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An Oifig Buiséid Pharlaiminteach
Parliamentary Budget Office
Tithe an Oireachtais
Houses of the Oireachtas

Preliminary PBO Review of Budget 2021

Introduction

Budget 2021 is introduced at a time of great uncertainty. The path of the COVID-19 pandemic and the outcome of trade negotiations between the European Union (EU) and the United Kingdom (UK) overshadow the choices made in Budget 2021. The economy will need significant support in the event that there are further restrictions introduced to control COVID-19 and/or there is no trade deal.

The Preliminary PBO Review of Budget 2021 seeks to highlight some of the major aspects of Budget 2021 under the following headings: Macroeconomic situation; Government spending; Taxation; and Government Deficit and debt. This document is its first analysis and published for Members on Budget night.

The PBO will follow up with a Post-Budget 2021 Commentary to be published in a few weeks which will go into more detail on specific aspects of the Budget 2021.

Key messages

- The macroeconomic forecasts underpinning Budget 2021 incorporate the impact of two main shocks to the Irish economy: COVID-19 and Brexit. GDP is expected to fall by 2.4% in 2020, a large improvement from what was expected in the Stability Programme Update (-10.5%). This reflects the contribution of economic sectors dominated by multinationals' activities (which is also reflected in the trade numbers).
- The General Government Balance is expected to be €21.6 billion in 2020 (6.2% of GDP) and €20.5 billion in 2021 (5.7% of GDP).
- The General Government Debt is expected to reach €239 billion or 114.7% of GNI* (66.6% of GDP) by end 2021.
- There are no forecasts, economic or fiscal for 2022 or beyond. This makes medium term analysis difficult. The Government has committed to medium-term forecasts to be published in April in the Stability Programme Update (SPU). Given the large uncertainty and the potential re-classifications of fiscal measures, Budget 2021 does not include estimates of the structural balance for 2020 and 2021.
- Following the sustained outperformance of the main tax heads throughout 2020, tax revenue is expected to be 14.4% higher for 2020 (at €56.7bn) and 11.4% higher for 2021 (at €60.4bn) than originally expected (as set out in the SPU in April).
- Overall, tax policy changes included in Budget 2021 are projected to result in a net revenue loss of approximately €231m (in a full year).
- The Exchequer Balance has been flattered throughout 2020 by better-than-expected tax receipts, a payment (of €2 billion) from NAMA and a transfer from the Rainy-day Fund (of

€1.5 billion). While the criteria for drawing-down from the Rainy-day Fund has been met, the PBO notes that there is no formal mechanism for re-capitalising this Fund. To that end, consideration should be given to how, and when, the Rainy-day Fund might be replenished over time.

- To assist in the scrutiny of tax policy-changes and associated costings, the PBO would welcome the provision of additional information, including multi-annual costings where appropriate, sensitivity or scenario analyses to capture uncertainty, and a methodological note detailing the approach taken to a costing.
- The Budget 2021 Expenditure Report, published today, sets out spending for 2020 of €87.1 billion. Spending this year may therefore increase by a further €2.5 billion compared to what was allocated pre-Budget.
- The Expenditure Report sets out that the gross voted spending next year will total €87.8 billion, including COVID-19 spending (€6.4 billion of which has been allocated), an unallocated Covid Contingency Reserve (€2.1 billion) and a Recovery Fund (€3.4 billion). This is therefore an increase of €0.7 billion on the funds available for spending on public services in 2021 (+0.9%) compared to what Government now expects (pending Dáil scrutiny and approval) to be spent in 2020.
- It is unclear how the process to use the unallocated funds will work; whether they will be capital or current spending; and how the Oireachtas will provide oversight. The PBO suggests that when the Government announces initiatives in 2021 which will be financed by these funds, it should set out clearly which expenditure line is getting additional funds and how much of the overall unallocated amount remains.
- The changes in allocations between 2020 and 2021 are not easily identifiable as they are complicated by Estimates yet to come before the Dáil, funding not yet allocated between Departments and COVID-19 / Brexit-specific spending.
- Government Departments are entering into long-term commitments now, by increasing public sector staffing levels in order to improve services during the pandemic.

Macroeconomic situation

The macroeconomic forecasts underpinning Budget 2021 incorporate the impact of two main shocks to the Irish economy: COVID-19 and Brexit. Forecasts are based on two assumptions: the lack of a large-scale vaccination programme to fight COVID-19 and a trading relationship based on World Trade Organisation rules between the UK and the EU from 2021. The forecasts are presented for 2020 and 2021, instead of the traditional five-year projections.

