside as contingencies for Covid are not really needed, or not to the same extent anyway, as they were set out in the official forecasts.

Deputy Mairéad Farrell: We all hope so.

Mr. Sebastian Barnes: To add to Dr. Casey's point, and I now have the tables open, if we look at spending in 2023, it is exactly the same. This is really a timing issue. We have to be careful with the notion about the strength of the recovery as it is really about the timing of the recovery. It is obviously a good thing if that happens earlier but we essentially get to the same point. From an economic perspective, the temporary measures over the past few years have been really important to the economy. When we think about the medium-term public finances, they are not so important because we essentially expect those measures to be unwound. There is a risk that some of that spending might become permanent, and that is a different issue. In a way, what is nice about some of these things is that we have these very big temporary measures and we get a very big deficit that supports the economy during the bad times, but when it is over, it is over, and we go back to the same path, basically.

Deputy Mairéad Farrell: That is very interesting. Thank you.

Deputy Kieran O'Donnell: I want to touch on a couple of points. Mr. Barnes spoke about the national development plan with Deputy Ged Nash. Will IFAC be doing a review of what the Government is proposing and expressing an opinion on it? What does Mr. Barnes want to see in the national development plan that would give IFAC comfort in terms of the policies being pursued around the catch-up we are doing on the public expenditure side and the capital side? It is peaking at 6% in coming years. What rate would IFAC like to see that normalised to over time? I have read the IFAC report and that is a feature. We are doing catch-up. We have come through a very difficult period since the crash in 2008 and with Covid and everything else. With everything now moving in terms of the green agenda, we have to restructure our infrastructure in those terms. Will Mr. Barnes deal with that because I would be interested to hear his thoughts?

Mr. Sebastian Barnes: In terms of the national development plan and the question of doing an explicit review of it, I do not think that is within our mandate and, obviously, there are many issues in there that are much more microeconomic than the ones the council deals with. However, it will be an input to our fiscal assessment report and our assessment of the fiscal stance. It will be important to understanding the economic forecasts, the budgetary forecasts and then our overall view of the public finances. Whether the national development plan provides us with comfort, as the Deputy suggested, or not will very much depend on what it says. That is why it is a very important input for our sense of the public finances.

One of the big questions we discussed earlier was what the Government's own view of the normalisation is. I do not think it is for us to say. There is little doubt that public investment will be higher on average in the future than it was if we go back a couple of years. To what level it should normalise, I do not really know, but it would be good to know what the Government's view of that is. The specific question of whether the normalisation ends in 2026 or how the Government is going to unwind this is an important issue because it is a big factor pushing on the economy. That is a big part of the information we are looking for. It is about the composition and it is about the economics of it as well. At the moment, we do not really have that information and it is legitimate that that should be in the national development plan.

Senator Kieran O'Donnell: Is Mr. Barnes looking for that? Obviously, if the capital investment is income generating for the State, that will give IFAC a lot more comfort than if it was not. Would that be fair comment?

Mr. Sebastian Barnes: That would be one of the factors and there are many factors. It obviously does make a big difference. There has been a lot of discussion internationally over the past few years about the benefits of higher public investment but it often does not take into account the fact that the impact on the public finances depends a lot on whether it is revenue generating. Some of it indirectly generates revenue through encouraging growth but other things might not have that benefit. The multipliers matter a lot. There are some forms that will feed back relatively quickly into the public finances because they are quite employment intensive, for example, but buying imported things is going to have a lot less impact. Of course, the NDP is about much more than just public investment. There is a broader vision of the economy, which will be important for growth and issues such as climate change. One of the things we need to understand is whether the measures in the NDP are going to meet the Government's own climate objectives. If there is a shortfall there that would suggest that maybe more spending is needed than is in the plan, then that would, of course, be a concern. If it is a plan consistent with delivering the Government's objectives, we would find that reassuring.

Deputy Kieran O'Donnell: I am not sure whether it has been touched on but I want to raise the new spending rule and the debt objective. I assume one of the areas Mr. Barnes is commenting on in that regard is that IFAC have been looking for a fully-balanced budget by 2025. The Government is looking to run a balanced budget on the current side but a deficit with respect to the capital side. Can an argument be made that with an economy such as Ireland's, which is doing such a catch-up on the capital side, we are by definition going to be running deficits on the capital side for a period? Is it a point of principle with the council? I just want to drill down and get the thought process behind it, in layman's terms.

