DÁIL ÉIREANN

AN ROGHCHOISTE UM FHORMHAOIRSIÚ BUISÉID

COMMITTEE ON BUDGETARY OVERSIGHT

Dé Céadaoin, 11 Bealtaine 2022

Wednesday, 11 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	Seanadóirí / Senators
Richard Boyd Barrett,	
Bernard J. Durkan,	
Mairéad Farrell,	
Michael Healy-Rae,	
John Lahart,	
Aindrias Moynihan,	
Patricia Ryan.	

I láthair / In attendance: Deputy Danny Healy-Rae.

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

Business of Select Committee

Chairman: Apologies have been received from Deputies Canney and Durkan. 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.

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.

Recent Cost-of-Living Measures: Discussion

Chairman: This meeting will consist of engagement with officials from the Departments of Finance and of Public Expenditure and Reform. We will discuss cost-of-living measures, including the expected impacts of those measures and analysis undertaken in advance of implementation of any policy changes on budgetary costs. From the Department of Finance I welcome Mr. Brendan O'Connor, principal officer and head of macroeconomic analysis, Mr. Joe Cullen, principal officer and Mr. Cathal Sheridan, principal officer. From the Department of Public Expenditure and Reform, I welcome Mr. John Kinnane, acting assistant secretary from the expenditure policy unit, and Ms Niamh Callaghan, principal officer in the budget strategy and co-ordination unit. I thank the witnesses for attending.

I call Mr. O'Connor to make his opening statement.

Mr. Brendan O'Connor: I thank the committee for the opportunity to appear before it. My colleagues Mr. Cullen and Mr. Sheridan are from our income tax and indirect tax units, respectively.

We are meeting at a time of unprecedented uncertainty and economic volatility. As well as the ongoing humanitarian crisis, Russia's invasion of Ukraine has created a large supply side shock that has shaken the global economy, with European economies at the epicentre. Given Russia's outsized role in global energy supply, oil and gas prices have risen sharply in recent months. As Ireland is a global price taker, this has fed through to higher energy prices for businesses and households.

It is important we give some context to the current inflationary environment. The emergence of inflationary pressures contrasts markedly with the relatively low inflation we experienced for the guts of the past decade. In Ireland, inflation averaged at 0.5% between 2010 and 2019 and at 1.5% in the euro area. Initially, the Covid-19 pandemic exacerbated this low inflation environment. As the decline in demand in 2020 outstripped the fall in supply, Ireland's inflation turned negative, reaching something like -0.5%.

While consumer price inflation remained subdued in Ireland in the first quarter of last year, the annual rate of inflation picked up sharply thereafter, with both domestic and global factors behind the increase. These included a recovery in energy prices from their lows in 2020 - we call these base effects - as well as global supply chain disruptions, supply side bottlenecks and pent-up demand. To address this, budget 2022 in October contained an income tax package to the value of €520 million. This involved increases in the standard rate band and key personal tax credits. On the expenditure side, a social welfare package worth approximately €560 million was introduced, as were a range of other measures, including health and childcare supports, aimed at mitigating the cost of living. At the time of budget 2022, inflationary pressures were expected to ease over the course of the winter and throughout this year. However, higher than anticipated energy prices throughout last winter resulted in higher than expected inflation in the winter and into early spring.

The war in Ukraine has served to exacerbate inflationary pressures further. Inflation stood at 7.25% in April, which was the highest rate since the harmonised index of consumer prices, HICP, series began in 1997. This is a trend we are seeing in all advanced economies. In the euro area, inflation reached 7.5% in April. Today, the US reported that its inflation rate had reduced to 8.3% in April from 8.5% in March. The rates in the UK have been similar.

Higher energy and commodity prices are expected to continue feeding into higher inflation over the coming months. As set out in the stability programme update, SPU, in late April and based on market prices at the time of the forecast, inflation is expected to remain elevated in the near term, peaking in the second quarter of this year and averaging at approximately 6.25% for the year as a whole. Pass-through price effects are also expected in other sectors such as food through higher prices for energy and fertilisers - the latter is a by-product of higher energy prices itself - and consumer goods and services, also through higher energy prices and transport costs, with core inflation of approximately 4% projected for the year. A significant easing is anticipated next year, with the headline rate projected to be approximately 3% for 2023 as a whole. In fact, energy prices, while still expected to stay high, are expected to ease next year.

Higher energy and commodity prices will erode the real incomes of households while also denting the margins of firms. This, alongside heightened uncertainty, will dampen consumer spending and private sector investment this year. In this manner, inflation will act as a headwind against output growth. As a result, we have revised downwards our forecast for modified domestic demand growth – our main indicator of economic activity – by approximately two and a quarter percentage points this year, with growth of 4.25% being forecast.

These projections were produced against a backdrop of exceptional uncertainty. As such, risks to the forecast are considerable and firmly tilted to the down side. In light of this, we also published a scenario analysis in the SPU in which wholesale oil and gas prices returned to their early March levels – indeed, slightly higher – and remained elevated relative to the baseline throughout this year. Gas prices in this scenario are 75% above the baseline projection and oil prices are approximately 50% higher. In this scenario, inflation would be two percentage points higher this year at 8.25% – peaking at 9.25% in the third quarter – and one and a quarter percentage points higher next year at 4.25%. Of course, the energy price shock would not only affect inflation and would also have broader macroeconomic implications. Output in the domestic economy would be approximately 2% lower over the medium term and the budget surplus of in or around €1.2 billion for next year would be wiped out.

I will outline the Government's more recent response to increases in energy prices from a taxation perspective, and my colleagues from the Department of Public Expenditure and Reform will speak about expenditure measures. In early March, the Government approved a VAT-inclusive reduction in excise duty of 20 cent per litre on petrol, 15 cent per litre on diesel and 2 cent per litre on marked gas oil, MGO, amounting to €320 million. Further measures were announced in mid-April, including a reduction in the VAT rate for electricity and gas to 9% from 1 May until the end of October, which should result in estimated annual savings of €49 on gas bills and €69 on electricity bills for households. The cost of this measure is estimated at €46 million. There was also a further VAT-inclusive reduction of 3 cent per litre on MGO from 1 May and an extension of the reduction in excise duties on MGO, auto diesel and petrol to mid-October, with a combined cost just shy of €100 million.

Overall, including the expenditure measures that colleagues from the Department of Public Expenditure and Reform will shortly outline, cost-of-living measures announced since the budget amount to just over €1 billion on top of the roughly €1.1 billion in measures announced in budget 2022.

Mr. John Kinnane: I thank the committee for its invitation to discuss the measures introduced since budget 2022. Budget 2022 set out an expenditure allocation of €87.6 billion for investment in public services. This allocation was made in line with the medium-term expenditure strategy, which sets out core expenditure growth of approximately 5% on average over the period to 2025. A €1.2 billion package of expenditure measures was announced to support citizens across a range of sectors with cost-of-living pressures. Some of the headline measures were increases in social protection payments, including weekly working age and pension payments, the living alone allowance, qualified child increase and fuel allowance; health affordability measures; funding for social and affordable housing; and enhanced student and childcare supports.

Analysis was undertaken using the ESRI's simulation welfare and income tax changes, SWITCH, tax and benefit model to illustrate the impact of the budget. The combination of tax and expenditure measures was progressive in nature, with households in the lowest income deciles seeing the strongest gains.

The economic and social context has changed considerably since the announcement of budget 2022 in October. The emergence of this new set of challenges, including rising energy prices and the humanitarian response to the war in Ukraine, has resulted in a number of budgetary developments. Since December 2021, in the region of €560 million in additional expenditure measures has been put in place to support citizens and businesses with increased costs. A number of these measures build on supports put in place in budget 2022.

I will set out a summary of the main measures. An energy credit payment automatically applied to the electricity bill of all domestic account holders to assist with rising energy costs. This will benefit more than 2 million households at an Exchequer expenditure cost of just under €380 million. In addition to the €5 per week increase in fuel allowance payments introduced in the budget, a further two lump sum payments totalling €225, paid in March and in mid-May, will benefit more than 370,000 households. Budget 2022 announced an increase of €10 in the weekly income threshold for the working family payment. The implementation of this increase was brought forward from April to June. A further reduction from €100 to €80 in the monthly payment threshold for the drugs payment scheme was also introduced. This will reduce medicine and drug costs for more than 70,000 recipients. A temporary 20% reduction in public service obligation, PSO, public transport fares until the end of 2022 was introduced to reduce the financial burden on commuters returning to the workplace. The estimated cost of this is €54 million. The maximum annual school transport charge was reduced to €150 per family at primary level and €500 per family at post-primary level for the next academic year. A temporary and targeted emergency grant scheme for licensed hauliers provides a payment of €100 per week for licensed heavy goods vehicles for a period of eight weeks. This scheme reflects the vital role hauliers play in the supply chain. The estimated cost is €18 million.

Turning to the impact of construction inflation on public works projects, a number of changes were introduced in January to address price volatility. These changes were made to contracting arrangements for new contracts to ameliorate challenges arising from inflationary pressures deriving from the pandemic. Based on extensive feedback from Departments and owing to further constraints on supply chains and increased fuel and energy prices arising out of the Russian invasion of Ukraine, the Minister for Public Expenditure and Reform, Deputy Michael McGrath, yesterday announced the introduction of an inflation co-operation framework for those parties engaged under public works contracts. This seeks to address the impacts of the most recent onset of exceptional inflation and supply chain disruption.

The Revised Estimates 2022 set out an overall Government expenditure ceiling of €87.6 billion. This is inclusive of an unallocated contingency reserve of €3.9 billion. At this stage, approximately €1.5 billion of the reserve has been committed, taking into account the increased Covid-related supports introduced in response to the December wave of the virus, and additional funding required for the cost-of-living measures I have outlined. Furthermore, there will also be calls on the contingency reserve in the coming months in the context of any additional Covid-related expenditure, in particular as we enter the winter period, and for the provision of humanitarian supports to refugees arriving from Ukraine. A Supplementary Estimate for Vote 29 - Department of Environment, Climate and Communications, was brought before the Dáil in March. Further Supplementary Estimates may be required later this year to provide for the measures I have set out.