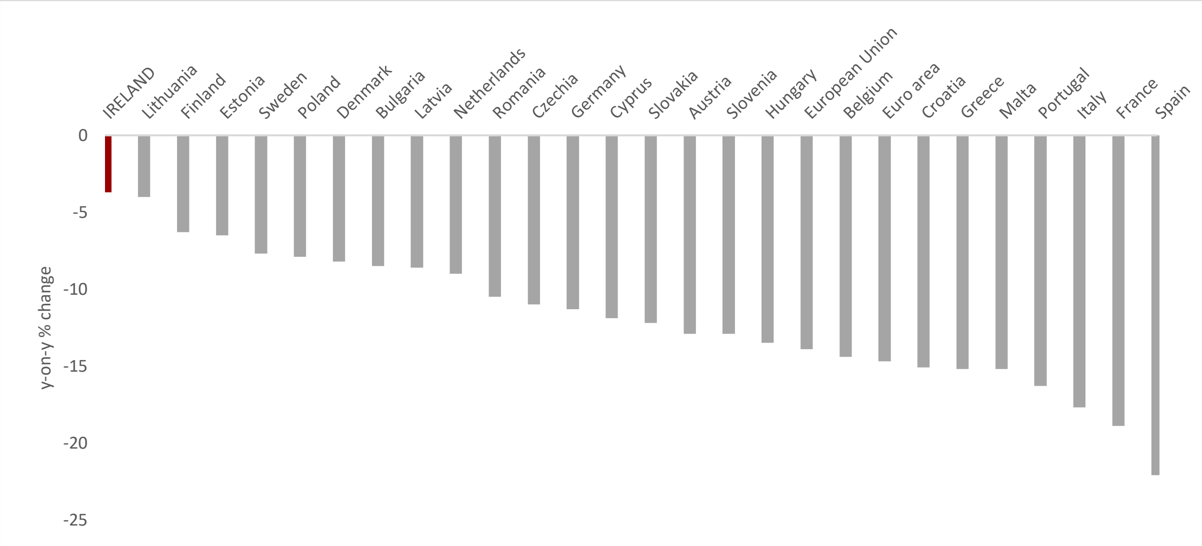
In the modern era, COVID-19 is an unprecedented historical event, which has produced great challenges for economic forecasters. Indeed, there is a sizable difference between the macroeconomic forecasts in Budget 2021 and those in the Stability Programme Update (SPU) 2020. A high degree of uncertainty is also reflected in the forecasts produced by other institutions. The difficulty in forecasting and the reliability of forecasts is going to persist for the foreseeable future due to the possibility of further and stronger restrictions that will depend on the progression of the virus.

It is important to note that the baseline economic projections for Budget 2021 (which underpin the fiscal forecasts) assume a "co-existence" with the virus, including peaks-and-troughs in infections and targeted restrictions, but no occurrence of a full lockdown and its consequent economic effects. A scenario analysis of the economic effects of a full national lockdown is presented in the Economic and Fiscal Outlook.

Some notable aspects of the economic forecasts include:

- GDP is expected to fall by 2.4% in 2020, a large improvement from what was expected in the SPU (-10.5%). This reflects the contribution of economic sectors dominated by multinational's activities (which is also reflected in the trade numbers). For context, in Q2 2020, Ireland experienced the lowest GDP contraction of all the EU Member States (see Figure 1). For 2021, GDP is projected to grow by 1.7%.

