

DÁIL ÉIREANN

AN ROGHCHOISTE UM FHORMHAOIRSIÚ BUISÉID

COMMITTEE ON BUDGETARY OVERSIGHT

Dé Céadaoin, 4 Bealtaine 2022

Wednesday, 4 May 2022

Tháinig an Roghchoiste le chéile ag 5.30 p.m.

The Select Committee met at 5.30 p.m.

Comhaltaí a bhí i láthair/Members present:

Teachtaí Dála/Deputies	
Richard Boyd Barrett,	
Seán Canney,	
Pearse Doherty,	
Bernard J. Durkan,	
Mairéad Farrell,	
Michael Healy-Rae,	
Aindrias Moynihan,	
Patricia Ryan.	

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

Stability Programme Update 2022: Minister for Finance

Chairman: Members and all those who are in attendance are asked to exercise personal responsibility in protecting themselves and others from the risk of contracting Covid-19. They are strongly advised to practise good hand hygiene and to leave at least one vacant seat between themselves and others attending. They should always maintain an appropriate level of social distance during and after the meeting. Masks, preferably of a medical grade, should be worn at all times during the meeting, except when speaking. I ask for full co-operation in this.

Before we begin, I wish to explain some limitations to parliamentary privilege and the practice of the Houses as regards references witnesses may make to other persons in their evidence. The evidence by witnesses who are physically present or by those who give evidence from within the parliamentary precincts is protected pursuant to both the Constitution and statute by absolute privilege. Witnesses are 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 with regard to an identifiable person or entity, they will be directed to discontinue their remarks. It is imperative they comply with any such direction.

Members 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 members must be physically present within the confines of the place which Parliament has chosen to sit, namely, Leinster House, in order to participate in public meetings. I will not permit a member to participate where he or she is 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 welcome the Minister for Finance, Deputy Paschal Donohoe, and Mr. John McCarthy, chief economist at the Department of Finance. I thank them for being here today. The stability programme update, SPU, report was published in April by the Department of Finance and it sets out current economic and fiscal outlook, Ireland's medium-term strategy and emerging economic risks. This committee has recently undertaken its own pre-SPU scrutiny and welcomes the opportunity to engage with the Minister on these matters. I invite him now to make an opening statement.

Minister for Finance (Deputy Paschal Donohoe): I thank the committee for the opportunity to be here to discuss and present the stability programme update to it. This document sets out the Government's macroeconomic and budgetary forecasts out to 2025. It was published in draft form on 13 April and in accordance with our legal requirements, the final version was submitted to European authorities on 29 April. I stress that forecasts outlined in the SPU are produced on a purely technical basis, reflecting existing Government policies, but they allow for the inclusion of new expenditure to provide for the resettling of refugees from Ukraine.

Policy formulation will take place over the summer months, with the summer economic statement setting out the broad economic and fiscal parameters for the budget. As well as the summer economic statement, we will also have the national economic dialogue in June and the tax strategy group meeting, both of which will facilitate a constructive discussion amongst a range of stakeholders on the key socioeconomic issues facing our country. All of this will feed

into preparation of the budget next October.

At the start of the year, we took a very significant step forward with the removal of Covid-related restrictions and, for the briefest of moments, it seemed the Irish economy and other economies were starting to return to a degree of normality. Shortly afterwards, however, this outlook was upended, as a deeply serious new crisis arose with Russia's unlawful and immoral invasion of Ukraine. The Russian invasion of Ukraine is, first and foremost, a humanitarian crisis. Along with the unjust loss of life, millions of people have been forced to flee their homeland; over 5.3 million people have left Ukraine at this point, with a further 7.7 million displaced within the country. We firmly recognise this humanitarian crisis but I hope the committee understands that the document and forecasts being discussed this evening focus on the economic consequences of what is a humanitarian crisis in the first instance. We look at the economic effects of this war and the further effects due to the economic and financial sanctions that have been put in place. All of this represents a very large supply-side shock to the global economy but it is fair to say the European Union is at the coalface of this change.

The impact from the war in Ukraine represents the most immediate risk to our economy but we cannot lose sight of the other challenges on the horizon, particularly the ongoing threat that Brexit poses. The UK Government's decision to postpone the further implementation of import controls means that the full impact of Brexit will not be evident immediately. This will not, however, lessen the impact on the Irish economy over time.

The economic consequences of the war in Ukraine are rippling out across the global economy. According to the latest International Monetary Fund, IMF, forecasts, the war in Ukraine is expected to wipe close to 1 percentage point off global growth this year. Ireland's direct trade links with both Russia and Ukraine are very small but we are nevertheless highly exposed to the indirect effect arising from the conflict and we are already seeing the fallout from the war. This is perhaps most evident in consumer price inflation, which has risen sharply, reaching a many-decade high of 7.3% in April. My Department expects inflation to peak in the second quarter before easing slightly over the rest of the year. We, along with others, anticipate a significant easing in inflation growth next year, with the headline rate projected to average 3% for 2023.

Taking all of this into account, my Department has incorporated a 2.25 percentage point reduction in its growth forecast since the time of the budget. We are now projecting modified domestic demand growth this year of 4.25%. These projections are based on current market expectations regarding oil and gas prices and, as members will be aware, prices can fluctuate, both upwards and downwards.

The Government recognises the real hardship rising prices create for households across this country. We responded swiftly to provide support where we can with a wide range of tax and expenditure measures worth more than €2 billion. On top of the €1 billion in measures announced in budget 2022, there have been three further cost-of-living packages. These includes the latest measures agreed recently at Cabinet, which are an additional three weeks payment of the fuel allowance, a temporary reduction in VAT on gas and electricity, the scrapping of the public service obligation levy which is placed on energy bills and an extension of the reduction in excise duty to mid-October, as announced last month. Ultimately, however, the causes of current inflationary pressures are not within our control. There is a limit to what the Government can do to offset rising energy costs. We can absolutely help to share the burden, but we cannot absorb it in its entirety.

On a positive note, employment growth surprised on the upside, increasing by more than

we expected through the past year or so. The number in employment is now at its highest level - 2.4 million people - ever. The rapid recovery in the jobs market is due in no small part to the various measures the Government put in place to support workers during the pandemic, most notably the employment wage subsidy scheme. These measures helped to maintain the employer-employee link that is so important. With the pandemic, it is hoped, now running out of road, we are now in the final phase of exiting from that emergency support scheme.

Overall, allowing for all these factors, my Department is now forecasting a general government deficit of €1.9 billion for the year. We will have run deficits of €30 billion overall since the start of 2020. We have an expenditure ceiling in place of €85.6 billion for 2023, providing for a 5% in core or non-Covid expenditure next year. An additional contingency fund of €3 billion is in place for next year to address the humanitarian consequences of the Ukrainian conflict. Combining all these elements, we are currently forecasting a marginal surplus next year of 0.5% of national income, or approximately €1 billion. These figures come with a massive caveat, however. There is a very high level of uncertainty in respect of the situation in Ukraine, how it might evolve in the coming months and how it could impact on the public finances.

In addition, it is essential to make the point that public debt still remains high, at just over €235 billion this year, and is a source of vulnerability that must be managed carefully. I also stress that borrowing costs are now on a rising trajectory. The interest rate on ten-year debt for the country has increased by one percentage point in just two months. The rate of interest on recent Government debt exceeded 1.6% on each of the past three days, for example. Overall, it is clear that the era of quantitative easing is coming to an end. The period of extraordinary support that was put in place by central banks across the world during Covid is now concluding. The era in which Governments were, in essence, paid to allow other financial markets' companies to accept their debt is now coming to an end. We need to recognise that and plan for it in the period ahead. The key point is that this will highlight and underline the importance of managing our public finances in a careful way.

