

Tracing Brexit Related Exchequer Expenditure - Budget 2019

PBO Publication 31 of 2019

Overview

This Note considers the **Exchequer impact of Brexit contingency measures**, including expenditures on Brexit readiness programmes, customs changes and additional staffing requirements, which are unlikely to have occurred in the absence of Brexit. This Note considers *only the direct Exchequer impact of Brexit contingency measures*, and does not include the potential impact of non-repayment in respect of certain Brexit-related loan schemes or the wider impacts of Brexit on the Irish economy such as trade, energy, health etc.

In general, it is difficult to determine the overall Exchequer impact of Brexit-related measures, with apparent discrepancies across different Government publications regarding the likely cost of relevant programmes (and indeed their allocation in the Revised Estimates Volume). Furthermore, it is unclear if expenditures arising from Brexit contingency measures are being met by re-allocating away from existing programmes, or from increases in Voted Expenditure as a direct response to Brexit.

This Note expands on the analysis presented in the PBO Note [Budget 2019 – Analysis of Voted Expenditure Allocations](#) (November 2018) which emphasised that Brexit related measures were not clearly set out or distinguished in the [Budget 2019 Expenditure Report](#). It focuses on measures announced in [Budget 2019](#) and as part of the [Brexit Contingency Action Plan](#) (BCAP) published by the Department of Foreign Affairs and Trade. It further tracks measures announced across various departmental press releases and publications.

Key messages

- The assumption of an orderly Brexit set the context for Budget 2019; however, substantial uncertainties remain regarding the severity of impact.
- Nevertheless, Brexit represents an unprecedented challenge for Ireland's macroeconomic and fiscal performance, and will likely have ramifications for revenue and expenditure projections for 2019 and beyond.
- Substantial sums have been announced by Government across various Government publications in respect of Brexit contingency planning. Between approximately €92 million and €171 million was announced in new, Brexit related expenditure measures in Budget 2019.
- While contingency planning is a prudent policy response, it is important that there is transparency and consistency in reporting on Brexit related contingency measures, and that related expenditure allocations are traceable through the Revised Estimates Volume. This is not currently the case.
- There is also confusion regarding the allocation of Brexit expenditures to specific Votes, which makes scrutiny by Oireachtas Committees more difficult.
- The Appendix of this Note contains an attempt by the PBO to collate the publicly available information (across various Government sources) in respect of expenditure commitments related to Brexit.

Background

On March 29 2019, the United Kingdom was scheduled to exit the European Union. In preparation for this, a draft [Withdrawal Agreement](#) and [Political Declaration](#) was provisionally agreed by the EU and UK Governments. These documents set out the terms of a transition period following Brexit to facilitate the negotiation of the EU-UK future trade relationship, a protocol on Ireland/Northern Ireland (the 'backstop' agreement) and a financial settlement (the 'divorce bill'). However, this agreement was rejected by the House of Commons on several occasions.

On April 10, following an initial short extension of Article 50, it was agreed that the UK would receive a longer extension until October 31. Under the terms of this extension, the UK may exit the EU at an earlier date if the Withdrawal Agreement and Political Declaration are approved by the UK parliament. This extension was also contingent upon the UK's participation in the European Parliament elections on May 23.

While the terms of Brexit remain uncertain, the Irish economy is, and will be, the most exposed of any EU Member State to the economic repercussions of the UK's withdrawal.

With a disorderly Brexit increasingly likely, and Ireland's macroeconomic and fiscal performance particularly at risk, contingency planning is a prudent policy response. The Irish Government has announced a series of contingency measures and programmes to bolster and aid Irish industry and customs, in preparation for Brexit. This Note attempts to consolidate the various expenditure commitments announced by Government as part of this contingency planning.

Brexit Impact

The full impact of Brexit on the Irish economy is difficult to forecast due to the unprecedented nature of the event. However, there are numerous indicators that this impact will be significant, and the potential ramifications have been well documented.¹ In particular, the economic and fiscal implications of Brexit for Ireland are explored, in detail, in PBO publication 8 of 2019² and in the Irish Fiscal Advisory Council's Fiscal Assessment Report, June 2019 ([Box C](#)).

Generally, the adverse effects of Brexit for Ireland will be propagated via trade disruptions (the extent of which will ultimately depend on the nature of the future trading relationship), most notably for the agri-food industry. In addition, Irish SMEs are particularly vulnerable to the Brexit-induced risks of currency fluctuation, declining consumer sentiment, and supply chain disruption.