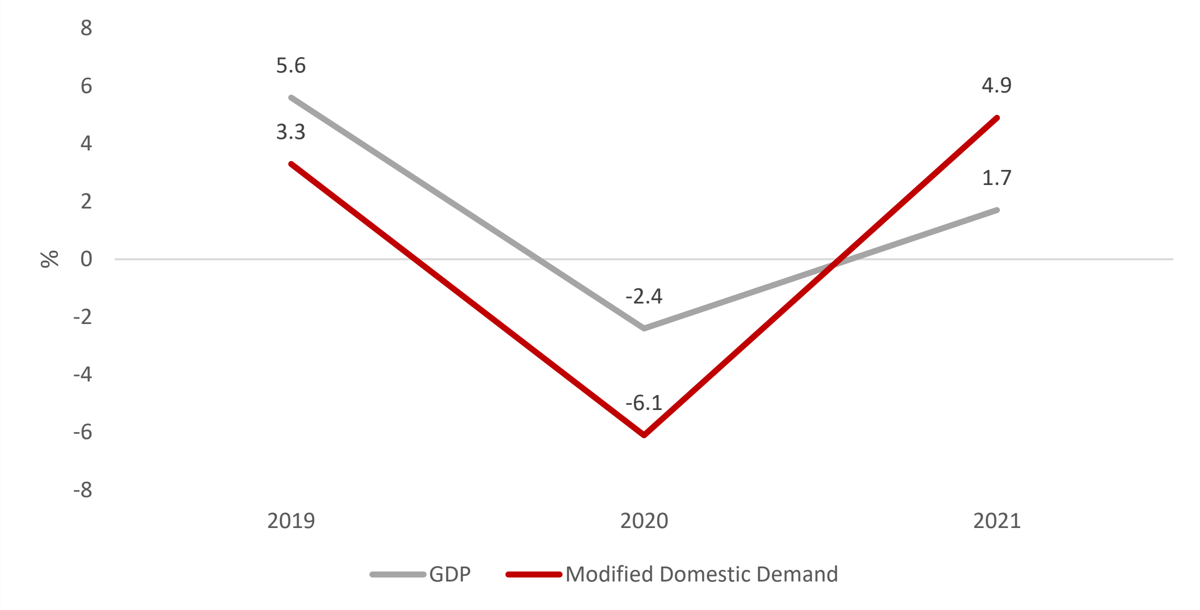
Figure 1. EU Real GDP Growth Rates - 2020 Q2



Source: Eurostat

- Modified Domestic Demand, which better captures the impact of COVID-19 on the domestic economy, is forecast to contract sharply by 6.1% in 2020 (vs -15.1% in the SPU) and to increase by 4.9% in 2021.

Figure 2. Budget 2021 forecasts for GDP and Modified Domestic Demand (annual % change)



Source: Department of Finance

- In respect of the individual components of domestic demand, these have been strongly affected by the pandemic: Personal Consumption is forecast to decline by 7.5% in 2020 (-14.2% in the SPU) and to increase by 7% in 2021; Government consumption is expected to increase by 15.2% in 2020 (vs 9.1% in SPU) and to decrease by 1.6% in 2021; Modified investment (which excludes imports of intellectual property assets and aircraft leasing investments) is expected to fall by 19.3% in 2020 (-37.3% in SPU) and grow by 6.6% in 2021.
- The trade side highlights the resilience of overall Irish exports, benefiting from their composition and the impact of high-technology sectors. Exports are forecast to increase by 1.9% in 2020 (vs -7.7% in the SPU), while (modified) imports are expected to increase by 2% (vs -9.3% in the SPU).
- On the labour market side, employment is expected to decline by 13.7% in 2020, while increasing by 7.6% in 2021. The unemployment rate is forecast at 15.9% in 2020 and it is expected to decline to 10.3% in 2021 (Figure 3a). For context, Figure 3b shows the unprecedented impact of COVID-19 on the labour market.