The committee will agree that the Irish people have shown great resilience during the pandemic. Unfortunately, yet again we will have to display resilience in the face of new challenges. I emphasise that the Government will continue to work to minimise the fallout for those who have the least as we deal with the challenge of rising prices, for example, and what that means for the standard of living. It must be re-emphasised that we will do that in an environment where the only money we have is that which we collect in taxes and that which we borrow to use now and repay in future. As always, the resources the Government has are limited. We will share and we will do all we can to help with the challenge that many are facing at the moment but we cannot entirely insulate the economy, businesses or even households from the change that is taking place. With that in mind, I look forward to a fruitful and constructive exchange of views on the economic and budgetary outlook. I will take into account the views of members.

Deputy Mairéad Farrell: I thank the Minister for coming before the committee. As the Chairman outlined, the committee has been considering this issue. The Parliamentary Budget Office delivered an excellent and interesting briefing. As the Minister outlined, we are and have been living in extraordinary times, with Covid and now the invasion of Ukraine. Of course, that means it can be difficult to predict what may be coming down the tracks. My questions largely relate to the view of the Minister in respect of some of those issues. Obviously, some of it is difficult to predict but I am interested to tease it out and hear his views.

The forecast in the stability programme update assumes that sanctions will remain as they were at the time of publication. Obviously, those sanctions do not include energy products.

There is a scenario analysis, but it does not include fiscal-side analysis. I understand that things are constantly changing. It can be very difficult to analyse what might happen as a result. Of course, all present are aware of the recent remarks of Ursula von der Leyen in the context of oil and sanctions. There has been much discussion regarding sanctions. What impact could that have? Is it the intention of the Minister to conduct that kind of analysis now that we are seeing this most recent development?

Deputy Paschal Donohoe: I thank the Deputy for her questions. What we have attempted to do is to capture some of these scenarios in chapter 6 of the stability programme update. As she correctly stated, it is incredibly difficult to model how the war will develop and what could be the policy decisions that are taken by the rest of the world in response. However, I believed that to publish an economic forecast for Ireland that did not acknowledge this uncertainty but tried to give figures in this regard would be an incomplete piece of work to offer to the Oireachtas and the European Commission. What we have done in chapter 6 is give our best judgment in this regard. We have tried to model what will be the effect in our economy if we see a movement in oil by a further 50% and a movement in the price of gas by a further 75% across 2022 and 2023. In terms of the impact that would have on the economy overall, from a fiscal point of view, our analysis is that, at a bare minimum, it would wipe out in its entirety the moderate surplus we have projected for next year. From an inflation point of view, we expect to see an increase for the year in which the further shock may happen of approximately two further points of inflation growth. We expect the impact that would have on the growth performance of the economy would be a further one to two points in terms of the medium-term growth performance of the economy. The forecast is for there to be two points in inflation, the surplus to go in its entirety and an impact on our growth of somewhere between one and two points but I emphasise to Deputy Farrell that there is a great deal of uncertainty around that.

Deputy Mairéad Farrell: Of course, that is the difficulty at present. This time last year we could not have predicted that we would be in this scenario. Indeed, we had other issues that we could not predict at that point that we were living through.

In relation to the upward revision of GDP forecast, I note that it is largely driven by exports and at the same time there is concern in relation to consumer spending falling. The SMEs were badly hit with Covid-19, particularly those that had to remain closed as a result of the pandemic restrictions. It seems that drop in the forecast of consumer spending could hit SMEs. How will that impact SMEs and what are the Minister's view in that regard?

Deputy Paschal Donohoe: If we look at the consumption forecast, overall we are still expecting consumption in our economy to grow but, as Deputy Farrell noted, at a slower pace than would have been the case in the absence of this war. We are still expecting consumption growth, albeit at a slower pace.

To deal with Deputy Farrell's question on the SME impact and what that will look like, the reason we put in place such an extraordinary set of economy supports is to give every chance to every enterprise that was viable before the pandemic hit to still be viable and to be able to trade successfully when the pandemic and the effect of the pandemic had moderated within our economy. It is incredibly difficult to form a forecast regarding what will be the impact on the viability of SMEs later on in the year as our economic supports finally go in a few weeks' time because of all of the other change happening our economy at the same time. We expect to go back to a normal level of insolvency, which has been suppressed for a while, but what we have done is twofold. We have, first, run the supports for longer than many would have expected and, second, as Deputy Farrell will be aware, the Minister of State in the Department of En-

terprise, Trade and Employment, Deputy Troy, has brought in two changes to insolvency and examinership procedures to help smaller companies to have a better chance to emerge from a period of economic and financial difficulty, for which that Department legislated at the end of last year.

It is encouraging to see the CSO figures that came out today stating that 84% of firms have come through the pandemic and are trading viably. What we will do as we approach the budget, because at that point we will have had a number of months in which the supports have not been in place, is to try to give a clearer view at that point regarding what is the impact on the viability of SMEs due to the withdrawal of the supports. I am hopeful that it will be a low impact because of how long we have run the supports but, obviously, I cannot guarantee that.

Deputy Mairéad Farrell: I am not sure how much time I have left. I have one question anyway and if I have time for another question, I will ask it.

Chairman: Deputy Farrell has two minutes. The Deputy is okay to keep going.

Deputy Mairéad Farrell: I will ask two questions quickly.

It seems there has not been a change in the estimate of the impact of global tax reform on the level of corporation tax receipts from the medium-term fiscal strategy from January 2020. Given the change in the international tax environment, will there be a difference in what is set out in the stability programme update, SPU?

My other question is on the Ukraine humanitarian contingency of €3 billion. It is only made for 2023 but I assume an analysis has been done as to cost. Obviously, we do not know what will happen with the war. I am not saying anybody can predict exactly, but has there been analysis done as to the further cost and, if so, can we be given detail on that?

Deputy Paschal Donohoe: We have not done anything significant yet to model beyond 2023 because of all of the different factors that could drive the need for us to support people who are coming to our country looking for humanitarian support. Even doing it for next year was a difficult process in terms of trying to form a view on that because of all of the different sources of uncertainty on who will come to our country, how long they will stay here for, their ability and on the many economic, medical and accommodation needs they will have.

On the corporation tax forecast, Deputy Farrell is correct to say we have not revised our corporation tax forecast for next year due to the OECD changes that are happening. The reason we have not changed them is that I currently do not have a reason to do so. We will see in the next few weeks or, at most, months what agreement is reached in the European Union regarding the implementation of the minimum effective tax directive and by the summer we will know the status of the other pillar in the OECD work on the reallocation of taxing rights. It is only when we are clear on where we are with the directive and on whether the other piece of work will be delivered next year that there will be a reason to change the corporation tax forecast for 2023. At present, those issues are not any clearer than they were when we did our previous economic forecast.

Deputy Bernard J. Durkan: I listened carefully to what the Minister had to say. It is difficult to predict. We live in unsettled and unsettling times. We do not know where the war will go and how it will affect us, or whether it will or will not to a greater extent.