The assumption of an orderly Brexit set the context for Budget 2019. However, in fiscal terms, a disorderly Brexit could result in lower-than-expected tax revenues for 2019

(and beyond), with stronger-than-anticipated expenditure pressures (arising due to a dampening of Irish GDP growth, and a resulting negative impact on employment, and business/consumer sentiment).

Expenditure Announcements

Brexit related expenditures have been largely concentrated across three departments: the **Department of Agriculture, Food, and the Marine**, the **Department of Business, Enterprise and Innovation**, and the **Revenue Commissioners**. However, the amounts said to be allocated towards Brexit contingency planning (not including Brexit loan schemes) vary significantly across Government publications. This makes it impossible to accurately determine which expenditures in Budget 2019 are incurred as a result of Brexit.

Brexit measures detailed in the Budget 2019 Expenditure Report³ indicate that €92 million would be allocated to new measures, though these were not clearly distinguished from other expenditures (see PBO Note [Budget 2019 - Analysis of Voted Expenditure](#)). This amount differs from the announcement by the Minister for Finance in the [Financial Statement](#) accompanying Budget 2019, that over €110 million would be allocated towards Brexit readiness.

Furthermore, these amounts also differ from the measures detailed in the "[Brexit Package](#)", as announced by the Tánaiste and Minister for Foreign Affairs and Trade (DFAT), via a Press Release on budget day.⁴ Aggregating the expenditures detailed in the DFAT Press Release, the PBO estimates a total expenditure amount of €171 million (assuming there is no double counting within the document).⁵

It is important to note that all three of these publications (the Budget 2019 Expenditure Report, the Minister for Finance's Financial Statement, and the DFAT Press Release), were released concurrently as part of Budget 2019 (in October 2018).

Subsequent to this, the Department of Foreign Affairs and Trade (DFAT) published the [Brexit Contingency Action](#)

3 Government of Ireland, (2018), '[Budget 2019: Expenditure Report](#)'.

4 Department of Foreign Affairs and Trade, (2018), '[Press Release: Tánaiste and Ministers announce package of Brexit readiness measures from Budget 2019](#)'.

5 This number was calculated by summing the expenditure amounts announced by the Tánaiste.

1 The Department of Business, Enterprise and Innovation & Copenhagen Economics, (2018), 'Ireland and the Impacts of Brexit'.

2 [PBO Publication 8 of 2019 – The Impact of a Disorderly or No-deal Brexit](#), February 2019.

Plan (BCAP) in December 2018, which claims €115 million will be allocated across Government departments to support businesses in response to Brexit. In aggregating the specific amounts detailed throughout the document, the total expenditure amount is €117.7 million. This does not align with the various other announcements by Government in respect of Budget 2019.

However, the total figure of €115 million reported in the BCAP is echoed in a reply to a Parliamentary Question⁶ (in February 2019), given by the Minister of Finance, in relation to the committed expenditure for 2019 to deal specifically with the scenario of a disorderly Brexit.

The various amounts reported across Government publications or suggested in response to Parliamentary Questions are shown in Table 1 below.

Table 1: Variation in announced Brexit-related expenditures

Source	Publication Date	Amount*
Budget 2019: Financial Statement	Oct 9, 2018	€110 million
Budget 2019: Expenditure Report: Expenditure Allocations 2019-2021	Oct 9, 2018	€92 million
Press Release: Brexit Readiness Measures from Budget 2019 (DFAT)	Oct 9, 2018	€171 million
No Deal Brexit Contingency Action Plan	Dec 19, 2018	€117.7 million when aggregated (€115 million announced)
Parliamentary Question	February 26, 2019	€115 million

Note: *Amounts do not include the Brexit Loan Schemes or the Human Capital Initiative which were included in the total funding announced by DFIN and DFAT.

The amounts cited in Table 1 are not necessarily contradictory. These differences could be explained by differences in accounting approach; e.g. including expenditure commitments carried over from Budget 2018, counting only newly announced expenditures which are directly related to Brexit preparedness, and/or also counting those programmes which are pre-existing but could be viewed as “Brexit adjacent”. However, the reason for these apparent discrepancies is unclear, making it difficult to quantify the overall Exchequer impact of Brexit planning, and indeed to trace and assess this expenditure.