Figure 3a: Budget 2021 forecasts for labour market indicators

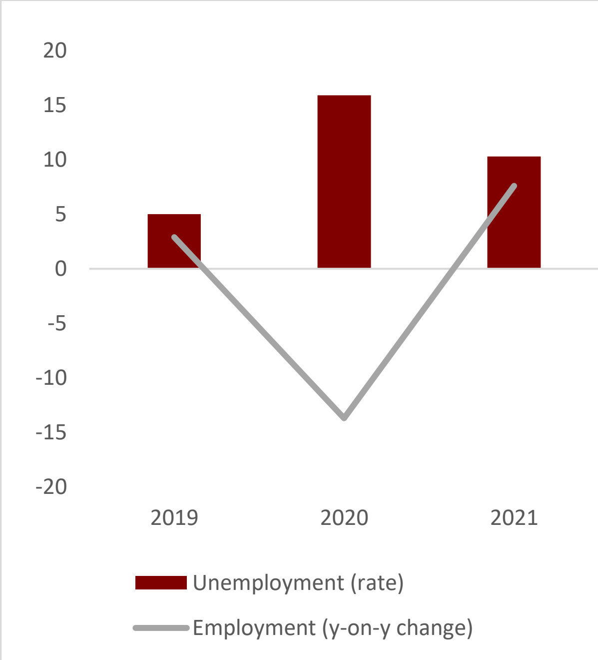
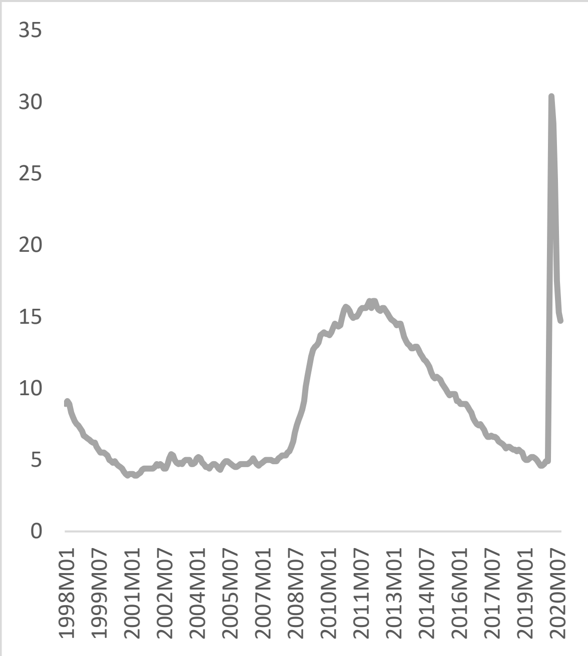


Figure 3b: Monthly unemployment rate over time in Ireland



Source: Department of Finance – CSO (COVID-19 Adjusted Unemployment rate from March 2020)

Macroeconomic Risks

The COVID-19 pandemic has produced a severe economic shock to Ireland. The magnitude and duration of the economic effects will depend on the progression of the virus and the success of governments to mitigate against the risks. A major risk is that economies will remain under heavy restrictions and the international links between economies will be limited.

In addition, if no trade deal is agreed between the EU and UK, it will have a negative impact on Irish economic activity. It will impact on trade, supply chains, competitiveness and employment in the economic sectors which have the strongest links with the UK. Though, there is limited overlap in the sectors exposed both to an EU-UK trade shock and a COVID-19 shock. Research by the Department of Finance and the ESRI[1] indicate that no sector was found to be severely affected by both shocks. A small number of sectors are severely exposed to one shock and moderately exposed to the other.

There are a number of other macroeconomic risks as well as potential upsides facing Ireland as outlined in Table 1.

1 See Daly, L. and Lawless, M. (2020) "Examination of the Sectoral Overlap of Covid-19 and Brexit shocks," ESRI Working Paper Series No. 677.

Table 1. Main risks and potential upsides

Risks	Potential upsides
Second or additional national lockdowns	Large scale Covid-19 vaccination programme
Further Covid-19 economic restrictions	Significant progress on treatment of Covid-19
Economic deterioration in Ireland's trading partners	Favourable trading agreement between the EU and UK
WTO based trading relationship between EU and UK	Significant recovery in Ireland's trading partners
Dominance of the multi-national sector – concentrated production base	High household savings could be a potential driver of the economic recovery
OECD BEPS – risk to corporate tax revenue	
Risk to changes in financing conditions	
Financial Sector pressures	
Scarring or permanent effects	
Increased government debt and long-term sustainability	
De-globalisation and geopolitical tensions	
Climate change - Environmental and fiscal implications	
Housing supply pressures	

General Government Balance and debt

Due to, and in response to, the pandemic, the Government is planning a large Budget deficit in 2020 of €21.6 billion or 6.2% of GDP (10.7% of GNI*) (see Figures 4 and 5). This is projected to be €20.5 billion in 2021 (5.7% of GDP), and compares to a Budget surplus of €1.85 billion (or 0.5% of GDP) in 2019. Ireland's General Government Debt is expected to be €218.6 billion at the end of 2020. The debt is expected to be 62.6% of GDP and 107.8% of GNI* in 2020. By 2021, this debt is expected to increase to €239 billion or 66.6% of GDP (114.7 of GNI*). In addition:

- Both general government revenue and general government expenditure have been revised upwards relative to the SPU, for 2020 and 2021;
- As a percentage of GNI*, the GGB is expected to improve by 2.6 percentage points for 2020 relative to the SPU, but to deteriorate for 2021 by 2.5 percentage points;