Mr. Sebastian Barnes: The Deputy is absolutely right on the capital expenditure. That is one of the reasons we are interested in exactly how the capital is going to be done. That this is in large part capital spending makes a big difference. If the Government said it was going to run a deficit of this size just for everyday current spending, we would be much more concerned than we are when it is for public investment. As we say in the report, there is a strong case for public investment at the moment, both because there are big needs and because interest costs are low.

What is important is that other factors must be looked at. One is the capacity of the construction sector and the economy to deliver in a sustainable way these kinds of increases in investment and the deficit financing of it. The other one is, of course, the sustainable level of the public finances. Ireland enters this with a lot of debt. If public debt today was 50% of national income then we would be having a different conversation about this. The concern comes from the fact we start from a very high level of debt inherited not particularly from building up the capital stock but from the pandemic-----

Deputy Kieran O'Donnell: Yes, and the banks.

Mr. Sebastian Barnes: -----and from the banking crisis and its consequences. Thus there is an underlying need to get debt down. That weighs against the argument for deficit financing. There is nothing particularly magical about a balanced budget but what is important is to put it on a sustainable path where, over a reasonable time, it will come down to a safer level. That was part of the plan in the SPU and it no longer is. That is our concern. My colleagues may want to come in there.

Deputy Kieran O'Donnell: I wish to develop that. Let us say the NDP is published and it gives a certain reassurance about meeting the objectives on the green agenda, that is, the Government's own agenda, and that those are revenue generating. What would IFAC like to see then by way of a trajectory to bring the national debt down and get us to a point where we have a balanced budget overall? Has the council thought about that? I am drilling down but I wish to hear members' view on that.

Mr. Sebastian Barnes: One way of answering that question is that we were much more comfortable with the plan the SPU had. The plan was to achieve budget balance by 2025. That would have led to the debt ratio falling fairly steadily by the end of the forecast period and would have put us on a trajectory such that when we next meet a downturn - and we know these things tend to happen every eight to ten years - then public debt would be at a substantially lower level. That is the kind of programme we were much more comfortable with. That said, there are choices to be made around that and there is no exact science as to whether that path is the perfect one. However, that path was definitely less risky and would have been a much more prudent path for the public finances and for sustaining the economy and the finances in the years ahead.

Deputy Kieran O'Donnell: I will conclude by asking IFAC what the current Government has got right and got wrong on the economy and market side during the pandemic. In what areas must there be improvement? This is to give us an overall perspective. Brexit looms in the background all the time. Covid has been, dare I say it, a dense presence for the past two years and, hopefully, will become less dense as we go on. Mr. Barnes might give us his overall perspective on that.

Mr. Sebastian Barnes: To give a slightly longer-term perspective, we went into the pandemic in a glass half full and half empty situation. On the one hand, we had achieved two years of budget balance, which was welcome. On the other, had the Government stuck to its earlier plans, that would have been achieved earlier and we would have gone in from a stronger position.

There can be little doubt the management of the crisis has been very effective from an economic point of view. The economy took an extraordinary hit in terms of the level of activity falling, everyone having to stay at home and most places being shut. It was quite incredible. The government supports mobilised in Ireland and other places have helped the economy through that period in an effective way. It is exactly the kind of countercyclical policy governments should run when the economy gets into trouble. The Government also did a good job with the contingencies it put in place, both for Brexit and Covid. Those also helped from a budgetary planning perspective so that even as some supports had to be extended, it was not moving the headline numbers, because the Government had made allowances. That is a good strategy and one the council recommended. It was good that is was pursued. We are now in a different environment and people must understand that in a crisis it is possible, for a short time, to run generous supports for the economy and large deficits but that cannot carry on into normal times.

As we come back to normal times we must think beyond that and that is why we have the concerns in the report. We must make kind of hard choices and those choices are being avoided with a strategy that involves this big catch-up in investment, the additional current spending and the desire to cut taxes all at the same time.

Deputy Michael Healy-Rae: I thank Mr. Barnes and the other guests for their presentation and replies so far. When we are talking about financial prudence, planning, strategies and where exactly we are going, one of the biggest issues I can see for business, budgets and everything is surety of energy supplies for our country. If we do not have power, everything grinds to a halt. There is an enormous cost being placed on people at the moment because of the ever-increasing cost of energy. This is having a real distorting effect on our economy. Every economic commentator will tell us the way things have changed so much in the past 18 months with the costs of our basic energy needs. It is frightening and we might ask where it is going to stop. The next thing then is surety of supply and whether we are going to have uninterrupted power for the next three or four months. Even if we get over this winter, will we have an assured energy supply next winter? We must look at the Government's decisions to date and think about what we are doing here.