Furthermore, the Revised Estimates does not detail any new expenditure for 2019 as being explicitly Brexit related. This results in committed Brexit expenditures being untraceable throughout the estimates process. There is also minimal coverage of Brexit related measures in the Public Sector Performance Report 2018 (May 2019). This underscores the lack of clarity and transparency around the Exchequer impact of new measures or programmes created in response to Brexit, or indeed, the re-purposing of existing programmes.

Table 2: Departmental breakdown of expenditure related to Brexit contingency planning across government publications, €m

Department	Expenditure Report	DFAT	BCAP	PQ ⁷
DBEI	11	24	-	14
DAFM	66	80	78	71
DFIN/Revenue	13.5	13.5	25	25
DFAT	5	18	-	5
Health	-	2.5	-	-
Transport, Tourism and Sport	-	26	7.7	-
Total	95.5	164*	110.7	115

Note: As shown, when announcements for individual Departments are aggregated, these amounts generally do not reflect the total allocation amount detailed in the relevant publication. Furthermore, detailed expenditures associated with Brexit programmes are missing from the BCAP under DBEI.

*This figure does not include an additional €7 million announced for Sanitary and Phytosanitary Inspectors as part of the “Brexit Package” which is not attributed to a particular department and therefore may be double counted in within the document.

6 Parliamentary Question, response by Minister for Public Expenditure and Reform (9217/19), 26 February 2019.

7 Parliamentary Question, response by Minister for Public Expenditure and Reform (9217/19), 26 February 2019.

Brexit Expenditure -Breakdown by Department

Agriculture, Food and the Marine

DAFM received a 4.2% increase in its 2019 budget allocation, or €53 million, according to the Revised Estimates. However, the cost of new Brexit related expenditures within the department appears to be greater than this increase, indicating that these measures are also being funded via reallocations from existing programmes.

In a budget day Press Release, the Minister for Agriculture, Food and the Marine announced €78 million in new expenditures on Brexit readiness, with €44 million allocated in Direct Aid to farmers, €27 million in Brexit related supports, and an additional €7 million in customs related supports.⁸ New Brexit-related expenditures under DAFM were also detailed in the Budget 2019 Expenditure Report (at €66 million), and the Tánaiste's Press Release (at €80 million).

Across three Government publications, the allocated DAFM expenditures for new Brexit measures range from €66 million to €80 million. Given a €53 million increase in the relevant Vote, this would indicate that between €13 million and €27 million of existing funds within the DAFM budget are being reallocated in the name of Brexit readiness. If pre-existing funds are being re-allocated to Brexit contingency projects, this suggests that expenditure is being reduced on other programmes. Should this be the case, any cuts to existing programmes to fund contingency planning should be clarified.

Some €50 million was allocated in the Agriculture Vote in Budget 2018 for Brexit measures.⁹ Of this, €25 million was earmarked to provide capital for the new Future Loan Growth Scheme.¹⁰ €19 million was allocated into now standing increases to agency funding and DAFM grant aid, which again increased in Budget 2019. Of the remaining €6 million, €2 million was allocated in 2018 to once off funding to the development of a National Food Innovation Hub. This standing €6 million increase in now unspecified funds may explain some of the expenditure on new measures, however it is insufficient to explain the full shortfall between increases in funds and the cost of new programmes.¹¹

8 [DAFM Press Release](#), 9 October 2018.

9 [DAFM Press Release](#), 10 October 2017.

10 Parliamentary Question, response by Minister for Agriculture ([5798/19](#)), 6 February 2019.

11 It is possible that this €6 million has been allocated as

Business, Enterprise and Innovation

DBEI received a 9.5% increase in its 2019 budget allocation, or €78 million, according to the Revised Estimates. As part of this funding, the [Minister for Business, Enterprise and Innovation](#) announced €14 million in dedicated expenditure on Brexit readiness, including €1 million for InterTrade Ireland, €5 million for Local Enterprise Offices to support a new customs training programme and €8 million in funding "Brexit Response" (inclusive of €3 million for Enterprise Ireland and €2 million for the Industrial Development Authority (IDA)).¹² This differs from the €8 million in Brexit measures included in the Budget 2019 *Expenditure Report*, and the €24 million in measures announced in the Tánaiste's Press Release. Notably, though discussed in terms of their programme outputs, the expenditures associated with DBEI's Brexit-related measures are completely absent from the BCAP.