The series of recently introduced measures to support households with cost of living pressures comes at a time of significant additional expenditure to mitigate the impacts of Covid-19. The public finances are in a stronger position than this time last year, with Covid-19 related supports being unwound and tax revenue increasing. However, risks to the fiscal position remain. Borrowing since the beginning of the pandemic has increased, with gross general government debt of €234 billion forecast for 2022 compared with €204 billion at the end of 2019. In this context, Government has sought to implement measures which strike a balance between delivering targeted support, capable of timely implementation and are temporary in nature to ensure that our public finances remain on a sustainable trajectory and avoid actions that could result in further inflation. I thank members for this opportunity to speak with the committee. We look forward to answering questions.

Chairman: I thank Mr. Kinnane. Deputy Lahart is first.

Deputy John Lahart: I thank the Chairman, and I thank the officials for their presentations. I have two questions. They relate to a couple of pieces I was reading about France. In the context of the offsets by the Government, my layman's interpretation is that if you throw money at an economy during an inflationary period in terms of wages and things like that, it just helps to drive up the cost of living if the relevant measures are not targeted. I advise our guests the cost of living is significantly impacting on constituents of mine, as it is on those of all my colleagues. I read an interesting article about France. The country was in election mode, but that does not matter. The article stated: "A decision last year to limit the amount by which France's largely state-owned energy companies could raise prices has benefited consumers and taken some of the inflationary pressure off industries that depend on gas and electricity." The article also points to the fact that the electricity component of inflation in France has risen by 4% in the past 12 months but by an average of more than 27% in the eurozone generally. France obviously took a measure there. It could not ban an increase in energy prices by the energy suppliers but it did bring in a regulation that restricted the amount by which the suppliers could raise their prices. My first question relates to whether those options open to Ministers here. The officials may come back and say that France has had other problems, with other costs of living skyrocketing too.

Another piece I read recently also relates to France. Macron has won the election and must deliver on some promises. I am interested in the following concept though. He is looking at trying to cap the prices of say, the top 120 essential items that we would get in our supermarkets or that families need. In other words, this would cover the staples. I would like to hear the officials reactions to those two issues. I have no other questions after that. I am happy to just get feedback on those two pieces.

Chairman: I do not know who wants to come in there. Who is brave? The first question is effectively on whether we can control energy prices in that kind of way.

Deputy John Lahart: It would not be capping them, but maybe restricting the increased levels by saying that you can increase but you cannot go beyond a certain point.

Mr. Brendan O'Connor: I genuinely do not know what the position on that is. Electricity prices in Ireland are regulated so I am not 100% sure what the legislative position is. I genuinely do not know. This is coming from someone with a background in regulation. I actually do not know what powers are available at present. I apologise for that.

Mr. John Kinnane: The key point there is we have the Commission for the Regulation of Utilities, CRU, but I would not be in a position to deal with the detail of the legislative background of energy pricing. The approach taken by Government was to introduce the energy credit to offset part of the increase in the electricity bills and then to use the fuel allowance as a means of targeting the additional funding at the most vulnerable sections of society and possibly the sections of society that are seeing higher levels of inflation because more of their income is being spent on the items the Deputy highlighted. That is the logic behind the approach, namely, to provide the broad-based support through the energy credit and then the targeted support through the fuel allowance.

Deputy John Lahart: We do not know this but maybe France does not have an energy regulator so that is out of the hands of Government here in this sense, even though most of the energy companies in France are state-owned.

The second piece was about being able to look at the top 120 most important staple retail purchases. Again, France is looking at trying to cap the price of these. Clearly, a retailer could decide to offset any loss of profit through the price of other items but it would at least keep the top 120 staples from increasing and inflating.

Mr. Brendan O'Connor: The Deputy is quite right about inflation in France. As far as I know, the rate of inflation in France was something of the order of 5.4% in April. I guess we are getting desensitised because in Ireland in April it was 7.3%, so it is comparatively lower. If you look at Irish inflation though, energy prices most recently, I think in April, had gone up year on year by something of the order of 44%. It only about 8% or 9% of the overall basket but that sort of increase probably accounted for about half of the inflationary increase or there or thereabouts. Thereafter, we are still seeing some price increases on the goods side. Essentially, for the past decade, goods prices year on year were generally negative, for many reasons. There was low-cost production in the far east and benefits from global supply chains kept prices low. That has slightly reversed. The pandemic has given rise to higher goods prices in Ireland and of course food is an issue. However, we are not yet in the space where some goods and some foods are the subject of very strong rates of inflation. On the basis of recent data, the price of energy is still the main driver of inflation. Today's data are interesting and show that US inflation was 8.3% in the month of April, but that core inflation, stripping out energy prices - energy actually fell by 6% in the US in April - was 6.2%. While the Deputy's question was about France, price increases in the US appear to be much more broadly based than in Ireland. In Ireland and in some other European countries, it has been very much concentrated on energy to date.

There will be some exceptions in the context of some products in the basket, but it is not yet at the stage where it is being passed through. We are expecting that to happen. I stated earlier that we expect to see the effects passed through. Obviously, food is one to watch. While there might be exceptions on a product-by-product basis, on aggregate, food price inflation is not accelerating very strongly. At this point, it is still relatively low and, interestingly, still lower than the euro area average. Of course, we have seen extraordinarily high increases in fertiliser prices. One fifth of our fertiliser comes from Russia. It is one of the things in respect of which prices have accelerated quite a bit. Wheat prices and general energy prices, particularly that of gas, will have an impact on products. It will take a bit of time. We might see it later in the year.

Deputy John Lahart: Mr. O'Connor is right. It would be interesting to drill down into this. An Indian friend of mine is one of the hardest-working people I have ever come across. He has worked really hard. He opened an Indian restaurant in Deputy Boyd Barrett's area between Monkstown and Dún Laoghaire. He opened a second restaurant in Sandyford just before the Covid pandemic. He has managed to keep them both going. The man in question told me that a 15 kg tin of tomatoes was €9 before Christmas and now costs €18. A tray of fresh chicken from his supplier used to cost €43 or €44 but he got it discounted to €38 because he was a regular purchaser. It now costs €83 or €84, discounted to €78. He has also been affected by the cost of petrol and diesel. This is because he does a lot of deliveries for people who order takeaways.

I asked him if he was planning on increasing his prices. He told me he was waiting until September. Indian food is hot food and people tend not to come out to the restaurants so much at this time of year. It is more of a winter kind of thing in colder weather. Last week, I walked up Pembroke Road and looked at the menu in FX Buckley's. I noticed that an 8 oz fillet steak costs €42 and that a 10 oz one costs €46. FX Buckley is a good butcher, and it has a number of high-end restaurants for those who can afford to pay the prices. Those are colossal prices. My Indian friend had not passed on the cost to the consumer. If he does in September, if others are also holding back, it will be pretty substantial.

The figures I have provided are not made up; they are real figures. I was very much taken aback by what I discovered. I do not expect feedback, I am just highlighting this as something to keep an eye on. I am surprised at what Mr. O'Connor said to the effect that most of our inflation relates to energy. It is very noticeable that the price of a cup of coffee and the other bits and pieces people buy all seem to be increasing.

Chairman: Does Mr. O'Connor wish to come back on that?

Mr. Brendan O'Connor: I do not disagree that certain products are probably the subject of high rates of inflation. Regarding the aggregate for food, I am just looking at the March data. In March, inflation stood at 6.9%. Food price inflation contributed about one percentage point in total to that. Energy contributed approximately four percentage points which brings it up to five percentage points between food and energy. Obviously, goods and services make up the extra two percentage points to make 6.9%. That is the average. Obviously in every month there will be some items in any given basket with very strong rates of inflation, for instance the ones the Deputy has mentioned. There will be some that will experience decreases. On aggregate, for food and non-energy staples we are not yet experiencing very high rates of inflation. I certainly would expect to see food prices rising over time, particularly given that the price of wheat has increased by 44% and with very high rates of inflation for things like fertiliser, which has increased by 75%. In fairness, we have relatively strong projections for core inflation, non-energy inflation, of about 4% this year anyway. That would probably tally with what the Deputy is saying. We are expecting to see it in an aggregate sense later.

Deputy Michael Healy-Rae: I thank our guests for have giving of their very valuable time today. The times we are facing are extremely unusual. Deputy Lahart gave examples of his hard-working and nice friend who is struggling with the ever-increasing costs of the goods he supplies to his customers. I have been a small shopkeeper for over 30 years. Particular goods we have in a shop are called lines. One of the biggest problems we now have with an awful lot of lines in a shop is not the cost of them, which is outside our control, but the actual supply of those lines. It is the most random things. For example, it can be a type of fruit, tinned food or anything. It is the most unusual thing that can happen all of a sudden and it can go on for a couple of weeks or for a couple of months in every shop. For instance, it could be lemons and there would not be a lemon to be got in any shop because they will only last for so long. If the supply has stopped, everyone in a particular locality has no lemons and that can go on for weeks or months. That has been happening with many hundreds of lines. That is a problem we seem to be having. I am afraid it will be beyond the reach of everybody to try and sort that. It seems to be getting worse.

I wish to speak about public contracts. In case that anybody says that I have a conflict I am not declaring, I just want to say that I work at public contracts. I would not have any benefit or loss necessarily. I would be working as a subcontractor for larger contractors. My interest is obviously in the provision and delivery of the major public works that we want to do, such as our school building programme, road building programme and hospital extensions works.