There are, however, some positive signs. Everybody is hiring at present. Everybody is

looking for employees. I am sure some of the refugees will be available to take up work. They may not be permanent but they will be here initially. Might it be wise to take into account the vast number of workplace spaces that are available and cannot be filled in the private sector, where all kinds of manufacturing and service industries looking for options at present? How can we harness that to benefit the economy? I suggest a smoother, easier and simpler system of encouraging those who are anxious to bring new people into the economy to work from wherever in the short term, and that that could be factored in with a view to identifying the extent to which we can be positive, if at all possible, in the climate in which we find ourselves now.

Deputy Paschal Donohoe: I thank Deputy Durkan. If one looks at where we are now with the stability programme update, we are in the early days, I hope, of the Covid pandemic not being the health threat that it has been for the past two years. We have more people working in Ireland than we have ever had previously. We have public finances that, for this year, are projecting a deficit of less than 1% of our national income or, in cash terms, €2 billion. The recovery of our economy, of our jobs and our public finances from the pandemic has been remarkable. A significant contributor to that has been the strength of the economic supports that we had in place, their duration and their design. As I look at the time ahead and the point Deputy Durkan made regarding the health of our jobs market at present, that is probably the main reason we are still projecting, with everything that is going on around our country, a growth rate of just over 4%. Given the circumstances we are in that is a very healthy growth performance for our economy overall. It may well be lower than the figures we have enjoyed and delivered before Covid hit but in relative terms, when compared with other countries within the EU and some of our neighbours, it is a strong performance. If we are able to avoid some of the further economic risks and difficulties this report outlines and says could happen - we try to say what impact that could have on our growth - it is still possible that for this year and next year, we will see more people working than we have before and we will have public finances that will improve and give us the ability to make some progress on all of the other issues our country wants to see progress on. One of the key drivers of that is the strength in employment and the ability for the number of people at work to still grow this year and next year. It is very positive to have that in place but we cannot take it for granted and certainly as we approach the budget we will look at what measures and choices we must make from a budgetary point of view that will help us continue that jobs-led recovery into 2023.

Deputy Bernard J. Durkan: I thank the Minister. I have one other question. I happened to go on a tour across the centre of the country to the western seaboard over Easter. I was amazed at the heavy vehicular traffic on the road in both directions. It would appear manufacturing and exporting is growing and holding its own. How can we facilitate that? For instance, there is a dearth of heavy truck drivers at the present time. There is a necessity to clear the way for them. There are people available to join the industry. We need to try to clear the way. I am aware the Minister is not directly responsible but other Departments are and can facilitate the expeditious delivery of produce all over and outside the country. We need more drivers. We need more operatives in the construction sector and we need them urgently. Every week we delay now will contribute to making it more difficult to achieve the targets the Minister has set out. I agree they are a great example of how to run the economy in difficult times and at the same time keep the majority of people at work or at least available to come back to work.

The last point is there a dearth of a number of products worldwide at present, with micro-chips being one example. We, therefore, need to give whatever assistance we can in the form of whatever it is they need now to improve their operating conditions to ensure those in this country can meet the challenges ahead in the best way possible.

I congratulate the Minister on having achieved so much in very difficult circumstances. It would have been easy to throw in the towel and say we will do the best we can but we will await the outcome. The Government did very well. Everybody pulled their weight and made sure the maximum assistance was available to employers and employees to the greatest extent possible in order to keep the country turning over. It is a matter for the county to take up the cudgels on its own behalf with a view to utilising every possible resource available to meet the challenges ahead.

Deputy Paschal Donohoe: I thank the Deputy. We all just tried to play our part during what was an awfully challenging and difficult two years. I remember being in this committee and releasing previous stability programme updates at a time in which we had more than 600,000 on the employment wage subsidy scheme. I vividly remember many of the moments over the last two years in which we were so concerned regarding the viability and future of tens of thousands of employers.

We are facing a whole new set of challenges. I am conscious they are causing such real difficulty and stress to so many at the moment but we are facing into those challenges in the context of the policies we have put in place for the last two years to help employers get through the pandemic. Those policies worked. We are now facing into the next set of challenges with 2.5 million people working in the economy and a deficit that is far smaller than we could have expected a year ago. We must use both of those to our advantage in the time ahead.

On the point on how we can get more truck drivers in place, there are two aspects. The first is visas and the second is the work being led by the Minister for Further and Higher Education, Research, Innovation and Science, Deputy Harris, on apprenticeship and retraining programmes. That is what we have got to do. For those who want to come into our country to work, we must facilitate them in doing that. For those who want to change work or acquire new skills, the work the Minister is doing in apprenticeships and trying to support people going into new roles is essential, long overdue and he is delivering it. That is the work we must continue with.

Deputy Bernard J. Durkan: I thank the Minister and the Chair.

Deputy Michael Healy-Rae: I thank the Minister for this update on the stability programme. It is so important we get this opportunity to hear his views and opinions and to ask the questions that are arising. We are very thankful to him for the time in his busy schedule.

Of all the times in our history, none of us in our worst nightmares, nor he on becoming a Minister, would have imagined he would be a Minister at a time when there is a war of the kind taking place in Ukraine at the moment and the difficulties and challenges that is presenting to all of Europe. I am of course grateful for the hand of friendship that is being given and the safe homes that are being made available to the people who have to come here and to other parts of Europe as well. My one concern about that is there being no cap. It is not that I would not welcome any number but that I worry we might find ourselves in a situation where we will be bringing in so many that we will not be able to take care of their housing, educational or health needs. When I speak of concerns around the figures, those are the concerns I have. Obviously, we want to try to do everything we possibly can in this humanitarian crisis. However, as I said, I do not want a situation where people will find themselves in places that are not suitable. We want to do right by the people we are bringing here. I hope I am explaining myself properly.

When it comes to the sanctions, it is not so much about the implications of the sanctions we

in Europe are placing on Russian but the sanctions that could ultimately be placed on us. I mean the effect on fuel and energy costs. We are so reliant on other sources for our energy and have such a low energy supply ourselves. I am thinking of the effect that will have on families, small businesses and our day-to-day living. Enormous challenges are being faced due to the massive inflation increases. The basic amount it takes to live now makes it extremely difficult for people on low and medium incomes. When I am talking about that I must mention what was already said about workers and the availability of them.

There is an awful problem in Ireland. It could be in the hospitality sector, where there is a shortage of chefs, or the construction sector. We must come up with a more streamlined and efficient way of operating. If people want to come to Ireland to work, our attitude should be that we will organise that and make it user-friendly and efficient in order that employers will be able to know that if they need a chef, it will be no problem for them to advertise abroad and get one if they cannot get one here. We must ensure that this system is streamlined and made efficient in order that people will be able to use it and not have to endure indefinite delays. When you need workers, you need workers - you need them today, not yesterday.

Small businesses will be really affected in so many different ways because the war is having a distorting effect on our economy. I do not want to talk about the commerce side versus the humanitarian side. The humanitarian side of our help is paramount, but hotels, perhaps those in rural locations, are being taken over when small businesses were relying on those hotels to bring in tourists who would keep their businesses going. They are now worried their businesses will not keep going because tourists will not have a place to stay in these localities. I even feel bad about comparing one with the other because, again, the most important thing is taking care of people's needs. These people are leaving a country with nothing more than what is contained in a bag they are carrying with them. That is the most important thing of all. However, we must also remember that everyone has responsibility and we must try to balance what we are doing for the greater good of all. There is concern over issues like that. I know it is not for the Minister to say that this must be capped or limited at such an amount but I hope that we will ensure that we are able to take care of all of the needs of the people we bring in properly.