In the case of DBEI in particular, a holistic approach to "Getting Ireland Brexit Ready", that includes leveraging existing programmes such as the Microenterprise Loan Fund and the Enterprise Ireland Market DiscoverFund, is an efficient means of improving economic resilience. However, this makes it difficult to differentiate between expenditures incurred as a result of Brexit, new market initiatives, and the role and function of new Government grants or supports.

Revenue Commissioners

Should the UK leave the single market and customs union in the absence of a free trade deal or the passing of the "backstop" agreement, customs checks will be required on all trade between the UK (including Northern Ireland) and Ireland. This will entail significant costs to traders and will incur direct costs to the Exchequer as a result of increasing customs checks and border controls.

In the BCAP, and in a reply to a Parliamentary Question from the Minister for Finance, it is stated that €25 million has been allocated to customs requirements across departments.¹³ However, the distribution of these costs across Vote Groups is not immediately clear.

The Budget 2019 *Expenditure Report* indicates that €13.5

the €6 million in additional expenditure on the new Food Innovation Hub, as announced in the DAFM Press Release and BCAP.

12 [DBEI Press Release](#), 9 October 2018.

13 Parliamentary Question, response by Minister for Public Expenditure and Reform ([9217/19](#)), 26 February 2019.

million has been allocated to the Revenue and Customs Commissioners for customs preparations.¹⁴ This amount is divided between ICT supports (€3.5 million) and an increase in Customs Staff (€10 million).

Separately, DAFM announced €7 million for Revenue and Customs Staff, and ICT costs, arising from additional import and export controls and certification. Furthermore, within the Tánaiste's Press Release, €4 million is allocated to Sanitary and Phytosanitary Inspectors and €3 million to ICT supports. It is unclear if this €7 million detailed by DAFM, and the €7 million announced via the Tánaiste's Press Release, are the same allocations. It is also unclear if this amount is being drawn from the Agriculture Vote or the Finance Vote.

The Tánaiste's Press Release also indicates that €2.5 million will be allocated for additional HSE staffing for food safety inspectors. It is unclear if this amount is included in any of the above figures, or if it is an additional expenditure, and the Vote from which these funds would be drawn. Furthermore, an allocation of €5 million is provided by DBEI for the running of Customs Training Programmes for SME's through Local Enterprise Offices.

Taking the measures announced across three departments, (€13.5 million by DFIN via Revenue, €7 million by DAFM, and €5 million by DBEI), it can be assumed that these constitute the €25 million allocation to customs announced by the Minister, (excluding the HSE allocation for food safety inspectors). However this cannot be verified through existing publications. In addition, the distribution of these costs across Vote Groups remains unclear.

Conclusion

This Note has considered only the direct Exchequer impact of Brexit contingency measures as announced under Budget 2019, and does not include the potential impact of non-repayment in respect of certain Brexit-related loan schemes or the wider impacts of Brexit on the Irish economy such as trade, energy, health etc.

Assuming that Departments' reporting of Brexit-related expenditures are accurate, the total allocation to new Brexit contingency measures under Budget 2019 ranges from €92 million to €171 million.

In general, there is significant uncertainty surrounding the cost of Brexit readiness measures across Government publications. This presents challenges when considering future parliamentary oversight, and the monitoring and evaluation of the efficiency and impact of these expenditures.

¹⁴ Government of Ireland, (2018), 'Budget 2019: Expenditure Report'.

Appendix: Brexit related expenditure distributed by Department as announced by Government in Budget 2019

Note: These tables represents the PBO's best attempt to collate the publicly available information (across various Government sources) in respect of expenditure commitments related to Brexit.

Table 3: Department of Agriculture, Food and the Marine, €m

Announced Measures by Department	Expenditure Report	Tánaiste Announcement	Brexit Contingency Plan	Parliamentary Questions	DAFM Press Release
DAFM	52	80	78	71	78
Direct Aid to Farmers	43		44		<u>44</u>
<i>Areas of Natural Constraint</i>					23
<i>Beef Environmental Efficiency Pilot Scheme</i>					20
<i>Horticulture Sector</i>					1
Supports for food industry competitiveness and innovation			13		13
Artisan and Micro food and beverage programmes			3		3
Bord Bia	5		5		5
Food Innovation Hub in Teagasc Moorepark			6		6
Revenue and Customs: staff and IT costs arising from additional import control and export certification requirements			7		7
Investment in Food Innovation Facilities	11				
Food Companies Investment	7				
Sanitary and Phytosanitary Inspectors		4			
ICT support for agricultural and SPS inspectors		3			

*Cells in green contain programmes and amounts which have not been clearly distinguished from other measures, and may be double counted elsewhere. Cells in blue are the component costs to the above, underlined cost.