For some time, I have been shouting about and looking for something to help contractors with inflation. I welcome the inflation co-operation framework that was announced yesterday. My question for the guests is whether they really think this will be enough. In other words, will we still be able to get contractors to sign a contract with local authorities or the housing department to build so many houses at such a cost? Will people take on the building of a bypass or a new section of road and agree to tie themselves into contract prices? Will the assurance and what we might call the comfort zone which was provided yesterday be enough to ensure that the State will continue delivering on the programme that we are committed to delivering?

For instance, regarding access into County Kerry, we obviously want to see the Macroom bypass finished. We want to see Listowel bypass, which has been started, finished. We want to see the bypass coming down from Adare started. Those are concerns I have. The same applies to hospital works and school building programmes. Many schools are on a programme for refurbishment and some are awaiting an entirely new school. Some of those are in County Kerry and throughout the rest of the country. When I am talking about Kerry, I am obviously talking about the rest of the country as well, because everybody has these concerns. Do our guests think the measures put in place are enough to ensure we will continue delivering the works we have promised? That is the first issue.

The second issue is our energy security, on which I have spoken and campaigned for a long period of time. I was extremely disappointed that the provision of a liquefied natural gas facility was abandoned in the programme for Government. I was obviously very disappointed with the Green Party, but I was hoping Fine Gael and Fianna Fáil would have insisted on it staying in the programme for Government but they did not. They all abandoned it. How do our guests think the lack of energy security in Ireland will hinder and upset the ever-increasing cost of our electricity?

In recent days, I was contacted by people from a middling-sized town. They run a chipper. It is not McDonald's or Burger King. It is just a chipper run by two family members. They are very efficient and hardworking people. They told me that their monthly ESB bill is €10,000 every two months, that is €5,000 a month. They said that this is unsustainable. They cannot put up the price of a carton of chips or a burger to cover this cost. They have to be mindful of their pricing structure to ensure their customers can afford to go to them. They have been in business for many years and they are seriously considering throwing in the towel.

Due to the fact that we will be so reliant in the future on England and France, and we are dropping the ball as a Government in ensuring we have gas or energy supplies ourselves, we are letting down those types of hard-working people and, indeed, young couples and householders who have endured enormous price hikes. All we are being told is that it will continue. That is unsustainable. I would like to hear our guests' opinion on the Government taxing the life out of them, doing very little to help them, and at the same time saying it will try to give them back a bit of money by taking a couple of hundred euro off their ESB bills to keep them quiet. The people are not falling for that.

We saw the rejection of what happened in the North when Green Party policies were thrown out the window. That might be an eye-opener to Fine Gael and Fianna Fáil in the South as to what will happen here if people do not realise that the big issue today is mom's purse. While we have great financial witnesses here today, they will know exactly what I mean by mom's purse. If mom's purse is not right on a Friday evening, everything will be wrong in the world of finance after that. Saturday, Sunday and Monday will get off to a very bad start if mom's purse is not right on Friday evening. I was brought up to believe that. If that purse is not able to pay the bills, run the show, and have a couple of pounds for a rainy day, everything will be in disarray and chaos as far as I am concerned.

The last issue I raise is farming. It comes back to the most basic need of all, which is feed. In order to have feed, we must have fertiliser. I thought I would not live to see the day when bags of fertiliser would cost €50 or €55, a price which continues to go up. One would nearly want to take the fertiliser out with a spoon in case one would waste any bit of it because it is so valuable. It is crazy. That model is unsustainable. Some parties have said that they want to reduce the national herd. This will make it very easy for them because people will not be able to keep the animals over the winter. If they cannot keep animals over the winter and if we do not have a supply of beef coming into the trade, we will have food shortages because it will not be viable for farmers to stay in business and supply milk, beef, or lamb.

We have seen what happened in the pig industry. It is unsustainable for pigs to be sold at a loss of up to €30 and €35 per pig. Many people might not think about that. Our hardworking piggeries that have survived different calamities over the years will be forced to closed in the coming months. The package that was delivered was a sop. It meant nothing in real financial terms. I could provide figures in which it equated to 35 cent per pig to certain piggeries that supply an awful lot of pigs in the trade and whose losses are enormous.

We are facing very serious problems. At the same time, we heard the Minister for Finance last week, and I have heard him in other public outings, say that the moneys coming into the Exchequer are very large. While that might be happening, mom's purse is in serious difficulty and jeopardy at present. I want to know what more we can do about it. The idea that this scheme and that scheme will be made available is akin to chasing our tail. What we have to do is try to bring down the massive increase in the cost of living that the people endure. Today, for example, there was a motion before the Dáil on wage increases. I would love for people to have larger wages but we have to be mindful of the employers who are trying to pay those wages and find it very difficult to run their businesses. Again, it is a case of the dog chasing the tail. If we could arrest the massive increase in the cost of living, everything might start to stabilise. I am sorry if I have gone on too long.

Chairman: The Deputy is just a little over time. There was a lot in that contribution and I will hand over to our witnesses to see if they want to respond to some of it.

Mr. John Kinnane: I will deal with the issues raised in regard to the construction contracts and the changes introduced. The changes the Minister for Public Expenditure and Reform announced yesterday were the second set of changes announced this year. On 7 January, in order to address the inflationary pressures we saw through the latter part of 2021, changes were introduced that applied to new contracts moving forward. Under the contracts for public works that were in place prior to 7 January, there were stringent requirements in the cost of recovery during the fixed-price period. Very high levels of inflation were required before a contractor could recover costs.

In recognition of the fact that we were in a period of high price volatility, changes were introduced in January that applied to new contracts. Since then, with the war in Ukraine, the situation has deteriorated. Some issues were highlighted and a number of contracting authorities and Departments raised these with the Office of Government Procurement, OGP, and the Department of Public Expenditure and Reform. They included difficulties with existing contracts and issues as a result of the high increases in fuel costs, which were impacting on contracts for roads that require a large amount of machinery. Bitumen was also an issue there. Following this engagement, the Minister decided to make further changes. These changes addressed contracts that were already in place in January.

At the time of the January changes, it was anticipated that we might see a moderation in inflation and that contracts which were already in place would be able to manage within the existing contractual arrangements. The changes introduced yesterday now allow for retrospective recovery of price increases on materials with respect to payments made since 1 January for projects delivered under the old forms of contract dated prior to 7 January 2022. Contractors will be able to recover price increases above the position of the relevant index at the point that they submitted their tender. This applies until the completion of the project. There is also retrospective recovery of price increases associated with energy and fuel with respect to payments since 1 January for projects being delivered under forms of contracts dated prior to 7 January. Contractors will be able to recover price increases above the position of the relevant index at a defined date. This will also apply until the completion of the project.

The forms of contract dated from 7 January already contain measures to recover inflation on materials over defined thresholds. However, recovery of energy and fuel prices will now also be permitted as part of the measures introduced by the Minister yesterday.

Bearing in mind the supply chain disruption which contractors are facing, relief is also being provided in the form of an extension of the date for completion for the contract where there is disruption to the supply of materials linked to the war or to the pandemic for all public works contracts. The measures set out by the Minister represent a balanced and proportionate response that looks to protect the delivery of the national development plan in a manner that also protects the Exchequer.

Mr. Brendan O'Connor: I will make a very brief point. Deputy Healy-Rae made reference to mom's purse. He is speaking there to inflation and to the cost of living in a general sense, and I like the way he has put it. We have had big increases in the Irish economy in gas and oil prices and we know why that happened. These were obviously rising last year as well. There were very strange things going on in gas markets in the world. Gas is usually bought in a therm - do not ask me to explain what a therm is or what it looks like - and, generally speaking, it costs about 50 British pence for a therm. It has been like that for a very long time where it may be 40 cent in the summer, where one is not using a great deal of gas, and 60 cent, perhaps, in the winter. It increased considerably last year and breached the £1 mark and was £4 at one stage during the early days of the war. These are price levels we have never seen in natural gas and there has obviously been a big oil price shock. The cost of fertiliser is up approximately 150%, and this is also a by-product of natural gas. Wheat, corn, soya beans, cooking and sunflower oil, one can name any product, and they have all increased greatly in price. These are all things we import.

Earlier on we spoke somewhat about food prices and capping such staples. We domestically produce some of these, such as cooked chickens or unprocessed foods, but we import many of these. Essentially, income in Ireland is going to producers of fossil fuels around the world and the economy as a whole is poorer.

There is also then this debate or judgement, and one is getting into the core of policy here which I will not really comment on, about who takes that burden, be they households, firms or the Government. Previously and certainly in the 1970s, and I have followed much of the discussion that has gone on recently about things like stagflation, which is where there is high inflation and low growth, the view at the time was that governments should borrow a great deal of money, run massive deficits and try to protect the full economy from the oil price shock as it was at the time, and from OPEC essentially. Growth rates collapsed afterwards and unemployment completely skyrocketed.

The judgement that is being made now is that the Government will bear some of the cost and try to do this in a targeted manner. That then becomes a decision, judgement or analysis as to whether that is enough, but much of the analysis, which I believe Mr. Kinnane mentioned in his opening statement, has shown that most of the gains have been to lower income households, which is what I think one probably tries to do when one targets these measures. At least the gains from those are going to the types of households that one wants to target these measures at. The higher income households, obviously, have a great deal of savings from the pandemic, and the analysis shows that things like the types of subsidies and allowances Mr. Kinnane spoke about are going to the lower income groups. That is probably as much as I can say without going into policy.

Deputy Richard Boyd Barrett: Perhaps following on from that point, Mr. O'Connor put it well there when he said that the rising cost of energy is going into the pocket of energy providers. This very accurately describes what is going on. Somebody is benefiting from these price rises and it is the fossil fuel companies and the energy providers. I wonder if any consideration has been given or has there been any discussion at all - I appreciate Mr O'Connor cannot veer too much into policy as this is the area for politicians, and so on - about trying to control the cost of these things essentially by levying, either at a national, European or international level, the profits of those who are doing well ? There is much international co-ordination going on these days, with unprecedented unity in the European Union when it comes to sanctions. Is there any thought on co-ordination when it comes to controlling the price or the profits, or both, of the fossil fuel companies and the energy providers? Might that be a way to address the problem rather than chasing the price increases by giving money to people but, essentially, that is just public money going to those fossil fuel or energy companies?