The Minister's job is extremely difficult at this time. When it comes to the trials and tribulations he has, it is a case of us all being on the same team. We are all interested in the betterment of Ireland Inc. and of neighbouring countries such as Ukraine, but we must balance everything and ensure that we are doing our best by all the people and are trying to make it manageable for families on low incomes to survive during these very difficult times.

My final point concerns housing and the implications of what is happening at present. A very intelligent and experienced person in the construction side of life made a statement to me last night. When he said it to me, I promised myself that I would say it to the Minister the next day. It is not that I think the Minister does not know it; I just want him to hear it again. This person would have 40 to 50 years' worth of building experience in Ireland and is a very respectable individual who would have provided thousands of homes throughout Ireland. He told me that when we are at a stage when a garda or a nurse cannot afford to buy a home in any part of Ireland - and he said he was not talking about buying in Dublin - we have lost the plot completely. He said we are completely wrong and asked what we are going to do about it. It hit home very hard to me when a person with that experience made that statement. It is very worrying. I am not saying this in a way that is critical of the Minister or the Government. When I say this, I am not trying to say it is this Government's fault. However, the situation in which we find ourselves is such that a local garda or nurse cannot afford to buy his or her own home,

which is extremely worrying and upsetting. Where does this leave everyone else on all the different steps of the ladder of working life throughout Ireland?

Deputy Paschal Donohoe: The Department, the Government and I acknowledge that the challenges many families and businesses now face with the rising cost of living are a real challenge for many. However, this is the reason why at different points this year, we brought forward different measures to try to help people with the rising cost of living. They involve the change to excise on fuel, the reduction in VAT on gas and electricity and the two additional payments introduced by the Minister for the Environment, Climate and Communications and the Minister for Social Protection to help those at risk of fuel poverty. Since we announced the budget last year, we have put in place measures worth just under €1.1 billion, all of which try to help people with the cost of living and the rising cost of fuel. Within that are a number of very targeted measures to help those at risk of fuel poverty. We have put in place a package that compares very favourably with measures introduced by many other countries and that is concerned with trying to help quickly with challenges we know are real and are having an impact on many.

The Deputy raised the issue of a cap on the number of Ukrainian refugees. I know he did so for compassionate reasons because he is concerned about how we will be able to help those coming to our country and the knock-on effect their arrival could have on the rest of our society. I will not attribute to him any other intention in raising this point beyond the genuine reason for which he raised it. However, the reason I take a different view from him is because if we look at where we are as a country, we can see that we are at the furthest possible distance from the war in Ukraine. We could not be further away from the humanitarian consequences of the war. It would send out a signal about Ireland that I would not like to see sent out. We would be saying that despite our distance from the war, we would be the only country in the EU that would place a limit on how many will come.

Regarding how we can support those who do come, I accept the Deputy's point that there are difficulties and challenges regarding how we will do it. I do not need to tell him about the difficulties we had with the availability of accommodation before we had to deal with the arrival of those coming from Ukraine. What it means is that we will be providing emergency accommodation that will be very different to how we would like to help and support those coming to our country for entirely different reasons. I do accept that is an issue but it is the reason why we, in turn, have already said that for next year, we will set aside a reserve of €3 billion to give ourselves every chance to try to give decent support to those coming to our country in circumstances that are beyond our imagination.

The final point the Deputy made was on the cost of housing. The cost of housing is being further exacerbated, in turn, by the increase in the cost of raw materials that is happening all over the world. That said, it is a positive development to see the level of commencements and completions now taking place in the country. The supply of new homes, despite the impact of Covid-19 on the country, is at a higher level than I thought possible for much of the pandemic. It is also the reason that I believe schemes such as help-to-buy have a role in our economy to help those who are trying to get their first home. It is the reason that I and the Minister for Housing, Local Government and Heritage, Deputy Darragh O'Brien, are so committed to the Housing for All programme because we know that while the impact of the war on our society and economy is great, it is not a reason for not continuing to make progress on the great challenges we have regarding the supply and affordability of homes.

That is just a brief response to the variety of measures and issues the Deputy has raised.

Deputy Michael Healy-Rae: I thank the Minister.

Deputy Seán Canney: I thank the Minister for his presentation and his attendance at the meeting. I am reminded of the rainy day fund. With the way things are going between Covid-19 and the war in Ukraine, a rainy day fund would be needed every week to try to keep pace with all the different challenges that have been put before him over the past two and a half years. It is important that we recognise we are definitely in uncharted times with Covid-19, and now we are in a time of war. It is uncharted for us in this country that we are affected so much economically by a war that is happening in Europe. It is frightening in a way.

With regard to the budget and our committee's role, we have oversight on the budget and we look at what is happening. The Minister said forecasting is fraught with uncertainties and with changing events from day to day or even week to week. However, I wish to hone in on two areas. The first is trying to keep the economy going and moving forward. On the works set out in the national development plan, with the inflationary problems we have, will more money become available for capital projects? It will take more money to do what we were forecasting to do next year and in the following year. I am especially concerned about projects such as the rural development schemes and the urban regeneration schemes where it is costing more money to do the projects now. Will money will be available to do them, even for projects that were sanctioned and the budgets set, but those budgets are now gone out the window?

The second area is public works contracts. There is a problem in the construction industry at present. Projects are priced with a fixed price for up to 30 months. Contractors are now in a position where they cannot budget for these projects or price them because they cannot see past next week in terms of the costs and the inflationary issues there. This will have a negative effect. It is something we need to examine urgently. I have spoken to the Minister for Public Expenditure and Reform as well. At this stage we have to look at amending the public works contracts to make them fairer and to allow contractors to be able to price them with an opportunity to cover the risk of hyperinflation, as is taking place now. It is holding up projects getting done and employment being created in the industry. I fear that over the next 12 months we will see a retraction in the industry unless something is done to make these contracts more what I would call sharing of the risk, as is the case in every other country in Europe. Ours is the only country that has such risks attached to the building contractor in public works contracts.

In the area of housing, I am glad the Minister said he is a supporter of the help-to-buy scheme. I ask him to consider extending that to properties that are vacant and derelict to allow second-hand properties to be brought onto the market and make them living spaces for young people who want to live in our villages and towns and even in rural areas. We need to examine that.

These are emergency times, and I heard the Minister, Deputy Darragh O'Brien, talking about this in terms of emergency legislation possibly being required to help with housing for the people we are bringing in from Ukraine - rightly so, and we should not cap that. However, if we are doing emergency legislation to make accommodation available for people coming from Ukraine, we should do it for all. The housing policy is Housing for All so we need to include that. If the Minister, Deputy Darragh O'Brien, is talking about emergency legislation, he should be looking at it in the short term for everybody, so everybody can avail of short-circuiting planning or whatever it takes to get us to a stage where we are building faster and renovating faster to provide homes where people can live and have a quality of life.

They are my comments on the budget and the economy at present. Does the Minister have

a response or what does he think of my thoughts on it?

Deputy Paschal Donohoe: I thank the Deputy for his points. I wish to return briefly to a figure I shared earlier with the committee. I referred to 2.5 million people at work. That 2.5 million is for 2023 as opposed to 2022.

I will comment on the points made by Deputy Canney. The Minister for Public Expenditure and Reform is aware of the impact that cost price inflation is having on the viability of contracts. He is engaging with the OPW and representatives of the construction industry in this regard. However, we have seen very significant growth in the amount we have set aside for capital expenditure in recent years. In 2023, our commitment for capital expenditure is €12.4 billion, which is €1.5 billion up on where we were in 2021 and is a €500 million increase on where we are in 2022. I recall being before this committee when the figure for capital expenditure was approximately €4 billion, so there has been a huge increase in capital investment in recent years.