Table 4: Department of Business, Enterprise and Innovation, €m

Announced Measures by Department	Expenditure Report	Tánaiste Announcement	Brexit Contingency Plan	Parliamentary Questions	DBEI Announcement
DBEI	8	24		14	14
Business Funding and supports for Brexit Staff and supports across IDA, Enterprise Ireland and regulatory agencies	8	8			8
Local Enterprise Offices (Customs Training Programme)		5			5
IDA's Regional Property Programme	10**	10			
Intertrade		1			1

**Cells in green are costs detailed in the corresponding document but not listed as being specifically related to Brexit contingency planning.

Table 5: Other Departments, €m

Announced Measures by Department	Expenditure Report	Tánaiste Announcement	Brexit Contingency Plan	Parliamentary Questions
D/Finance	13.5	13.5	25	25
Customs Staff on an East/West Basis	10	10		
ICT Supports	3.5	3.5		
ICT Systems across Revenue, Agriculture and HSE			3	
Recruitment for Revenue and Customs			4	
Essential customs requirements			25	
D/Health		2.5		
HSE staffing for food safety inspectors		2.5		
D/FAT	5	18		5
Brexit Response	5	18***		
D/Transport		26	7.7	
Current Tourism funding to offset Brexit		7	7.7	
Additional Capital spending for tourism investments		19		

*** This €18 million figure likely includes the €13 million dedicated to the new Global Ireland 2025 Strategy, which is mentioned as Brexit adjacent in the Minister's PQ. Cells in green contain programmes and amounts which have not been clearly distinguished from other measures, and may be double counted elsewhere.



Publications

Publication 28 of 2019 [Public Service Performance Report 2018 – An activity report; not a performance report](#) 27 May 2019

Publication 24 of 2019 [An Overview and Analysis of Contingent Liabilities in Ireland](#) 01 May 2019

Publication 20 of 2019 [Quarterly Economic and Fiscal Commentary – Q1 2019](#) 09 April 2019

Publication 17 of 2019 [Scrutiny processes for existing tax expenditures in selected European Parliaments](#) 02 April 2019

Publication 12 of 2019 [An Application of Portfolio Theory to Tax Revenue Volatility](#) 12 March 2019

Expenditure Analysis series

Publication 30 of 2019 [The National Development Plan – An overview, and an analysis of major \(discrete\) infrastructure projects](#) 11 June 2019

Publication 29 of 2019 [Gross Voted Expenditure: January to May 2019 - Illustration and analysis of budgetary management by Vote Group](#) 07 June 2019

Publication 26 of 2019 [General Government Expenditure: How its composition constrains decisions about government spending](#) 22 May 2019

Publication 25 of 2019 [Gross Voted Expenditure: January to April 2019 - Illustration and analysis of budgetary management by Vote Group](#) 03 May 2019

Publication 18 of 2019 [Irish Water's Strategic Funding Plan 2019-2024 – Context and Implications](#) 02 April 2019

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Infographic series

Publication 27 of 2019 [Dáil Select Committees and the Ministerial Vote Groups which they scrutinise – 2019](#) 24 May 2019

Publication 23 of 2019 [Vote 38 Health – Total Gross Voted Allocation: Budget 2017 to Budget 2019](#) 01 May 2019

Publication 22 of 2019 [Public Services 2019 - Programmes by expenditure](#) 18 April 2019

Publication 19 of 2019 [Total Gross Voted Allocation and Expenditure Cycle 2018](#) 04 April 2019

Publication 14 of 2019 [Exchequer Revenue – Significant Months](#) 13 March 2019

Publication 13 of 2019 [Revised, and Further Revised, Estimates for Public Services 2019 – Subheads by expenditure](#) 13 March 2019

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Publication 21 of 2019 [Preliminary Analysis of the Stability Programme Update 2019](#) 17 April 2019

Publication 15 of 2019 [Country Report Ireland 2019](#) 25 March 2019

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