I noted the discussion earlier on about what legislative powers are available to the Government. I take the point that the Department of Finance and the Department of Public Expenditure and Reform might not necessarily be familiar with that. To address the point raised by Deputy Lahart and to familiarise people with it, the power exists to control the price of goods in, I believe, sections 60 and 61 of the Consumer Protection Act, where in situations of emergency the Government is allowed to control maximum and unit prices of goods and services. Legislative power is there to do that and I wonder if any consideration has been given to doing that in the discussions as to how we might deal with these things, because it is worth saying the profits of energy companies have gone up considerably.

I will also be interested in hearing some comment because the profits of these energy companies went up long before the war in Ukraine and so have the prices. To my mind, Ukraine is obviously having an impact, but there were also increases in energy and fuel prices before the war in Ukraine. I would like to hear our guests comment on that and on why that was happening. The website *bonkers.ie* has in recent days done some work in this area and estimated that energy prices in Ireland are something like 25% higher than the average in Europe and are among the highest prices in Europe. Four other countries in Europe have energy prices in the same high range as us. Why are we at the higher end? Twenty years ago, we had some of the lowest energy prices in Europe, before the deregulation and privatisation of ESB, Bord Gáis and so on but we now have some of the highest energy prices. Will the witnesses comment on that?

There is a narrative that, given the impact of Ukraine, fossil fuel supply and the cost of fossil fuels, we need to develop more renewable energy. We need to do that anyway for climate reasons. Is it correct to say that even if we develop much renewable energy, it will have no impact whatsoever on the market price or even on the security of supply? We have much more wind energy in this country than we used to, but it has not coincided with a reduction in electricity prices, even though we produce far more wind energy than we used to. It has coincided with an increase in energy prices because, no matter how much energy is produced, the international market sets the price. Energy production could be 100% renewable and it would not make any difference to the cost of electricity unless we publicly owned and controlled it and the prices. Is that correct? At the moment, all those prices are set by the market.

In their opening statement on the cost of living, the witnesses did not make much reference to the cost of housing and rent and what we will do about that. Will they comment on that? I am of the view that we need to bring in rent controls and to have maximum price ceilings on what can be charged, because every other measure seems to have failed. I do not believe there is any evidence that ramping up supply will lead to a reduction in rents or house prices, as the Government is saying. I do not know of any evidence in the history of this State of rents or house prices falling just because supply happened to be increasing. The opposite happened in the Celtic tiger period. Does the Department of Finance think, if we ramp up supply, that rents and house prices will fall at some point? If that is the thinking, where is the evidence for believing that might be the case? I do not see how it could happen and do not think there is any precedent for it happening.

Mr. John Kinnane: The Deputy's first point was about the knowledge or otherwise of energy regulation. I will hold my hands up and say that I am certainly no expert on this. In response to Deputy Lahart's question, I understand that while price caps could be implemented, there are certain key considerations. The key driver of the increase in costs is the increase in raw material prices, including natural gas and oil. The ability for energy companies to absorb this may be limited and price caps could be an issue. In the UK, some electricity suppliers which had a price cap went out of business. The other crucial aspect follows on from points made by Mr. O'Connor about distributive impacts of the measures taken. A cap is broad-based by its very nature and everybody benefits. The measures the Government introduced in February applied a mix of broad-based measures through the energy credit and using the fuel allowance, in the social welfare system, to provide additional support of €225 in two lump sum payments to the 370,000 recipients of the fuel allowance. This approach of targeting funding and support to the most vulnerable can be effective in alleviating the burden on people who are experiencing difficulties.

Mr. Brendan O'Connor: My knowledge of the consumer legislation is extremely limited, so that is new information on the use of caps. Being a macroeconomist, the policy advice that I give is quite different to this issue. I have limited knowledge of the profitability of energy companies in Ireland. Some are State-owned and some are not. The majority, with probably just one notable exception, buy energy on international markets and essentially just supply households and businesses domestically. We have a gigantic cost shock. If the price was capped, someone would bear the burden, including owners of those firms, which is the State in some instances. I have not looked at the balance sheets or profitability positions, so I could not comment. Someone has to bear the cost of what comes into the country. The Government has made some effort to alleviate the burden on certain households. The private sector has to bear some costs as well and probably is in some examples we have given here. The economy, society and State as a whole are worse off from the shock. Where the burden of policies fall has to be thought through. It is like when one pushes something down a hole and wonders where it will pop up on the other side. If I had given it more thought, I would probably be able to do more analysis today, but these are the thoughts I have here.

The Government has a housing policy, which I understand is settled. The intention is to increase supply and there are various mechanisms to do so. Supply is increasing. First quarter numbers were the strongest in the series. There is seasonality to housing supply. One should not multiply the 5,000 or 6,000 units produced in the first quarter by four and end up with an annual number, because numbers generally pick up throughout the year. Those numbers in the first quarter are encouraging and suggest a substantial increase in year-on-year supply. Approximately 35,000 housing units have started construction in the last 12 months. That does not mean there will be 35,000 completions in the next year. It depends on the mix of housing units. Some take longer than others. We will see something in that order in the next year to 18 months. There is unmet demand from the last decade or so. The reasons for that are reasonably well understood and have been debated in many forums. That demand needs to be caught up on. It is the view of the Department and my view that increase in supply will alleviate the increase in price, whether on the purchase or rental market. My view is that increasing supply is a means of alleviating the issue but there are many other policy instruments in Housing for All, which have been discussed in many fora.

I have answered the points made about a cap and housing. Was anything missed in the middle?

Deputy Richard Boyd Barrett: I know that some of this is policy although I challenge the economic thinking. I defy anybody to provide evidence that where one increases the supply of housing, rent or house prices come down because that did not happen in the Celtic tiger period and there is no sign that is going to happen now. Obviously it is up to the Government to think about that but economists or somebody must question such thinking.

Mr. Brendan O'Connor: The Celtic tiger comparison is interesting. It is not necessarily the market that I would immediately go to where one is trying to see is it worth comparing. Obviously there was tonnes of supply at the time and we produced something of the order of between 90,000 to 100,000 units per annum or one for every 50 persons in the country, which is a huge number.

Deputy Richard Boyd Barrett: Yes.

Mr. Brendan O'Connor: This is well understood and there are books about this stuff although the units were not necessarily in the kind of areas where everybody wants to live. Many other factors affected house prices at the time other than supply. There was a credit surge. There were loads of different things that are well understood and well written about. There was the way the tax system was structured and how that incentivised certain types of activities. For sure, in the housing market, there was a hell of a lot of credit chasing people and people were purchasing for various reasons.

The rental market was a little different at the time. The rates of growth in the rental market, and I do not have the figures to hand, were nothing like what we saw in the house prices at that time, which might point to the fact that supply was having an impact on rent. Certainly not negative rental growth and I think that would probably have been unusual. The Deputy is quite right that in most markets in the world one tends not to see things fall, and certainly in housing markets. Normally they would increase at least with median income or these types of metrics. There was definitely a different story during the Celtic tiger between the rental market and the housing market. The house price market at the time was completely dysfunctional and would not normally be the one that I would point to as one that would indicate that an increase in supply had an alleviating effect on price.

Deputy Richard Boyd Barrett: One would be hard pushed to find evidence anywhere and not just in that period. I cannot envisage the circumstances in which house prices or rents are going to fall here even as supply increases. I think that privately delivered supply will dry up as soon as they cannot make money and they can only make money by charging very high prices. I just do not see how a reduction is going to happen.

Chairman: The Deputy is well over time.

Deputy Richard Boyd Barrett: I had a question about energy prices. Ireland produces more renewable energy than we have ever done before but that has not had an impact on the cost of electricity. In fact, the cost of electricity has increased rather than decreased. Does that situation give pause for thought as to what is going on? Even though we can increase our supply of renewable energy, which we have been told is the answer to the difficulties that we now face, but that has had no impact whatsoever on the price of energy.

Mr. John Kinnane: We might get back to the Deputy on his question.

Mr. Brendan O'Connor: Yes.

Mr. John Kinnane: It is a complex issue. When one considers the supply of renewables and the mix between renewables and gas-fired and coal stations, what is driving up prices is the huge increases in fossil fuel prices. The proportion that renewables account for within the overall mix is not enough to offset the huge fossil fuel increases. We might get back to the Deputy separately with a short note on the issue.

Deputy Aindrias Moynihan: I thank the witnesses for the very informative overview. I have listened to a great deal of the discussion and I will try not to repeat material that has been discussed.

The cost of living is hitting many people hard and inflation has increased to almost 7%. The cost of living is very uneven in that some people experience its impact much more than others. For example, when we spoke to officials from the Central Bank they pointed out that rural people, people on fixed incomes and older people are hit hardest by the cost of living.

There is a range of packages available ranging between the fuel allowance, the diesel and petrol prices for school buses and so on, health charges and electricity charges to support people in different ways. Have the officials measured whether the packages reach the most hard hit people? Can they get a handle on the situation? Have they identified other ways to ensure that future measures focus on supporting the people who are hit the hardest by the cost of living and price increases?

A lot of focus has been on energy being the key driver for price increases. However, Covid restrictions and the subsequent disruption to supplies have caused a lot of price increases. For example, the scarcity of timber and insulation products increased the price of construction. At the moment there is much more severe Covid restrictions in China. Also, a huge volume of business, which amounts to over €20 billion, is conducted between Ireland and China and concerns a whole swathe of goods that range from textiles, machinery, electronics and every kind of a thing. What consideration is given to the disruption in supply and the price increases that flow from same? Have the officials measured the effects or taken them into consideration? For example, Shanghai port is experiencing delays due to Covid restrictions and over 500 vessels are waiting outside many Chinese ports thus the unavailability of materials will have an effect in a range of places across the world and I expect that prices will increase.