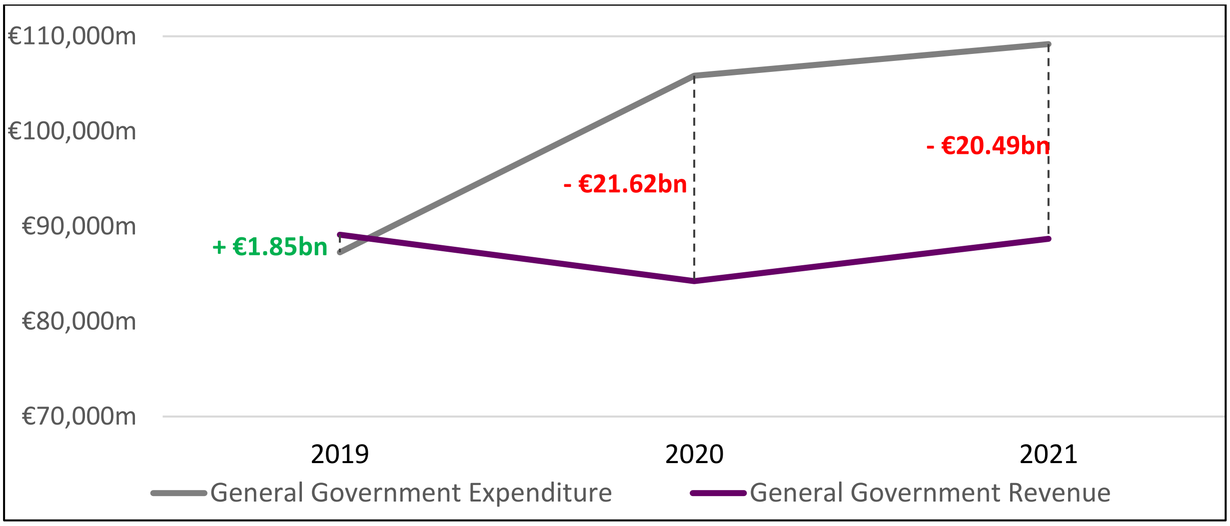
The Exchequer Balance has been flattered throughout 2020 by better-than-expected tax receipts, a payment (of €2 billion) from NAMA and a transfer from the Rainy-day Fund (of €1.5 billion).

- An additional payment from NAMA of €1.2 billion is expected for 2021, as well as an Irish Bank Resolution Corporation (IBRC) payment of €160 million;
- While the criteria for drawing-down from the Rainy-day Fund has been met, the PBO notes that there is no formal mechanism for re-capitalising this Fund (e.g. when the general government balance is no longer in deficit, or when the debt level is stable and on a downward trajectory).[2] To that end, consideration should be given to how, and when, the Rainy-day Fund might be replenished over time.[3]

[2] The **legislation governing the Fund** indicates that a sum of €500 million is to be transferred in each year from 2019 to 2023. There is the option to forgo this transfer in exceptional circumstances, subject to the passage of a resolution by Dáil Éireann.

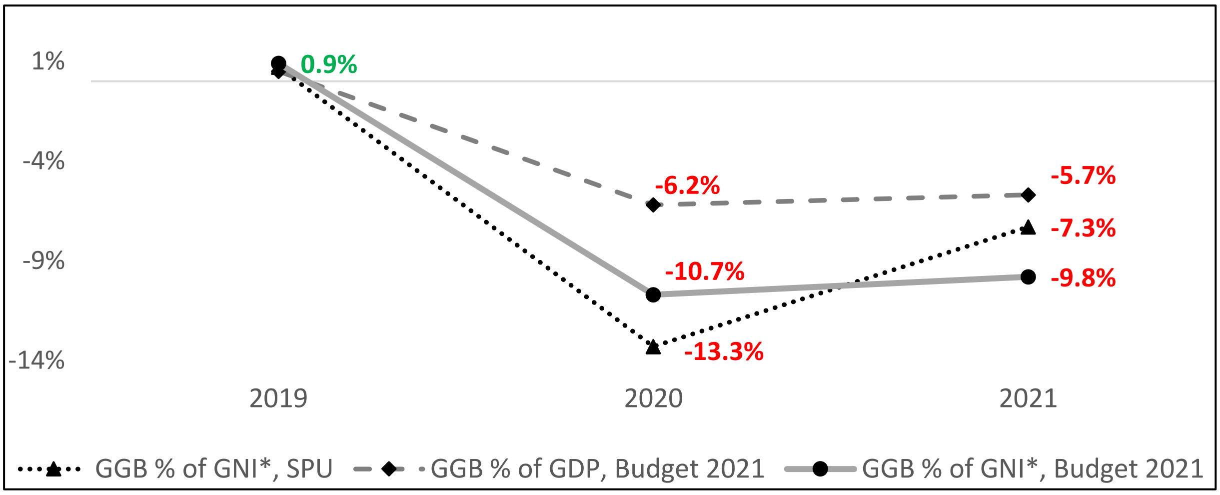
[3] See mechanisms proposed in: Bedogni. J, and K. Fitzgerald, 2020. **Revenue volatility and the role of the Rainy-day Fund: Potential mechanisms for identifying and setting aside excess receipts**, April 2020.