We are planning to sustain it at a high level for some time to come. The dilemma we have is that, of course, we need to play a role in seeing how we can support projects we are committed to going ahead, but, at the same time, we need to avoid the risk of doing things in our economy that further add to the heating of the inflationary pressures that are in it and create even further difficulties and challenges for ourselves. There is a balance we need to get right and I know that the Minister for Public Expenditure and Reform who has responsibility for this area and which I share with him, is engaging with stakeholders on this to see if there is a way in which we can get the balance correct.

What we want to do is try to support all the projects we are committed to going ahead. However, the Deputy knows that despite the intention of a Government, not all the things we want to go ahead at any one point in time always do go ahead. That means there can be flexibility in the capital budget to try to get the right mix of projects going ahead in each year. However, both the Minister for Public Expenditure and Reform and I would take great care in changing the capital figure in any way significantly because it would have a big knock-on effect on the financial position of the country overall and other choices that we might want to make on the current spending side.

The Deputy asked about help to buy. He and I have debated this on many occasions. I am still of the view that help to buy should only be focused on creating new supply within our economy as opposed to helping facilitate the purchase of existing homes. Assisting to renovate empty properties is done through grants and it is best done local authority by local authority. Housing for All provides significant money to local authorities to do that. If we were to try to incentivise that via our tax system, help to buy would be on the path to being a general support for purchase of homes that are already built. Were we to do that, it would directly and definitely add to the existing inflationary trends in our housing market. I take a different view from the Deputy on the matter. We are trying to make progress on that through the grants and funding that we have made available to our local authorities.

Deputy Seán Canney: What is available to the local authorities apart from housing adaptation and housing aid for older people to repair their own stock of houses?

Deputy Paschal Donohoe: I will come back to the Deputy with the detail of that. When we did Housing for All and when we did the revision in the budgetary strategy for the Government last year, funding was set aside to help local authorities in that work. I will come back to him

with the detail of that funding and how it is being made available.

Deputy Seán Canney: I stress that those second-hand homes are not homes at the moment. They are blocked-up boarded-up buildings with four walls and maybe a roof. They are not occupied and have not been lived in for up to 20 or 25 years. We need to tackle that. A recent report for the Northern and Western Regional Assembly identified 45,000 such properties in the west and north west of the country alone. There is great potential for renovating. Even if only 50% of them were done, it would greatly help in regenerating towns and villages as well as giving people homes. We need to find a way for that to happen fairly fast.

My only other comment on public works contracts is that many local authorities and many contracting authorities have informed me of numerous gateway approvals they need to go through with their projects. Having been a Minister of State, I understand the frustration of it taking five or six years to get the job to a stage where construction starts. We need to pull that together. As the Minister said, the money is available but we need to get the projects started. We also need a flow of work in construction so that we can attract more people into the construction industry. They need to have more certainty about continuity of work rather than stop-start when work comes and goes. We have a bit of shaping up to do on that as well. I thank the Minister.

Chairman: Deputy Matthews recently published a Bill on how to deal with dereliction and boarded-up homes. It is well worth a look if Deputy Canney is interested.

Deputy Richard Boyd Barrett: I thank the Minister for his contribution. The cost-of-living crisis, which is manifested in multiple areas, is the biggest challenge that we have in supply. It is self-evidently a challenge for large parts of our population, but it will also pose a very serious challenge economically and financially to the State because if people cannot afford to live here, they will not come here in as large numbers as the Minister said we want them to come here to fill some gaps. In addition, many qualified young people are leaving because they cannot afford to live here. We need to address that urgently.

The Minister said we cannot fully insulate people from the impact of the rising cost of living, the Ukraine crisis and so on. That is a phrase the Government is using but we could be doing a hell of a lot more than we are. At the moment our approach to the rising cost of rent and housing is to fill the gap with housing assistance payment, which is just money into the pockets of developers and landlords. We are chasing the runaway market with public money and it is still not solving the problem. It is pouring an enormous amount of money down the drain. Similarly, in another area of rising prices in energy, we are forced to give people additional money because of runaway prices there.

Should we not, for which the Minister is aware we have advocated, be trying to actually control the price of these things so that we do not need to throw good money after bad chasing runaway prices? Why does the Government hold out against having a more serious regime of rent controls, for example? The Minister may be aware I have highlighted recently that France faced with the same situation has introduced a regime of rent controls where rents are set at affordable levels. The French do not allow the cost of rent to go up further and therefore beyond the reach of many people. Should we not do that given the enormous impact that unaffordable rents are having at every level on the people who cannot afford those rents and the number of people it is driving into homelessness with the State trying to chase those rents with nearly €1 billion in HAP, a figure that is likely to rise? Why do we not try to control rents?

I say the same about other types of price increases in energy. We should try to actually control the prices, not just forgo a small amount of tax revenue or throw a few bob at people to try to manage the bills, although that is better than nothing. Should we not try to get to the root of it and try to address the fact that these costs are going up because mostly private companies but also some State-owned companies are putting up prices to levels that are simply unaffordable and unsustainable?

Would the Minister accept that to a certain degree the cost-of-living crisis is not a crisis for everybody but only a crisis for the majority of working people on low and middle incomes? Over the difficult period the Minister has characterised with the Ukraine crisis, the Covid crisis before that and possibly back to the financial crash before that with the consequences of austerity and so on, there were always some winners and there are winners even now. The Minister pointed out that we have significant economic growth and corporate profits have increased consistently. There are people who are doing okay out of this - presumably, the people who are the beneficiaries of the price rises. Self-evidently, the landlords do okay out of very high rents. Some of the big corporations that are charging the high prices are doing fine. They are doing very well out of this and the more prices go up, the more profit they seem to make. The energy companies are making lots of profits but the people paying the price are those who have to rent or who have to pay for their heating and energy. The Government is not doing anything to address that side of it and control those prices, possibly by imposing some sort of windfall tax on the beneficiaries of the current situation. I would like the Minister to address those points.

Deputy Paschal Donohoe: Regarding rent caps, as the Deputy will know, the Government has in place limits on the degree to which rent can be increased at any point in time. The reason we do not have the kind of cap the Deputy wants is that we believe it will ultimately lead to a reduction in the supply of rental accommodation and to even more landlords leaving the rental sector, with the accommodation and rental difficulties of which we are all aware only becoming worse. That is the reason we have not gone down the path the Deputy wants us to go down. Over time, it would be a recipe for even fewer rental properties being available, which in turn would be a recipe for higher rents. Instead, we are doing all we can to either build homes directly or support the supply of homes. There are some positive signs around our efforts with regard to supply. In the 12 months up to March of this year, 35,000 new homes were commenced, which is the highest level of commencement since 2008. The Deputy would make the point that additional supply does not automatically lead to affordable rent or lower pricing of homes but I have yet to come across a situation in which rent would become more affordable or the price of homes would go down by building fewer homes. I have not come across that. The precondition to making progress on the affordability of rent and buying, and for first homes in particular, is building more homes and getting more homes built. That is what we are working very hard to do. Many will want us to do more, build more homes and make sure they are available at lower rents and lower prices. We are committing massive resources on behalf of the State to getting those homes built and there is a clear sign now, for the first time in a while, that commencements are going to go solidly above 30,000. We need to maintain that year after year in order that more homes are available at more affordable rents and more affordable prices.