Mr. Brendan O'Connor: I will answer from a macroeconomic perspective and I shall answer the last query first.

The Deputy is right. This time last year and any time before the war or during the winter I would have probably said that economies have re-opened and there is a massive surge in demand for goods, although services are completely restricted so consumption has shifted completely over this way, and that has driven up prices around the world. At the same time demand is rising but there are supply shortages for the exact reasons that the Deputy has described, which occur today but occurred this time last year, but that we expect the situation to be alleviated. I refer to things that affect the production of cars and the supply of semi-conductors and, indirectly, the supply of semi-conductors is affected by things like inert or neon gases, which come from Ukraine. So the same problems that we had last year we are likely to have this year though admittedly for different reasons. There is a disruption in the global supply chains but whether it is the energy stuff that we talked about earlier or imported goods into the economy a lot of it is completely imported. It is very difficult, and China's Covid strategy will prolong these disruptions.

Some of the data we have seen, even in today's release in the US, shows there are starting to be reductions in, for example, the price of motor vehicles. I raise the US data because they are the most current. There has been a large increase in costs such as those relating to airfares and hospitality, on the services side, and some easing on the goods side. My personal view is this stuff is still time-bound but, obviously, it is dependent on factors over which we have zero control. Trucks that may have come from Far East manufacturers as an alternative to ships last year, when ships were constrained by certain port bottlenecks, went through Russia to get to Germany. Obviously, that is now unavailable to them and it will take time to find alternative solutions. It is as though sand has been thrown into the cogs; the supply chains have been completely disrupted. Nevertheless, there is evidence that the issue is being alleviated and that it is time-bound, but the Deputy is quite right that the problem is very acute at present. It is not unique to Ireland but is a global issue.

Deputy Aindrias Moynihan: Mr. O'Connor suggested the problem is being alleviated even though that blockage remains-----

Mr. Brendan O'Connor: Yes, it is being alleviated for certain items.

Deputy Aindrias Moynihan: Much of our inflation is being driven by energy price rises, but this other heavyweight issue exists as well. Is Mr. O'Connor saying that it will not reach us or that it is being alleviated? If it is going to hit us, it will be a double whammy that will add further to the crisis.

Mr. Brendan O'Connor: It already has reached us. It has been in the system since around this time last year. Goods were declining in price year on year for the guts of a decade, which was curious because the question arises as to whether the prices will eventually fall to zero. The trends for services, on the other hand, were positive. If I had showed the committee a chart on inflation, we would see an upward line, not very steep, at about 0.5% per annum. The trends for services were all positive and those for goods were all negative, but that just abruptly stopped last year as we flipped out of the pandemic because of all these blockages associated with the pandemic, some of which remain, such as the issues in China the Deputy mentioned. While there is evidence that some of those blockages are easing - I mentioned motor vehicles in the US - our inflation projections completely bake them in. Non-energy, non-food core inflation will be 4% this year. These are really high numbers in the context where, as I said, goods prices were trending towards zero, but that is not unique. Every country is facing it. In the US, core inflation was 6.2% in the month of April, which is really high.

This takes us back to the point we were making earlier, namely, that countries that are not producers of raw materials or fossil fuels are becoming poorer as a whole because the costs of their imports globally are increasing. It has to be a case of burden-sharing. We talked about the energy measures earlier. They were an effort on the part of the Government to target and point at certain imports. This leads me to the Deputy's first question, about the economic evidence. He is quite right about the Central Bank research, and OECD research, published in a blog today or yesterday, shows the very same point in a cross-country sense. Of course, lower income households spend more of their income on staples, as do older and rural cohorts, depending on their energy mix. The best way to focus on that relates to income. We should examine income groups and the analysis that is generally based on income. Most of the analysis we and the Economic Social Research Institute, ESRI, have conducted seeks to find the impact of budgetary measures on various income groups. It is correct to say older households are more severely affected, but not all older households will be in the first, second or third deciles. In fact, what we should care about is the intersection between low income and older age. The evidence to date, based on the analysis of the budget we carried out, the analysis the ESRI conducted on the February and March package and further analysis we have done on all of that, has consistently shown that the highest gains from these measures have always been in the lower income groups.

Deputy Aindrias Moynihan: Could further measures be identified to focus on the people who are hardest hit to alleviate their difficulties?

Mr. Brendan O'Connor: I will hand over to my colleagues to respond.

Mr. John Kinnane: In the package of measures that was introduced in February and, subsequently, in April, the focus has been to use the fuel allowance to provide targeted support. Obviously, the fuel allowance is a means-tested payment and, therefore, as Mr. O'Connor suggested, the support can be targeted at the lower income deciles. The key with trying to implement these measures in February and subsequently was to do so quickly. The energy credit was a broad-based payment that provided some support to everybody. Given that the legislation had been published, increasing it to €200 inclusive of VAT, or about €176 net, could be done quickly. The legislation had been published and could be enacted quickly, with the funding put in place. Likewise, the fuel allowance was a means of quickly getting these bullet payments, of €125 in March and €100 subsequently, to people in the lower income deciles. In the budget, there was a €5 per week increase for all working-age payments and pension payments, and there was an increase in the qualified child payment of €2 for under-12s and €3 for over-12s. Furthermore, there were increases in the living alone allowance and the working family payment. These were all put through SWITCH, the distributional analysis, which showed they were effective in providing income to the lower income deciles. That is the type of support that can be very effective.

Deputy Aindrias Moynihan: The four deciles in the middle do not qualify for social welfare or the fuel allowance. They travel into and out of work every day and pay for that in diesel. They may live in a rural area and may not have public transport other than, perhaps, the school bus. Are specific measures identifiable that would be able to support that cohort of people, who are likely to be suffering a great deal from the cost of living?

Mr. Cathal Sheridan: Fuel costs have increased significantly. Figures I saw earlier show that the tax-exclusive price for petrol went from €0.48 in February 2021 to €0.82 in February

2022 and €1.01 in May 2022. There is a very significant problem, as is reflected in the price of diesel as well. The Government has responded through the various measures relating to excise, whereby it reduced excise on petrol by 20 cent and diesel by 15 cent in order to alleviate those problems. There are limits to what the Government can do within that, given there is an excise directive that imposes a minimum level to which the State must adhere. The Minister for Finance, in considering this and making these changes, was conscious that excise is a considerable revenue-raiser that is used to pay for the running of the State, so a balance had to be struck in trying to improve the circumstances of people who were affected by the rises in fuel costs while recognising, as I think everyone does, that it is impossible to alleviate the issue altogether. That was the balance he decided to apply. It is fully appreciated that the measures have merely tempered a very significant increase and prices remain at a very high level, but if these changes had not been made, those prices would be considerably higher.

Deputy Mairéad Farrell: Go raibh maith agaibh as ucht teacht os comhair an choiste. I missed some of the debate as a result of being at another committee. If I am following up on things that have already been talked about, the witnesses should not hesitate to let me know.

One of the issues I would like to get a view on is inflation, on which there is a lot of discussion at the moment. What we frequently hear is around a wage-price spiral. We see that energy prices and the reopening of supply chains are driving inflation rather than wages. I saw a graph in the *Financial Times* this week that showed hourly earnings in the private sector back as far as 2015 in the eurozone in comparison to the United States and Britain. It showed that, since 2020, wage growth was almost stagnant in the eurozone but there were good gains in the US and Britain. I would like to hear the witnesses' views in regard to evidence or lack thereof of a wage-price spiral. If wages are not the driver, would an inflation-adjusted wage increase not be of benefit? That is my first question.

Mr. Brendan O'Connor: It is an excellent question. Where do I start? The wage data in Ireland for the last year or two are borderline impossible to interpret. When we get down to averages, we had 600,000 people on the pandemic unemployment payment, PUP, in 2020 and they are all, comparatively speaking, lower-paid, part-time workers. Therefore, we get this massive mechanical shoot-up in the average wage because we are dividing the wages of those who are still in work, which is comparatively higher, by a much smaller number. It is very hard to interpret. However, although they are not the official data on wages, which, as I said, are completely messed up, some data have been published by the Central Statistics Office, CSO, which looked at tax records for people who were in jobs in subsequent quarters, and it is almost controlling for everyone who was on PUP and similar payments. As of the fourth quarter of last year, quarter on quarter, from the third quarter of last year, on a like-for-like basis, wage growth was of the order of 6%. Therefore, in Ireland, for those within work over the past year or two, wage growth was actually quite strong.

That probably explains what we have seen on the income tax side, given it has been difficult to explain what has gone on with income tax in Ireland, where there was near double-digit growth last year. Is that because of people coming back into work who lost employment because of the pandemic, or is it because of wage growth for people who are working and have continued to work? There is no easy answer to that. However, if we look at what happened in 2020, when we have this huge fall in employment but income tax only fell by a tiny amount, it probably speaks to those who left employment and were supported by the PUP being comparatively lower paid and, therefore, paying comparatively less tax. Therefore, it would stand to reason that when they return to work, there would not be a huge tax dividend, which then probably speaks to the fact that if income tax in particular shot up last year, it must be to do with wage growth within the economy.

In my view, even though the national official statistics do no not show it, there is evidence from Revenue data and the like that there was quite strong wage growth in the economy. Of course, at the same time-----

Deputy Mairéad Farrell: I am sorry to cut across Mr. O'Connor. Would that be in certain sectors and limited in terms of the number of people who would have seen that wage growth, although that could still have been significant?