Figure 4. General Government Revenue vs. Expenditure, 2019 – 2021



Source: Budget 2021 – Economic and Fiscal Outlook

Figure 5. General Government Balance, 2019 – 2021



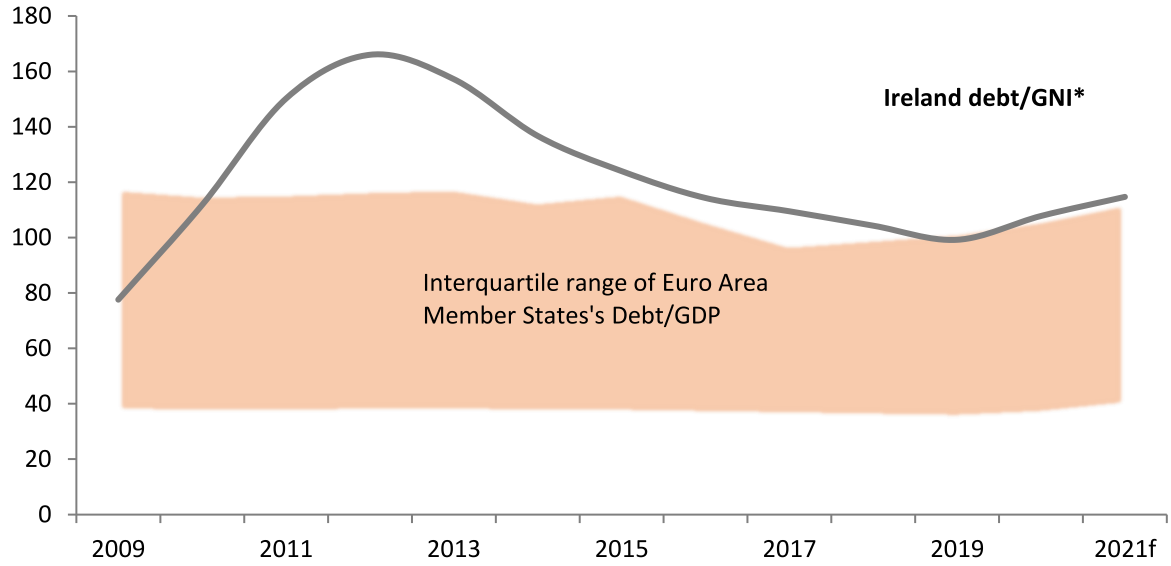
Source: Budget 2021 – Economic and Fiscal Outlook; Stability Programme Update 2020.
Notes: The GGB as a percentage of GNI* for 2019, has been revised up from 0.7% in SPU to 0.9% in Budget 2021.

While increasing public debt now is an appropriate fiscal policy response to mitigate the shock to the economy, the high level of Government Debt (which is comparatively higher than the average Euro Area Member State – see Figure 5) constitutes a significant macro and fiscal vulnerability. While it is true that the government can currently borrow at low interest rates and the National Treasury Managment Agency has adopted a strategy of 'locking-in' low interest rates, it will be crucial to develop a clear strategy to reduce the debt burden in the medium to long-term. This must also be understood in the context of other challenges to debt sustainability such as an ageing population.

On the EU fiscal rules, the activation of the "general escape clause" of the Stability and Growth Pact means that the fiscal rules have been suspended temporarily. This is the first time the clause has been adopted. This means that Member States are temporarily absolved of the annual requirement to be or moving to their Medium-Term objective – MTO. Given the large uncertainty and the potential re-classifications of fiscal measures, Budget 2021 does not include estimates of the structural balance for 2020 and 2021. In the absence of the fiscal rules and the concept of the fiscal space it is difficult to assess the issue of fiscal sustainability.