On a windfall tax, I assume the Deputy is referring to the companies involved in the supply of energy. If we were to look at something like that here in Ireland, it would mean higher taxes on semi-State bodies such as the ESB and Bord Gáis. In turn, all that will do is influence the dividend they are going to return to the State or reduce the money they have available to invest in all the things we need to do to reduce our reliance on imported fuel in the first place. While I can understand the lure and attraction of pushing a policy like that, in this case we ultimately

would be talking about semi-State bodies being asked to pay more tax. Surely the Deputy can see the circular effect that will have on the dividends we receive and the investments we want those companies to go ahead with. If that is not what the Deputy is referring to, then another option is higher taxes on the suppliers of renewable energy. Renewable energy is the way out of this, over time, and I would argue that taxing those who are at the heart of trying to provide new sources of energy supply is the wrong direction to go. That is why we have put in place alternative measures to try to help with the cost of living. The Deputy will make the case that they are not enough but this year alone, those measures to help those who are facing such challenges are worth over €1 billion. They will help. They cannot cover all the costs but I would respectfully contend that they do make a difference.

Deputy Richard Boyd Barrett: Am I out of time?

Chairman: Yes but you may come back in.

Deputy Richard Boyd Barrett: The approach to the affordability of housing is just not working on the ground. The Minister says supply is increasing. I accept that. Everybody can see the cranes around the place. There are a lot of them in my area. However, everything coming onto the market is being rented at €2,200 a month or more. That is no good to anybody. That supply would be all well and good if it was being delivered at affordable levels but the only people who can buy these homes are investment funds. They rent them out at shocking rents, which the State picks up the bill for with HAP, or even worse, people just cannot afford them and they go homeless. Something is not working. The problem is that there is no control on what these people can charge. The limited 4% cap on rent increases does nothing about the setting of new rents. In any event, we are at a level of rent unaffordability that is so bad and damaging that we have to do something radical about it. I just do not see what we are doing. Is the Minister suggesting that if Housing for All eventually works, those rents are going to come down? I do not in any way want to be insulting here but he is living a fantasy if he thinks those rents will come down voluntarily via the market. They are not going to come down unless the State brings them down or delivers a supply of its own affordable and social housing on a scale that will cover the market failure. At the moment, even with the increase in supply that is beginning to happen, I just do not see how the rents or the cost of these units will get to a level that is affordable to ordinary people. I do not see where the plan will make that happen.

On the energy stuff, I do not mind which way the Government does it. I take the Minister's point about the ESB. In that case, we should just set affordable prices per unit. Given the profits these companies are making, that could be absorbed. They could afford to reduce the unit price of electricity. I do not mind how we go about doing it. I am simply stating that these energy companies, whether private or State-owned, are making a lot of money at the moment so they could afford to make fewer profits. That could in turn deliver lower prices that are actually affordable for people. That requires a degree of State intervention however you go about it, whether it is controlling the----

Chairman: Deputy, we are well over time.

Deputy Richard Boyd Barrett: -----unit price or taxing them.

Chairman: If the Minister does not wish to respond to any of that, we will go to the next speaker. I call Deputy Doherty.

Deputy Pearse Doherty: My apologies, I was in the Dáil dealing with the Finance (Co-

vid-19 and Miscellaneous Provisions) Bill 2022. If my questions are repetitive, I can look at the blacks. This is the first time I have seen the Minister since the passing of his mother so I want to sympathise with him and his family. I hope they are all keeping well in these difficult times. We are here to discuss the SPU, but a number of things have changed since it was published, which I will come to. Focusing on the cost of living and looking at the assumptions that underpinned the budget, inflation was at 2.2% but it is at an average of 6.2% this year, according to the SPU. A social welfare package was outlined in the budget last year to recognise that those on fixed incomes are some of the most vulnerable in society. The facts now scream at us that this cohort of society will be much poorer this year than last year, and even poorer than in 2020. The figures indicate that those on core social welfare rates will see their incomes fall by 4% in real terms compared with last year, while compared with 2020, it will be a fall of 6.2%. Does the Minister accept, given what we know today, that the social welfare package is inadequate to protect the most vulnerable in society from the real price increases that so many families are facing and there is, therefore, a need to increase social welfare core payments?

Deputy Paschal Donohoe: I thank the Deputy for the two messages he sent to me. They were appreciated. I appreciate the impact that so many face, particularly those on social welfare and fixed incomes, due to the rising cost of energy. That is why, since the start of the year, we have put in place three separate packages of measures, with much of them being aimed at those who are on low incomes. It is why we brought in the energy credit, the €125 lump sum payment and added to that with a further €100 payment, as well as changes to the drugs payment scheme and working family payment. It is also why we took other measures such as the reduction of the public service obligation levy, which will be implemented in October. Looking at this in the round, the income and social welfare package last year, combined with tax measures, amounted to just over €1 billion. We have done that again such budget day in recognition of the fact that the cost-of-living challenges that many face are different to what we thought was likely last October. I accept that the world has changed for the worse for many, but that is why we have done so much to try to respond to the impact that many face on their standard of living.

Deputy Pearse Doherty: With respect, I benefited from many of those packages, as did the Minister. We benefit from the Finance (Covid-19 and Miscellaneous Provisions) Bill 2022 that is going through the Houses through reduced VAT, excise measures and the household electricity credit, which took a large portion of the additional money that was provided. We are talking about people who are really vulnerable, trying to get by on really small, fixed incomes and are not, according to the Vincentian Partnership for Social Justice, anywhere near where they need to be with regard to a minimum standard of income to survive. The data in the Minister's document show that people are 4% worse off than they were last year. If he knew when preparing the budget last year that inflation this year would be 6.2%, I am sure he would not have just added €5 to the core social welfare rates. That would have been inadequate. We know that now, so we need to address it now.

Deputy Paschal Donohoe: With respect to the Deputy, he made a point that many of the measures that we brought in are general. That is true, but at the same time he has criticised me for those general measures not being big enough. I am sorry I was not present at the debate on the Finance (Covid-19 and Miscellaneous Provisions) Bill 2022 recently. I was here making a presentation. I am sure the Deputy was saying that the general measures, which he noted that he and I benefit from, should have been bigger and more generous. I will not benefit from, nor should I, and I am sure the Deputy will not benefit from the fuel allowance payment that has been brought in, the additional €100 which will be added on top of the €125, or the working family payment, which is also a targeted measure. Targeted measures have been brought in.

Looking at where we are now, compared with where I thought we would be on budget day, it just was not possible for anybody to forecast what would happen early in the new year with Ukraine, let alone the impact it would have on inflation this year. I know things have changed for the worse for many and I have brought in many additional measures since 1 January.

Deputy Pearse Doherty: I criticise the fact that the Minister increased the price of home heating oil. That impacts people on fixed incomes and people more widely. I believe the Minister could do more about petrol and diesel prices. They are broad measures. If I brought in a package, some measures would be broad and some would be targeted, such as rent relief. I would bring in a social welfare package that would match the levels of inflation we are seeing. It is not a case of having just one or the other, but there is also a need for targeted measures. The energy crisis is one issue that is increasing inflation and is turbocharged by the war in Ukraine. Many commentators are predicting that we may enter a prolonged period of high energy costs, outside of the war in Ukraine, because of the transition towards a green economy with non-carbon sources of energy, and that this may be the future for energy prices. What are the Department's projections on that? Has it done work on future energy prices?

Deputy Paschal Donohoe: I am confused by the Deputy's stance. Earlier in our exchange, he was critical of the nature of general measures and the fact that he and I benefit from them. A moment ago, he said they should still be bigger.