Mr. Brendan O'Connor: If we look at those same data, it is definitely across the board, even in sectors that were more affected by the pandemic than others, and those within work were still experiencing wage growth. However, yes, it was absolutely tilted towards those sectors where profits and revenues were growing, particularly the multinational sector. That would make sense. If a firm is making an awful lot of profits, it is reasonable that there is a return to the people working in it.

To get to the core of the Deputy's question about wage-price spirals, that is the economic question of the age, namely, what do we do in an economy where there is comparatively high inflation? All economies are quite different at the moment and the components of inflation are very different. If we look at US data, there is a very particular story over there. Core inflation is through the roof and is up at about 6% or 6.25%. That is why we have seen the Federal Reserve moving and if it really wants to control it, there is probably a considerable degree of work, if we consider what market expectations are for interest rates at the very end of the year. By the way, the US labour market is super-tight and unemployment rates are at 3.5% or something like that. In the UK, it is kind of a similar story, which is one of pretty strong core inflation and super-low unemployment. In the euro area, there is a bit more slack in the labour market. That said, unemployment rates are at record lows and it is just that, historically, it has been a little higher. However, core inflation is certainly not biting to the same extent yet in the euro area, although it is definitely picking up and, in Ireland, is expected to be of the order of about 4% this year.

If we think about inflation as a whole, there are the energy products we import and the goods we import and, basically, pretty much all goods are imported into Ireland, certainly consumer goods, although some food is produced and consumed domestically. Then, there are services, which encompass many different things and, within services, wages account for perhaps two thirds to three quarters of costs. Therefore, if, as a rule, we are trying to ensure that everybody should be compensated for the full price increase, that clearly goes straight into the costs of firms and, ultimately, comes out the other end. To slightly simplify this, we can think of a market where things are quite competitive, say, fruit or if we want to buy a carrot in a market. If some cost upstream goes into it, whether it is a fertiliser price increase or something else, the price that the customer pays increases quite quickly. That is the wage-price spiral.

Where does that actually lead us? If I am to pre-empt the Deputy's next question of what should happen with wages, it is a very difficult one to give an answer to. Everybody tries to compare the situation today to the 1970s but it was a very different situation. We have independent monetary institutions now, central banks with inflation targets did not really exist to the same extent back then and we had economies that were way more energy-intensive. At the same time, we had a lot of economies where wages were simply indexed, so it completely did chase inflation. Basically, we had increased wages, which increased costs and increased prices, which again increased wages, and that was the wage-price spiral. That led to super-high inflation, really low output growth, in some cases recessions and very high unemployment.

I do not have an answer for the Deputy as to what should happen with wages. I would probably say that in normal times, and we are not in normal times, we would expect wages to increase at least with productivity and some compensation for price increases, but I am not going to say that increasing it for all of us would not have an impact on inflation in a spiralling sense.

Deputy Mairéad Farrell: I will not be able to quote Mr. O'Connor the next time I am discussing this in an interview. I am joking, of course.

Mr. Brendan O'Connor: The Deputy gets what I am saying. It is incredibly difficult.

Deputy Mairéad Farrell: It is an interesting discussion and it is the hot topic of the day. I thank Mr. O'Connor for that, as it was a very interesting response and engagement.

On another question, I cannot remember when we had the Central Bank officials in before the committee – it was at some point in the last weeks or months - but I asked them about the risk of stagflation. It now looks likely that the ECB will hike interest rates in July whereas for a very long period – obviously, this was before the war in Ukraine - the ECB was clear it was not going to increase interest rates. If we look back to previous times, the ECB increased rates in July 2007, when we entered the global financial crisis, and it also did it in July 2011, when we entered the eurozone sovereign debt crisis. This is something we discussed with the Central Bank officials and it was interesting to hear their response. I have a fear that the ECB will decide to hike interest rates in the middle of war and of high inflation which is primarily due to energy prices. I would be interested to hear Mr. O'Connor's view. My concern is that that would happen and it would not bring down inflation but could slow growth and increase the risk of stagflation. What is Mr. O'Connor's view on the risks of stagflation resulting?

Mr. Brendan O'Connor: Stagflation can mean many things to many people but probably in its purest sense refers to a high inflation environment with very low growth. We have revised down our growth forecasts, as is well known, by something like 2.25% but are still posting reasonable figures in the region of 4% for modified domestic demand. Admittedly, some of it is affected by the year-on-year comparison. We are not in that space in a baseline sense.

I refer to what could happen with much higher energy prices. Energy markets are extremely volatile. At one point yesterday, gas prices fell to 11 pence before quickly going back up to 146 pence. I was out watching my daughter play football. It was a warm day but full of wind, so people were not purchasing gas on spot markets. It goes to show that minor changes in the situation in Ukraine and Russia or by policymakers in Europe with regard to sanctions will have large impacts, positive or negative, on energy prices. It is difficult to say but as the prices go up and that affects inflation, obviously there will be a spill-over to growth. We have put that into the stability programme update in our scenario analysis.

On interest rates, I have to be careful what I say because monetary policy is completely independent so I will not give any strong views on that. The expectation is the ECB will move. Markets have priced in something of the order of 0.75% or 75 basis points before the end of the year. In the US, markets expect interest rates to go to something like 2.75% to 3%, while in the UK it is of the order of 2%. According to people who base their careers on this, European interest rates will still be considerably lower by the end of the year.

There is another concept, which I am sure any central bankers present would love to talk about, called the neutral rate of inflation. That is the one that is neither stimulatory nor contractionary. People have to estimate it and some make careers out of it. If the ECB gets to 0.75% by the end of the year, it will be considerably below any estimate I have seen of the neutral rate of inflation, which means the interest rates in Europe will still be expansionary rather than contractionary. They would have to go much higher, up to where the UK is, or even the US. I do not expect interest rates, given what markets are expecting, to have a significant contractionary impact on the economy unless things change hugely.

Chairman: I thank Deputy Farrell.

Deputy Mairéad Farrell: I thank Mr. O'Connor. That was very engaging.

Chairman: The Deputy had the look of somebody who could keep going but she is out of time.

Deputy Patricia Ryan: I thank the guests and apologise that I missed the beginning of the meeting. I was in a meeting and in the Chamber as well.

I have a question I encountered through a constituent this week. It concerns fuel costs, as well as consequent delivery costs and inflation on goods. The gentleman in question was a haulier who wished to avail of the diesel rebate scheme. He has a number of lorries on the road and purchased around 100,000 l of fuel in the first three months of the year. The difficulty is the scheme is set up with the requirement that the haulier must purchase fuel in units of 2,000 l or more. This company's tank is 2,500 l. Sometimes with a contingency order, when the delivery arrives, the tank will not take 2,000 l. This means the delivery does not qualify for the rebate. If the lorry is on the road and running low, it may pull into a garage and use the DCI card or whatever to fill up. Why is the scheme set up in this way? Could it be altered in favour of small businesses, many of which are struggling with rising energy, fuel and other costs, by taking into account fuel bought on trade account or by debit card?

When was the €100 per week hauliers support scheme first paid out and to when was it backdated? The briefing note says it began on 11 March. Recently I was on local radio and a constituency colleague was trumpeting it and saying it was there, yet people were texting in to say they had not received it. That was on 29 March.

Mr. Cathal Sheridan: I will take the first question. I am not sure I can answer it directly. I am familiar with the diesel rebate scheme which kicks in once diesel rises above €1, exclusive of VAT, per litre. It gives the hauliers a reduction of 7.5 cent per litre once they cross the threshold of about €1 or €1.16. Everybody at the moment, because of the price of fuel, is getting the maximum diesel rebate scheme. It is targeted at hauliers and at large-scale transactions.

The Deputy made the point that the transactions of the haulier she refers to are not sufficiently large to qualify for the scheme. I do not know what the answer to that is. I can try to get clarity on that point.

Deputy Patricia Ryan: The tank they use does not take the full amount of diesel required for the scheme on a regular fill. We need to address the issue. If they get 8,000 l of fuel per week over five deliveries and pay by credit card, they do not qualify for the scheme. However, if they buy 8,000 l in four deliveries, they do. That is the difficulty.

Ms Niamh Callaghan: There are two schemes: the rebate scheme referred to by Mr. Sheridan and the emergency support scheme. That is targeted at heavy goods vehicles over 3.5 tonnes. One has to also hold an operative road haulage operator licence. In deciding on targeting of this scheme, the Government considered the licensed haulage sector as a specific case for several reasons. Primarily, the sector is of national strategic importance as a critical enabler of the supply chain, bringing essential supplies into and out of the State, supporting key infrastructure and enabling the maintenance of economic and social activity. The Deputy mentioned 11 March. That was the day the scheme was announced but application forms were issued directly to all hauliers on 5 April. The closing date for receipt of completed applications was Friday, 29 April. Payments are to be processed after that date. That might explain the difference in dates.

Deputy Patricia Ryan: Perfect, I appreciate that. Have the recent measures to address the impact of inflation on public works contracts impacted on the forecasts of the SPU?

Mr. John Kinnane: The measures introduced yesterday apply in particular to a group of contracts not covered by the changes introduced in January this year. The new form of contract introduced in January allowed for greater cost recovery. For contracts already in place, there was no cost recovery as long as they were within the fixed-price period. The change introduced yesterday provides that there can be indexation based on CSO indices for payments from January onwards for those existing contracts. There is a retrospective element, given the payments that were made from January to date. There is an estimate that there is a cost of €30 million to €40 million for the retrospective element of this, so the scale of what was introduced yesterday would not impact significantly on the delivery of projects or capital envelopes.

The other change applies to all contracts, both the existing contracts and the post-January contracts. It is to allow for specific issues relating to fuel costs which were not covered by the January changes. This was impacting on certain roads contracts, in particular, where obviously the price of bitumen was increasing but the price of diesel required for the machinery was also increasing. There is also the change introduced which relates to the time. Given that supply chains are being disrupted because of the war in Ukraine, contractors who do not meet contractual time targets due to the supply chain disruption, where it is proven it is because of the situation in Ukraine, are not subject to liquidated damages.