Over the past number of days we have had the news breaking that 200 lorryloads of peat have been imported from Latvia because we have shut down Bord na Móna. It might seem like a small issue but it is a really big issue. The importation of peat briquettes from Germany goes on unabated as we have closed our peat briquette-making factory. Returning to the matter of surety of supply, the Government is now faced with a scenario where the Minister for the Environment, Climate and Communications, Deputy Eamon Ryan, is finally conceding we will need to hire generators that use gas. This is going to cost an awful lot of money. It is going to be very bad for our environment. We must look at what the Government decided to do. To make us look good, it shut down our power plants. The result of that is we are bringing in generators to ensure the lights do not go out and that everybody who is so concerned about everything in the environment will have some way to charge their phones and boil the kettle. The general transition probably will not work, ultimately, and we will just have to buy the power from France and England, which produce it with nuclear power stations. We know what is happening in China, which is building hundreds of coal-burning power stations. This type of policy will not do our economic credibility any good, including among people wanting to come here, like we have heard, including the Intels of the world, and their take on what our Government has done. The reality of decisions taken over the last 12 months is starting to bite us. From an economic perspective and a good economist's point of view, how are we looking to the world and to the rest of Europe because of what is happening to us? If the lights go out in Ireland, that will be one of the worst financial damnations that could happen to us because it would show us up as having made really poor political decisions and having left ourselves extremely vulnerable to every type of financial market. What will be the result for our industry if we cannot be sure that we can pump petrol and that we can keep computers turned on? If we have a debate here today on anything to do with budgets or finances without discussing the result of what this Government of the Green Party, Fianna Fáil and Fine Gael has done, we will be ignoring the elephant in the room.

Mr. Sebastian Barnes: I agree with the Deputy that there is a complex situation with energy supply nationally. It is driven by a number of things. One relates to the impact of climate change and the policies that have been put in place for that transition. That is why the climate action plan is extremely important. The stakes are high, both with regard to safeguarding the climate and also the potential economic impacts. The costs of doing the wrong things will make that situation worse. That is why the climate action plan is important both from an economic and fiscal perspective. None of us on the council is an expert on these issues. Perhaps Dr. Bergin is - I do not know. This is not really our area of expertise but it is something we follow closely because it is important. There are some big risks associated with it and some big costs on the baseline. These are important issues and things that we will look at increasingly carefully.

To the council's credit, two years ago, our annual conference was on fiscal policy and climate. When we first set it up, it looked like we were maybe ahead of the curve and maybe not many people were thinking about the question. We learned a lot from that and it underlined how important these issues are. It has prepared us to look at them. One of the problems is that other problems are being dealt with at the same time. At the same time as climate change, there is also population ageing and other issues. Many things affect public finances, which is why good planning is so critical. If you try to fix one problem without thinking about how it interacts with other things, which the Deputy gave examples of, we could end up making some bad decisions.

Chairman: Has Deputy Healy-Rae any further questions?

Deputy Michael Healy-Rae: No, but I think it is a sobering thought and it shows that the Government really did not think this through. It took decisions without realising the consequences of what it was doing. It is a bad start for our aims and ambitions with regard to climate action if one of the first things to happen is that we cannot guarantee energy supplies in this country. The credibility of everything will be thrown into doubt and we will have to look seriously at what we propose to do in the future. I do not think that the people will go along with giving the Government a blank cheque of support if they see that a result of this will be chaos in the markets and in their work and home lives if they cannot be guaranteed an energy supply. One can look at simple things that have happened such as peat being imported from Latvia after people in Bord na Móna have had their jobs and way of life shut down. Bord na Móna played an integral role in Irish society. The result is now that the jobs are in Latvia, the briquettes are made in Germany, they are sent to us here and everything is fine. It is crazy. If you stand back from it and think about it, it would be laughable if it was not so serious. I am not laughing at it and nobody else is as far as I can see.

Deputy Patricia Ryan: I welcome the witnesses and thank them for their time and input. I have a question for Ms Holland. Last year, I read with interest her paper on the economic implications of climate change mitigation policies. I am concerned about spending money on carbon credits. I feel that it would be better spent by putting it in the hands of homeowners and small businesses, enabling them to install renewable energy infrastructure such as solar panels or heat pumps. I feel this would drive the economy and activity, reduce carbon emissions, put money back in people's pockets and increase their disposable income. What is Ms Holland's view on this approach versus the current approach of buying carbon credits or subsidising massive wind farms which are not producing as much energy at the right time as one would expect?