Deputy Pearse Doherty: I explained that to the Minister.

Deputy Paschal Donohoe: I am confused by what the Deputy said. We have targeted measures, which are aimed particularly at those at greatest risk of fuel poverty. The Deputy made a point about a prolonged effect of a change in energy pricing. As he knows, in our document, we outlined other scenarios that could take place that would see an increase in energy prices of between 50% and 75%, and the impact that could have on inflation. In an earlier exchange, I said that could lead to an increase in inflation of between one and two percentage points, depending when that happens. I ask Mr. McCarthy to inform the committee of our view on the energy component of that increase. My understanding is that there is an increase of between 50% and 75% in the cost of gas and oil.

Mr. John McCarthy: Yes. The simulation refers to a 50% increase in oil prices and a 75% increase in gas prices. The week after the outbreak of war, levels spiked and we used a scenario, which prevailed, in which prices went back to those levels. If it was to happen now, it would add about two percentage points to the inflation rate for this year, so instead of 6.75%, we would be looking at 8% or 8.5% inflation for this year, with some carryover into next year. That would wipe out the modest surplus in public finances that we expect this year. We reckon that it would take between one and two percentage points off-----

Deputy Pearse Doherty: Is that a modest surplus for next year?

Mr. John McCarthy: Sorry. Yes, the surplus would be for next year. It would be wiped out and between one and two percentage points would be taken off the level of economic activity over the medium term. The Deputy asked where we will go in future. We base our numbers on market expectations for Brent crude, for example. At the time of the stability programme, futures markets, that is, buying oil for delivery at some stage in the future, were \$97 per barrel for this year, about \$87 for next year and down to about \$81 for 2024 and 2025, a level shift compared with what we have been used to over recent years.

Deputy Pearse Doherty: May I conclude on these two points? To clear up confusion, the Department's package should have been bigger, but in making the broad package bigger it cannot forget about the most vulnerable. That is what I contend. Even with the fuel rebate, core social welfare rates should have gone up.

I wish to ask the Minister about the impact of global tax reform on the level of corporation tax receipts. It appears the figure is unchanged since the medium-term fiscal strategy in January 2020. Is the Department planning to update those forecasts? Will the Minister give his view on the likelihood of OECD agreement on a pillar 2 solution being implemented in the medium term? Does the Minister still view it as a final settlement? I think that that is what he called it at the time.

The second issue is the provision of €3 billion for the Ukrainian humanitarian contingency in 2023. No money at all is allocated for 2024. Does the Minister believe that that is appropriate? Where does he see that issue at that point in time?

Deputy Paschal Donohoe: At the moment we have no reason to update our forecast again in respect of corporate tax revenue for 2023. Our reason for that is that while I still think it is more likely than not that the corporate tax directive will be agreed later in the year in respect of the minimum effective tax rate, it has not yet been agreed. Furthermore, the OECD is committed to making a statement by the summer as to where it will be with the implementation of the work stream in respect of the reallocation of taxing rights. Those pieces of the jigsaw will come together well after this is done and we will take account of that in our budget day forecasts. As for the corporate tax revenue loss we have, namely, €500 million per year going up 20% of our overall corporate tax revenue, it is my view that that will still happen. I still believe that next year will be the year in which it will begin. By the summer we will know where we are with the OECD, and one way or the other we will be clear as to where we are with the minimum effective tax rate directive.

The Deputy had another point about corporate tax.

Deputy Pearse Doherty: I asked about the €3 billion for the Ukrainian humanitarian contingency.

Deputy Paschal Donohoe: We are not in a position at the moment to forecast what it will be beyond 2023. We found it a difficult enough process trying to reach a view on the number of people who could come to the country next year and then the cost per person or per family that could be involved. As it is, there was a fair bit of judgment involved in that figure. As to what the figure will be beyond 2023, I think the best opportunity we will have to review that will be when we get to the budget.

Deputy Pearse Doherty: How many refugees underpin that figure? Does the Minister know? What is the figure based on?

Mr. John McCarthy: The €3 billion is based on between 80,000 and 100,000 refugees coming over the next 12 months, which is a guesstimate rather than anything scientific, as the Deputy will appreciate. Some of the contingency will be used this year. I refer to the €2.5 billion left from the contingency and €3 billion for next year. To re-emphasise what the Minister said about 2024 and 2025, there is so much uncertainty. Will the refugees go home? Even if they do not, they will have been here for a year, so it is likely that at least some of them will enter the labour market and not be reliant on social welfare. We know that in the first 12 months

the number will be something like 35,000. The majority are women and children, for obvious reasons. At the moment the concern is getting the children into school, etc.; they are not looking for jobs. Many of them are quite well qualified, however, and, over time, if they have been here for 12 or 18 months, it is reasonable to assume they will migrate, depending on social welfare, etc., to the labour market, so the cost would decline. We may have some indication in six or 12 months' time but we have nothing at the moment. That is why we did not put in anything for 2024 and 2025.

Deputy Patricia Ryan: I thank the Minister and offer my condolences to him.

I will start by going back to what Deputy Doherty said about the Ukrainian humanitarian contingency. We all had a discussion about it this afternoon. Is there anything forthcoming from the EU or any other organisation to cover any of the costs related to welcoming refugees from the conflict?

Deputy Paschal Donohoe: At the moment, from an Irish point of view, there is not much likelihood of that kind of support becoming available. If the European Union does make a decision to change the recovery fund that is in place or find new ways of making funding available, I think the vast majority of that will be available to countries that are on the front line of receiving people into their jurisdictions. At the moment no such additional funding is available. If that were to change, I think the vast majority of it would be available elsewhere. Of course, we would look for our fair share of it, but Poland now has more than 2 million refugees from the conflict. It has been making an understandable case to get most of that funding.

Deputy Patricia Ryan: What measures does the Department take in order to address the labour shortages in key sectors? We heard Deputy Durkan talk about HGV drivers, etc., but I am quite concerned about the chronic carer shortage we have. Is there any incentive for family carers? Will the Government introduce a minimum living wage for the sector? Carers are really struggling.

Deputy Paschal Donohoe: I absolutely appreciate the really important role carers play in society and in homes and families, helping those who face very difficult situations. The responsibility for that, though, sits with the Department of Health rather than me. I am afraid I am not in a position to tell the Deputy about the detailed policies I am sure the Department of Health has to help with the number of carers in the country. At this point I can tell the Deputy only about the general things we need to do, which the Department is trying to facilitate. I refer to where we are with the visa programme, trying to make sure we have a good, open, well-functioning visa programme, and then the work the Minister, Deputy Harris, is doing on higher education and apprenticeship programmes. I accept that that might not be particularly relevant to the Deputy's specific question about carers but it is essential to how we can encourage young workers into different kinds of work in the economy and then help with retraining in our economy. We have to work very hard to try to make sure that happens.

Deputy Patricia Ryan: I appreciate that and thank the Minister for his answer, but I am quite concerned. We have discussed the cost of living. Some of these people are really struggling. In many cases the people who come to my door are struggling with either food or fuel poverty, and carers are at the top of that list, so I would like to see a minimum living wage for the sector at some point.

The committee recently examined the possibility of indexation of the welfare and taxation system. Does the Minister believe there is a potential to introduce that into the Irish system? If

so, what format would it take, and is there a timeframe in mind?