Given the scale of the capital envelope that is available for this year, the retrospective element arising from yesterday's changes would not impact significantly.

Deputy Patricia Ryan: Does the Department expect that further measures to address the rising cost of living will be required in advance of budget 2023? If not, what might change the prospect of future measures being required?

Mr. Brendan O'Connor: The measures that have been introduced coincide with the economic projections that we produce. If one goes back to the time of the budget with the approximately €1.1 billion of measures that were introduced based on a certain economic scenario at the time, we have had an opportunity to update our economic projections which I believe, at this point, capture most of the energy price increases. I will not speak to the future if there is an escalation in the war to suck in third countries or no gas supplied to the EU whatsoever, but they were most recently introduced on the basis of what we think the next six months will look like. That is a reasonable way to put it.

Currently, to paraphrase something that was said by somebody else in the past, risks are getting riskier. There was a time when we used to do forecasts and we would have a lovely little fan chart around them based on what the past looked like, how wrong we were in the past and here is our point estimate but we think we are going to be within this. That thing is stretched. One could have energy prices bouncing from $106, or whatever it is today for oil prices, back up to $150. We model that, and that is published. The implications for growth and the budget balance are in the document and we have written about it. It could be gas prices that used to be 50 pence per therm permanently for a decade hitting £5 sterling. We have had such volatility. However, on the basis of what has happened since the budget and on the basis of market prices for what it is going to cost to buy gas, oil and all these things for the next year, it appears as if a lot of that stuff is now priced in. We have a good handle on where we are with energy costs.

Deputy Patricia Ryan: I thank the witnesses. That is much appreciated.

Deputy Danny Healy-Rae: I am glad to have the opportunity to ask a few questions. With regard to the energy credit for electricity, the cost of electricity has gone up way over 100% in the last 12 months or the last year and a half. People are asking me if there is any control or how the companies are allowed to do this while at the same time we read that they made €600 million or €700 million in profits last year. I am being asked if there is any control of them. Then there is ground rent. If somebody is not using a premises, and people were not able to use their premises because of the lockdown or whatever, the ground rent or the standing charges have gone up way beyond as well. People cannot understand it. While I accept and appreciate the money that is being given, it is not enough. What are the views of the witnesses on it? It appears to everybody that since Bord na Móna was closed down in the middle of the country that the price of electricity has been going up day by day. Have the witnesses any response? Perhaps it is not the right question for them, but I am being asked those questions. Is there any control or where will it stop?

Mr. Brendan O'Connor: This touches on nearly all the questions we have received today. They all have been excellent questions, like the Deputy's. All these energy prices are imported, so there is this massive shock to the Irish economy. Gas prices on wholesale markets in early March were ten times above their average price. They are currently approximately three times above it, so there has been a threefold increase to energy suppliers' inputs. Unfortunately for all of us, that is reflected in retail prices.

The Government has made its policy decisions. The effort was to try to alleviate some of those prices for everybody to some extent and then to target additional supports for lower income groups, such as fuel allowances and so forth. I am not 100% sure if I can say much more than that. Controlling prices has come up previously and I had to apologise to one of the Deputy's committee colleagues earlier. It is definitely not my realm. I am not familiar with those legislative powers or what could be done. All I can say is that somewhere someone has to bear these costs. Unfortunately, energy suppliers or energy producers elsewhere in the world are benefitting and economies that import this stuff, like ours, are poorer as a result. What does one do? Does one try to compensate the entire economy for all of these increases? That is one option. It was tried previously in the 1970s and it was probably a factor for the super high inflation and low growth we got afterwards. On the other hand, does one try to alleviate the burden for those who need it most through people who are on State supports such fuel allowances, which is the strategy that is being followed now? They all are difficult policy choices.

Mr. John Kinnane: I will follow up on those comments. We had a brief discussion on price caps. Apart from anything else, the key driver is the price of the gas and oil. It would be very expensive and it is not targeted. The Government has decided to target lower income households through the social welfare system, particularly through the fuel allowance and the two lump sum payments that have been made under that scheme, and then to provide broad-based support through the energy credit and the reductions that have been made on the taxation side, which bring us through to the budget. It is a significant intervention. When one totals all the interventions, they come to just over €1 billion. They certainly go some way towards addressing the issue. The Government has set out the position that trying to compensate completely for all the price rises in energy would be a huge burden for the Exchequer to bear. Nonetheless, the intervention that has been made is still very significant.

Deputy Danny Healy-Rae: There is another part. The closing down of Bord na Móna in the midlands means that we are using more gas to generate electricity. Is that a large factor in explaining why electricity prices are going up, day by day? It does not seem to be stopping. Electricity prices went up by 28% or 29% last week or the week before that.

Mr. Brendan O'Connor: There is a pattern to some of the questions today and I am just unable to answer them. Some of the questions, including those from the Deputy, would be for an energy expert or an energy economist. Again, I must apologise to the committee but this is genuinely not an area with which I am overly familiar, in terms of what determines electricity prices or energy prices in Ireland.

I would make one additional point in the context of the question of how much is the right amount of support. We must think about where the money comes from. The Government is currently running a deficit this year and is forecasting a very modest surplus next year. However, as we said in the stability programme update, if energy prices go back to the levels they were at in early March, and it is not inconceivable that they would do so - there are various scenarios in which one could see that happening - then next year's surplus is gone. The surplus would be gone simply because of higher energy prices, higher inflation in the economy and the impact they have on output. That is without any more policy measures by the Government. Meanwhile, the interest rate environment is completely changing. We have seen what happened with the Bank of England last week, and with the Federal Reserve a week or two before that. Irish bond yields which for a long time were either at zero, marginally below zero or close to zero are very close to 2% right now. The Italian bond yields are up at around 3%. We are seeing a big pick-up. The so-called "free money" era is gone. Basically, it is getting much more expensive for states to finance deficits. If we want to do more, it will have to be paid for in higher debt and higher interest and that is an important consideration in the context of policy decisions and policy choices.

Deputy Danny Healy-Rae: I welcome the 20% reduction in public transport fares for the people who can benefit from it. How much of the carbon tax that we collect is being directed to that measure? I come from a rural county where people have to travel to work by car because they do not have access to public transport. They are being thrown to the wolves with the costs. The carbon tax increased again in recent days. How much of the carbon tax is being directed towards the fares measure? Is there a figure for that?

Mr. Cathal Sheridan: The carbon tax increase for diesel and petrol came in last October and the increase on home heating fuels came into effect in May. Is the Deputy asking how much of the money raised per year is being allocated to mitigating measures elsewhere? Is he asking how it is spent?

Deputy Danny Healy-Rae: How much of it is being directed towards the 20% reduction in public transport fares?

Mr. Cathal Sheridan: That is probably more a question for the Department of Public Expenditure and Reform.

Mr. John Kinnane: At budget time last year, we set out in detail how the funding from the carbon tax increase would be allocated. It was allocated across measures in the social welfare area to take account of the increases in prices. Some of it was allocated towards the national retrofitting programme and some towards additional funding for the Department of Agriculture, Food and the Marine to encourage and incentivise farmers to transition to more sustainable forms of agriculture. That carbon tax funding has been ring-fenced, in effect, to protect the most vulnerable in society from the effects of the carbon tax increases, to support the retrofitting programme and the just transition. That is where the increase is being spent. When the carbon tax increase is implemented, how it is expended is set out each year.

I will ask my colleague, Ms Callaghan, to respond on the cost of the transport measure.

Ms Niamh Callaghan: The temporary 20% reduction in bus fare paid through the public service obligation, PSO is a separate measure to help people with the cost of living and to help those who are returning to commuting to work following the pandemic. The cost of the fare reduction from now to the end of the year is €54 million. This is also on top of the measure in budget 2022 to introduce a youth fare card on PSO and commercial services, which gives younger people discounted travel, at an average of 50%, across all services including city, intercity and rural services. There are a number of different public transport measures there, on top of the free travel scheme.

Deputy Danny Healy-Rae: I have a question on the diesel rebate scheme. It is my understanding that one has to have a haulage licence to qualify for the diesel rebate scheme. As there are many lorry drivers who do not have a haulage licence, they do not qualify for the diesel rebate. Has consideration been given to expanding the rebate scheme in light of the savage running costs faced by many lorry drivers? Could the scheme be expanded to include all lorries, including quarry vehicles, for example? I should say that a family member has a quarry and it could be construed that I have a particular interest in that regard. This is affecting a lot of people who did not have to have a haulage licence and who do not have one now. Given the savage cost of diesel at the present time, is there any possibility that the scheme could be expanded to include more people? Everyone is being adversely affected in the current climate.

Mr. Cathal Sheridan: It is fair to say that is very much a policy matter for the Minister. I am not aware, as of now, that he is giving consideration to that. The scheme has been around for quite a long time and has operated very successfully. It is very important to the haulage industry because it does give, what would have seemed in the past, quite a generous concession. Maybe now it does not seem generous because of whole scale change in the nature of pricing. I am not aware, as of now, that the Minister intends to make any change to the scheme. Obviously it is a matter he may look at but I cannot give a definitive view on it at the moment.

Chairman: As there are no other members with questions, I will ask a few of my own, if that is okay. I want to return to the inflation co-operation framework. I know from yesterday's announcement that there is more documentation coming but in the interim, I want to ask about back payments. This is a major issue for contractors and the scheme is very welcome. Who will audit the scheme and the process? Obviously, contracts can be quite complex.

Mr. John Kinnane: This is an *ex-gratia* scheme so it has to be entered into voluntarily by both the contracting authority and the contractor. The scheme is using indices that are published. This is not therefore a question of the contractor coming and showing invoices for materials. This operates based on published indices-----

Chairman: Published by the CSO.