Ms Dawn Holland: I thank the Deputy for the question. She raises some important issues. In designing a climate policy, there are many different channels that can be used as policy instruments. I cannot say I am an expert on the individual types of policies that the Deputy is proposing or the trade-offs that would arise. I have looked at the different ways that climate policies can be designed. For example, if there is a tax on carbon, how you spend that revenue has different impacts. Where is that going to be put in the spending programme? Is it being used as a new revenue source or to pay off debt? Is it being channelled into energy efficiency research and energy efficient technology which would help to speed up the transition process? Will it be channelled into social protection to offset the costs that might be borne by some of the more vulnerable households in society? There are many policy trade-offs. It is not necessarily the council's role to identify the appropriate policy mix. We look forward to hearing the details of those proposals in the climate action plan.

Deputy Patricia Ryan: So do I. Some risks associated with increased capital expenditure have been outlined. What course of action would the witnesses suggest as part of the budget to mitigate these risks? Will they outline if these concerns extend to increased spending on public housing or land for public and affordable housing?

Mr. Sebastian Barnes: That is a good question about the risk, given the amount of money involved. There are several parts to this. One is understanding exactly what the Government is planning and how it sees this fitting together. The economics of this would be helpful. We have a list of policies but we do not know what the baseline is. That would help us to understand what the risks are and what assumptions are being made that may or may not come true, but for these kinds of things we cannot do that assessment.

Second, and this, perhaps, matters less in the short term, but as investment increases the Government will need to continue to monitor it. At some point, it may wish to draw back a little and, having tested it, take the decision that it cannot continue at a particular speed limit and that a plan B and a slower pace may be required. We understand the urgency of the needs but if the economy cannot deliver that, there is no point pumping in money. That is not going to work.

Third, as mentioned earlier by Dr. Casey, the IMF has pointed to a number of areas in Ireland where the management of public investment in the past has not been particularly strong. We can all think of prominent examples of that from recent years. There are a number of institutional changes at the core of the council's expertise. There are a number of areas where it can move to international best practice in terms of cost benefit analysis and the way that things are improved. We are talking about a great deal of money and it is important that value for money is delivered.

Deputy Patricia Ryan: Thank you.

Chairman: I will allow members who wish to come back in to do so in a few minutes. As everybody is attending remotely, I ask members who wish to speak to display the hand symbol on their screens. First, I wish to ask a couple of questions specifically around a thorny issue that we come up against in the committee all of the time, that is, what is good medium-term budgetary planning and what does that look like, and in regard to access to data and planning for demographic change. Does IFAC consider access in this country to demographic data and disaggregated data in terms of health and the make-up of our communities is on par with other countries? Is it an adequate methodology for IFAC to engage in meaningful medium to long-term fiscal planning?

Mr. Sebastian Barnes: I will make two points. On the point of medium-term planning in general, one of the extremely encouraging things about the SES was the move to the existing level of service basis for current expenditure. As we have discussed in the past, in previous budgetary exercises, Government spending plans were not sufficient to even provide the current level of spending, taking into account inflation and demographics. We said that was incredible and we were very critical of it. That has been largely addressed through the existing level of service. This is very close to what the council calls a standstill. That is important because it gives one an idea of what the public finances will look like over the next few years, instead of some arbitrary set of numbers. It could also be very important for medium-term planning because that could then feed into the expenditure ceiling. Since 2013, there have been expenditure ceilings in Ireland. These are multi-year ceilings at departmental level for spending. The problem is that every year they are revised. That happens because the overall level of spending in the forecast was too low and, consequently, that trickled down to the expenditure ceilings, which were too low, and so they were revised up as we moved towards reality. This is potentially very useful because with the right top-down expenditure, forecasts like that translate into the ceilings and those can now be kept fixed. There is no reason they should change. That is good in terms of understanding what is happening to the public finances, but it also might be helpful to people in terms of the thinking about how to make the best of that money rather than them always being in a process of just thinking about how they can get their budget up in the following year. There are encouraging signs in relation to medium-term budgetary planning, but the proof of that pudding will be in the eating.