Deputy Paschal Donohoe: It is a programme for Government commitment to look to bring in indexation of income tax rates and social welfare payments budget by budget. I think the case for indexation is well understood from a social welfare point of view, but it tends to be less appreciated in respect of income tax. The fact is that if an effort is not made to move the entry point into higher rates of income tax year by year, as wages in the economy grow, people working an extra hour of overtime, who might get a wage increase, lose far more of that than they would expect to our tax code. If I had not made the changes I have made in recent years to the standard rate cut-off point, that is, the point at which one pays the higher rate of income tax, I have no doubt but that I would be accused of bringing in stealth taxes and not allowing people to keep a fair share of the income they earn with their own hands and their own skills.

As for whether I have any plans to make it automatic, I do not because I strongly believe it should always be the prerogative of the Government and the Ministers for Finance and Social Protection to decide what to do on budget day. In an environment in which not so long ago, we were at far lower levels of inflation than we are now, the changes that would happen if we were committed to automatic indexation, particularly of social welfare, would be of such a low level that it would undermine the legitimacy of trying to carry out indexation in the first instance. That is why I believe the way in which it should be done is that the Department of Finance produces its forecast on what will happen with prices and the income within the economy in a given year, and the Government budget by budget tries to respond back to that.

Deputy Patricia Ryan: My final question is an ask. Does the Department have any plans to change the taxation of motorists and vehicles, given a reduction in revenue will happen as petrol and diesel cars are phased out? Deputy Canney asked a question about local authorities and sought details on the funding. Will the Minister provide me with those details also? I have attended recent local authority meetings at which I have been told the local authority does not have funding. I would very much appreciate some details on the issue.

Deputy Paschal Donohoe: Of course, I will share the information on that with all members of the committee. On whether we have plans to change motor tax, that is a budgetary matter and, respectfully, we will decide it budget by budget. Changes we have made to motor tax and vehicle registration tax, VRT, have had a very positive impact on changing the kinds of new vehicles, in particular, that are being purchased, and on gradually changing the mix towards more environmentally sustainable cars. While a change was under way in any event with regard to that because of the awareness we all have regarding how emissions are having such an awful effect on our environment, year by year we have made changes to our tax code that have encouraged that change. The Government will decide whether to continue with that approach on budget day. We are nowhere near that decision point at the moment.

Deputy Patricia Ryan: On motor taxation, if people can afford to tax their car earlier, as we are all aware, it will cost them less than if they are on a lower income and are being taxed every three months. At some point we need to do something about this because people on lower incomes are very stressed. They need to have their vehicles taxed, for obvious reasons and to avoid fines and so on, but because they are on lower incomes, they seem to be penalised. Could we please take a look at that in the next budget?

Deputy Paschal Donohoe: Okay, I will certainly have a look at the point the Deputy made.

Deputy Patricia Ryan: I thank the Minister.

Chairman: I thank the Deputy. That was a good point. I recall the taxation issue from the days when I was paying the tax in three-month bursts.

I might ask a couple of questions before I invite members to ask some concluding questions. We have covered the issue of the tightening labour market quite well and I do not want to revisit much of that. The Minister mentioned the idea of ensuring visas are working well. In his and my constituency, a large number of people have stamp 3 visas, which make it very difficult to work even for those who may be very willing to do so. That area might be worth examining. In light of that labour market issue, in a climate with that level of inflation and the cost of living increases, we are probably facing increases in public sector pay and in pay more generally, but that does not seem to have been budgeted or mentioned much in the SPU. Would the Minister like to comment on what that issue will look like?

Deputy Paschal Donohoe: Yes, the Chairman is correct that it is not taken into account in the stability programme update, because the update is prepared only on the basis of decisions that have been made. The forthcoming negotiations on public sector pay have not even properly begun, so it would be very premature and probably inappropriate for me to try to prejudge their outcome. Given a decision has not been made in regard to the nature of a future wage agreement, we have not included it in our forecasts.

Chairman: It could be a considerable sum, however, when the decision is made.

Deputy Paschal Donohoe: That will be a factor the Government will have to take into account in reaching an agreement with our public servants. The three issues that have the greatest impact on national finance forecasts are always what is done with social welfare rates, what is done with health expenditure and what happens with public pay. That is one of the three big levers that have the most significant effect on the overall figures on budget day, and any change at all in respect of public pay will have a considerable impact on our figures. Notwithstanding that, our public servants are invaluable and we will be all better served by having a collective wage agreement if one can be achieved. I have negotiated a few of them and I know any speculation in figures at this point never helps any cause.

Chairman: I can appreciate that. I might ask a follow-up question given we are in the realm of what the fiscal space might be. We talked earlier about the just under €1.1 billion we have spent on counter-inflationary measures, which will, obviously, reduce Exchequer revenue. We met representatives of the IMF earlier, who outlined a number of areas where they would consider broadening the tax base. Would the Minister like to comment on that?

Deputy Paschal Donohoe: The IMF is an exceptionally important organisation and, like any organisation that gives advice to government, it tends to be in favour of tax-broadening measures. My experience of bringing in tax base-broadening measures, however, is that they are rarely as straightforward as we might expect. We would have to think very carefully about bringing in significant additional tax-raising measures given the cost of living challenges we are facing. In every budget I have announced, certain taxes have increased. I will, of course, listen carefully to what the IMF has to say, and I am meeting its representatives tomorrow morning myself. I am well aware of the challenges many are already facing. We already have our own Commission on Taxation and Welfare, which is due to report later this year and to give some indications to me in September. We will take all that into account when we are getting ready for the budget.

Chairman: We touched on the rainy day fund earlier. What will be the future of the fund

in the medium term? Is there a proposal to rebuild it immediately? Obviously, we have tapped into it-----

Deputy Paschal Donohoe: We have more than tapped into it. It was spent in one day because it was so badly needed.

Chairman: I am not questioning that whatsoever. Nevertheless, the fund was very useful to have and I would be interested to know whether the Department has a proposal or an outlook to rebuild it.

Deputy Paschal Donohoe: We can begin the path to rebuilding the rainy day fund only if we are in a position of balance within our national finances or in one of surplus. It would be a very difficult sell to explain why we were borrowing to put money into a rainy day fund. Moreover, it would be very difficult to do in an environment in which the rate of interest at which countries are borrowing is increasing. We do not have any immediate plans to recreate a rainy day fund, although I would certainly love to be in a position where that was possible. In the context of all the challenges we will face next year, it is unlikely we will make much progress on it quickly. When and if we are in a position that our finances are balanced and have been for a while, and perhaps even we are running surpluses - which I really want to see happen but I think it is unlikely we will get there next year, beyond the relatively modest surplus that we are already projecting to - that is at the point you begin to do it. I hope we get to that point.

Chairman: I think we all hope we will get to that point. I do not see any hands raised from other Deputies, so it just-----

Deputy Paschal Donohoe: If I could just make one final brief point, it was somewhat telling that I did not get any questions on this at all. However, I need to emphasise the concluding point that I made in my opening presentation regarding the fact that the interest rate environment which Ireland will be borrowing on is changing in front of our eyes. I have been saying for some time this was going to happen and it is now happening. The era in which, in effect, free money was available to Governments is coming to an end. That will have to be taken into account in the decisions the Government makes in budget day and beyond. That is why I will be making the case for balancing our books for a low level of borrowing, because the environment we have been in for the few years is now changing and ending.

Chairman: That point is taken. I thank the Minister for coming this evening. It is proposed to meet in private session at 4.45 p.m. on Wednesday, 11 May. The meeting is now adjourned.

The select committee adjourned at 7.31 p.m. until 5.30 p.m. on Wednesday, 11 May 2022.