Mr. John Kinnane: -----from the CSO. To that extent, there is an element of simplicity and transparency there. It is based on a published index. It is then a question of the-----

Chairman: The two parties to the contract-----

Mr. John Kinnane: No, they then fit the index to the payments made from January this year. It will date back, I think, to the tender award date. Regarding the other point concerning how it will operate, the OGP will be issuing guidance in the coming days to all contracting authorities regarding how the scheme will operate. It will send out workbooks that will be used by the contracting authorities when engaging with contractors.

Chairman: I take that point. I know it is, inevitably, going to be a complex area. I do not expect Mr. Kinnane to have all the details in front of him if this information has not even been published yet. What I am getting at is that many of the contracting bodies in this case may be local authorities or organisations of that nature. In a package like this, what is the engine of oversight? Often, local authorities do not come under the remit of the Committee of Public Accounts. They are audited themselves. On the other hand, this is a special scheme, so I wonder what body is envisaged - and I am not necessarily referring to the detail here - as auditing, keeping an eye on or providing oversight of the scheme?

Mr. John Kinnane: If it is a body that comes under the Comptroller and Auditor General, then when-----

Chairman: That is fine. It will come across my desk. I am on the Committee of Public Accounts.

Mr. John Kinnane: The local auditing service will look at local authorities. In designing this scheme and in using the published indices, that provides a safeguard that-----

Chairman: The benchmarks are agreed and calculated.

Mr. John Kinnane: There are benchmarks. They are published and there can be no dispute over this. An auditor can go back and check and the index can be viewed at the award date, and the relevant indices in that context. There is also an element of burden sharing in this scheme. It is a 70:30 split. The other issue is that this applies to a certain group of contracts and not to all contracts. If a contract was out of the fixed-price period, this scheme will not apply.

Chairman: Fair enough.

Mr. John Kinnane: It only applies to the live contracts, those that were live before the start of the year, are still progressing through this year and are not yet out of the fixed-price period.

Chairman: Does the Department envisage that where there are disputes, they would follow the same mediation pathways as other contract disputes in the building construction context?

Mr. John Kinnane: This is something we will wait for-----

Chairman: It is yet to be decided.

Mr. John Kinnane: -----the OGP guidance on.

Chairman: Okay. I was reading through the announcement information. I refer to the way it is written regarding delays to the supply chain. Sometimes delays to the supply chain can result in design changes, for example. In this context, proving that a delay is a result of the conflict in Ukraine is difficult enough. We could then be moving into a grey area, where there may be extenuating circumstances and increased costs due to the impact from the conflict in Ukraine, for example, but it might not be specifically around a material-----

Mr. John Kinnane: Yes.

Chairman: Mr. Kinnane has given his answer. He can see my point.

Mr. John Kinnane: On delays to the supply chain, that is a time concession, rather than a-----

Chairman: Okay. Fair enough.

Mr. John Kinnane: Ultimately, it could be argued that it is a cost concession in that liquidated damage might have been due, but-----

Chairman: Okay.

Mr. John Kinnane: -----the cost recovery aspect is the one based on the CSO indices. The time delay element is to be agreed between the parties and it is an extension of time for completion.

Chairman: To finish this point, regarding mitigating cost increases and delays, what can we do in this context? Language is used regarding an effort being made to mitigate cost increases and delays. Is it envisaged that it would be the contractors doing that themselves? The Department is not necessarily working on speeding up supply chains or anything like that because of the nature of the costs.

Mr. John Kinnane: No. This would be the contractors.

Chairman: Okay. I thank Mr. Kinnane. I have a quick question about the SWITCH system. We talked a little about this today and good examples were given of the various groups included in this context. We are in an incredibly volatile moment. I wonder about the Department's confidence in the SWITCH system's ability to respond to situations of particular groups. I am thinking specifically about child poverty and impacts on gender. I pose this question to the representatives of both Departments. I refer to the level of confidence they have in their own forecasts and the analyses of the impacts in the context of these aspects of child poverty and gender.

Mr. Brendan O'Connor: I hope I am not horribly wrong about this, but to the best of my knowledge, the SWITCH model is not strictly used. Let me get this point right. There are some household types in there, but primarily it is used for looking at income groups. I refer to households split into income groups. There is also some analysis within the SWITCH model of households, such as impacts in cash terms on different household structures. Regarding how confident we are in this regard, it is a difficult question to answer. As I understand it, this approach uses data from things like CSO household budget surveys and information on incomes of household groups, etc., to try to model the impact of tax changes. Therefore, it is a function of the data going into the model. What the model, or the modeller, then tries to do is to adjust these things for changes in wages or inflation. A starting point is modelled, then adjustments are made over time, based on forecasts-----

Chairman: It is calibrated.

Mr. Brendan O’Connor: Correct. Obviously, forecasts have been horribly wrong over time before. Generally, however, what happens is that they are updated with more information. What the model tries to do, at least, is to give an indication, today, of the impacts on people’s incomes from tax or welfare changes happening today.

Chairman: Mr. Cullen wishes to come in.

Mr. Joe Cullen: To support what Mr. O’Connor is saying, this is a kind of a large-scale, nationally representative model of households. To address the Chair’s specific point concerning whether this model goes down to a more granular level to include people in those households, and whether it is gender-specific or deals with children, I am not clear that it does.

Chairman: Yes, I know it does not. This is my point.

Mr. Joe Cullen: Yes.

Chairman: The point I wish to make is this. During the last Government, this committee did a piece of work on gender equality, of which the witnesses are aware. There are well-being indicators in the programme for Government. Both these initiatives are worthwhile. The witnesses have all done work on this and I know they are aware of these aspects. The Departments have done excellent work on this, in fairness. My impression of the budget cycle, though, and it might be unfair, is that gender equality budgeting and well-being indicators are still somewhat a satellite element in the context of the work being done. They are in the process of being implemented. When we talk about budgets, the SWITCH system is still central to the decisions we are making. This is not necessarily a bad thing, because households are incredibly important, as is understanding and calibrating in that context. We may, however, be missing a piece in the discussion by following this one system and not having fully implemented the other two systems.

Mr. Joe Cullen: To come back in on this point, my colleague in the tax division reminded the rest of us of this very issue concerning equality budgeting and the need this year - and each year there is incremental progress on this - to be particularly sensitive and mindful of elements of policy changes put forward and how they might impact on the whole equality agenda. Therefore, I assure the Chair this is something that will be very much to the forefront of our minds for budget 2023.

Chairman: I am aware this is not only in the sphere of these two Departments. We are relying on sectoral Departments to do the work and almost report back. The witnesses could encourage them to do that. Ms Callaghan wants to come in.

Ms Niamh Callaghan: The switch model is useful in terms of what it can model. I would refer to the working family payment and the national childcare scheme. However, in the last budget there were announcements around a new funding stream for childcare, which is obviously not captured within the model. Considerable work, separate from the switch model, is done on social impact analysis, which examines different schemes in terms of gender breakdown, regional breakdown and age breakdown. Individual schemes are analysed using other methodologies. Switch can only take account of tax on certain expenditure measures but we spend a great deal of money on many other different services, which are delivered in a different way, and we need to find better ways to capture that. The social impact assessment and the spending reviews we undertake in the Department and across the Civil Service are also a key input into trying to answer some of these questions.

Chairman: I take that point. I am not denying that work goes on. My question relates to that process of the budget and what we end up talking about on budget day. I have found that what gets measured at the core of things is often what gets changed. It is noticeable that on budget day what we talk about often is the switch model and not necessarily gender equality budgeting.

Mr. John Kinnane: On that issue, colleagues from the Department are due to come before the committee in a few weeks with respect to the public service performance report. With regard to the budget, on the expenditure side, there is much focus on the budget day announcements but they account for only approximately €1 billion. We are spending about €80 billion-----

Chairman: It is always the marginal changes that make the headlines.

Mr. John Kinnane: The marginal changes get all the attention. However, there is the matter of what is happening the bulk of the spend and through the equality budgeting work. Also, a well-being framework has now been published and we have a set of indicators. We are examining how we can utilise this framework, which will take some time - it took New Zealand, which was well advanced with regard to well-being, some time to do so - to set out how budgetary decisions are impacting on well-being. It will develop over time but considerable work is ongoing, particularly when we consider performance budgeting and how we can better utilise it and integrate it with the well-being framework to provide better information that can inform budgetary decisions.

Chairman: I have a final question. I am aware we are already in the budget 2023 cycle. As we move further into that process, I presume all the witnesses are working very hard on the cost of living issue. It is very volatile and there is much social pressure, both political and worldwide, to address it. This committee will be working on the issue of tax expenditure in the next few weeks. With the budget looming, we are examining that aspect. Is there consideration in either Department of a review of tax expenditure as it relates to the cost of living? When we discuss it at this committee, we might examine it in the context of fossil fuel subsidies, foreign direct investment or whatever it might be. Is that something the witnesses are reviewing in terms of the cost of living? We have heard from the Parliamentary Budget Office that 23% of tax expenditure, which is a spend of approximately €7 billion, has not been reviewed recently.

Mr. Joe Cullen: To the extent that tax expenditures are reviewed, all relevant issues, including current factors, are taken into account. To the extent that an incentive or measure might help alleviate cost of living pressures, that would certainly be taken into account. To answer the Chairman's question directly on whether there is a formal process examining tax expenditure against the cost of living dynamic, I am not clear there is a particular process but bearing in mind what she said, we will certainly reflect on that.

Chairman: After we have our own session, perhaps we can get back to the witnesses and have some thoughts on that. As there are no other speakers, it only remains for me to thank all the witnesses for giving their time. It is late in the evening and I appreciate they being here.

The select committee will meet in private session next Wednesday and we will meet officials from the Department of Public Expenditure and Reform again on 25 May.

The select committee adjourned at 7.56 p.m. until 5.30 p.m. on Wednesday, 18 May 2022.