On access to data, this is an issue on which I can only comment in the context of the council. The OECD review of the council from February recommended that the council should have a statutory right to information. As of today, the council has no right to information. We rely on the goodwill of the Government. The Department of Finance provides us with the information that we need. We have a good relationship with that Department, but it does not always have all of the information we ask for - some of it may not even exist - and sometimes getting it takes time. It is not a perfect process but it works. We find that much more difficult in relation to other areas of government. For example, in regard to health, it is very difficult for us to understand what is happening there. We know there have been massive overruns in the pre-Covid period but we cannot understand that because we do not have access to that information. There are some issues on the Revenue side and in all areas of government. As the investment programme ramps up, that may also become more of an issue. The OECD recommended that the council should have a statutory right to information. That would change the nature of the dialogue we have with the Government, with a presumption that if we make reasonable requests for information we would be provided with it in a timely way. We do think that is important. I can only speak for the council. It may be a wider issue.

Chairman: I thank Mr. Barnes for that interesting response. When it comes to health, it is possible some of that data is not collated and as such it does not exist. This is going to be an issue going forward. I am interested in Mr. Barnes's first point around meeting the core spending. I noted in last year's budget, for the first time, that the mental health allocation was divided into spend for current services and spend for implementation of new programmes. It was incredibly useful for the mental health sector to be able to see how that would play out. In the application of new programmes such as Sláintecare it would seem very important to disaggregate current spending and new programmes spend. I hope to see more of that in the coming budget.

I commend IFAC on its report. It is a fascinating read. Towards the end of it, there is reference to higher investment, addressing priorities and how that might be costly. In terms of economic oversight and fiscal planning, I take the point around capital investment and public spend on particular investment programmes or infrastructure. I am mindful of the NDP, hopefully, being published soon. From a climate perspective, is that a challenge for the witnesses, or is it something that you are mindful of, when it comes to forecasting requirements in terms of the economic outcomes of particular capital investments? There may also be a requirement for economic forecasting on the lack of investment or the failure to do something. I am thinking specifically of not just the physical impacts of climate change, for example, where we are seeing water infrastructure that is beginning to fall apart and has a knock-on cost to our health system or, perhaps, inward investment which may see our infrastructure as not fit for purpose, but also global policy changes and the expectation that Ireland would meet them. IFAC has included the cost of investment in its report. How difficult is it for it to include in these types of reports the cost of not investing?

Mr. Sebastian Barnes: Those are excellent points. The point made by the Chairman with regard to a distinction between new spend and what is needed for the current spending is really important. It is important for the public to understand that, otherwise it can appear that the Government has allocated billions of euro in extra funding to a particular area and lead the public to wonder why a particular public service is not getting any better. If that is essentially just the money that is needed to pay the wages as they go up for the same people or to reflect higher demographics, people need to understand that distinction between the ongoing costs and new spend. That is an important distinction.

The Chairman makes a very good point in terms of climate and some of the housing issues. On the one hand, we need to understand how it meets the Government's objectives, but that is not very clearly spelled out. We are not really in a position to assess that but we would like to know Government thinking on that so that we can understand the risks around it. On the other hand, we need to see a joined up approach to thinking on these subjects. For example, in the housing area, one of the things that the Government spends a lot of money on is housing supports. As rents go up in the private sector, that means more people need that help and it becomes more costly to provide. There is a great deal of feedback going on the public finances and housing costs, housing generally and, as mentioned by the Chairman, climate and health and many other factors. These are very good parts of economic planning, some of which would help us to understand the fiscal implications and many of which will help to understand the policies more generally. Professor McMahon might want to come in on this too.

Professor Michael McMahon: I was going to make a similar point to the one just made by Mr. Barnes. The Chair's question is a very good one. It is complex and I do not want to sound like a broken record, but this is where the detail matters a lot. An example that Mr. Barnes alluded to is social housing spending versus having the houses and the links with health. It is difficult without the detail to be able to say anything. For example, some investment plans have large ongoing maintenance associated with them whereas others do not, so it is not just about thinking about the benefits of not investing; it is also the fiscal costs of investing and not investing. The point is well made but, without detail, it is almost impossible to even guess at what the interaction between these complex things are.

Chairman: I thank Professor McMahon. I do not see any hands up, so I thank Mr. Barnes, Dr. Bergin, Mr. Giustiniani, Professor McMahon, Ms Holland and Dr. Casey for their attendance today and for their assistance to the committee. I thank them for their report. It has been useful. In the coming weeks it will be especially useful for all of us to have heard from them today. I thank the witnesses for their time.

The committee's next meeting is in public session tomorrow to discuss pre-budget 2022 scrutiny with the Minister for Finance. I thank everybody.

The select committee adjourned at 5.12 p.m. until 2 p.m. on Thursday, 23 September 2021.