It is unclear, besides a desire by the Government to not be an outlier in terms of the deficit in 2021 in comparison to other Euro Area countries, if there was a specific deficit target chosen or was the scale of necessary support determined at the sectoral level and aggregated (i.e. top-down vs. bottom-up approach).

Figure 6- Public debt developments



Source: European Commission and Department of Finance for Ireland

Taxation

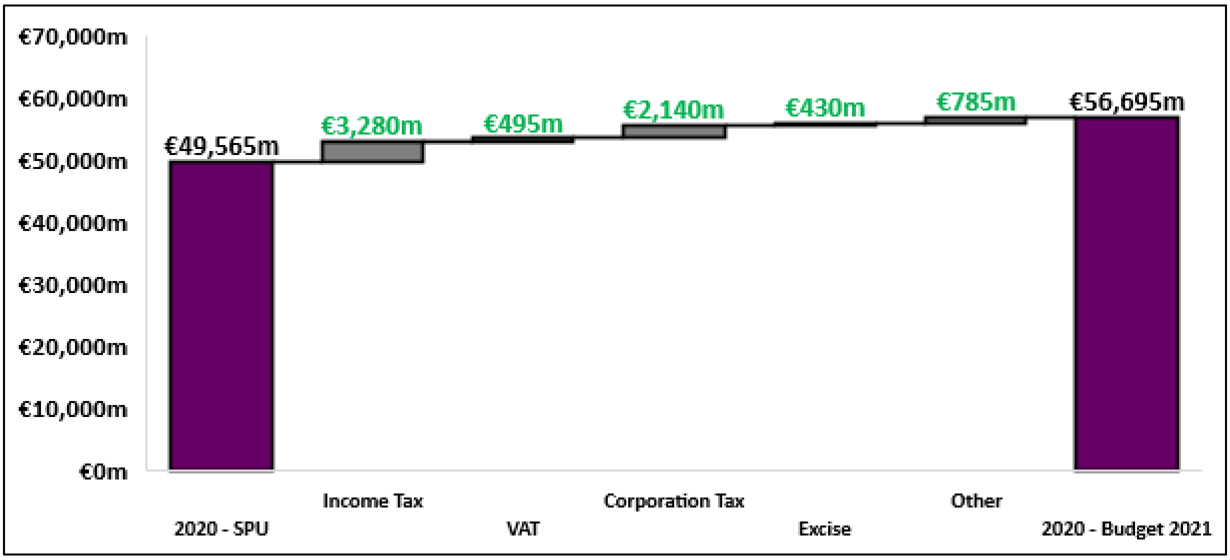
Budget 2021 assumes that no trade deal will be agreed between the UK and the EU by the end of the year (a departure from the SPU), and that there will not be access to a vaccine for COVID-19 in 2021. Set in this context, several tax policy changes introduced in the budget are intended to stimulate economic activity, and support the most impacted sectors, for the remainder of 2020 and 2021.

- Overall, tax policy changes included in Budget 2021 are projected to result in a net revenue loss of approximately €231m (in a full-year);
- This includes revenue raising measures of €204m, and revenue reducing measures of €435m;
- These revenue-reducing measures will increase the deficit for this year and next. However, they could help to prevent longer-term structural damage to the economy, aiding the recovery by supporting aggregate demand and employment in the most impacted sectors.

Following the sustained outperformance of the main tax heads throughout 2020, tax revenue is expected to be 14.4% higher for 2020 and 11.4% higher for 2021,[4] than expected in the SPU (April 2020).

- One key difference between forecasts included in the SPU (April 2020) versus those underpinning Budget 2021, is that the SPU assumed that a free-trade agreement would be reached between the EU and the UK by end-2020. Specifically, Budget 2021 assumes that trade between the UK and the EU in 2021, will occur on World Trade Organisation (WTO) terms;[5]
- Figure 7 shows the revisions to SPU forecasts of tax revenue for this year, included in Budget 2021. As shown, the majority of the upward revision of €7.1 billion is driven by Income Tax (revised up by €3.3 billion), followed by Corporation Tax (revised up €2.1 billion). This reflects the striking outperformance of Corporation Tax throughout 2020 (the only tax to exceed 2019 levels) and the sustained resilience of Income Tax receipts.

Figure 7. Tax revenue forecasts for 2020 – SPU vs. Budget 2021

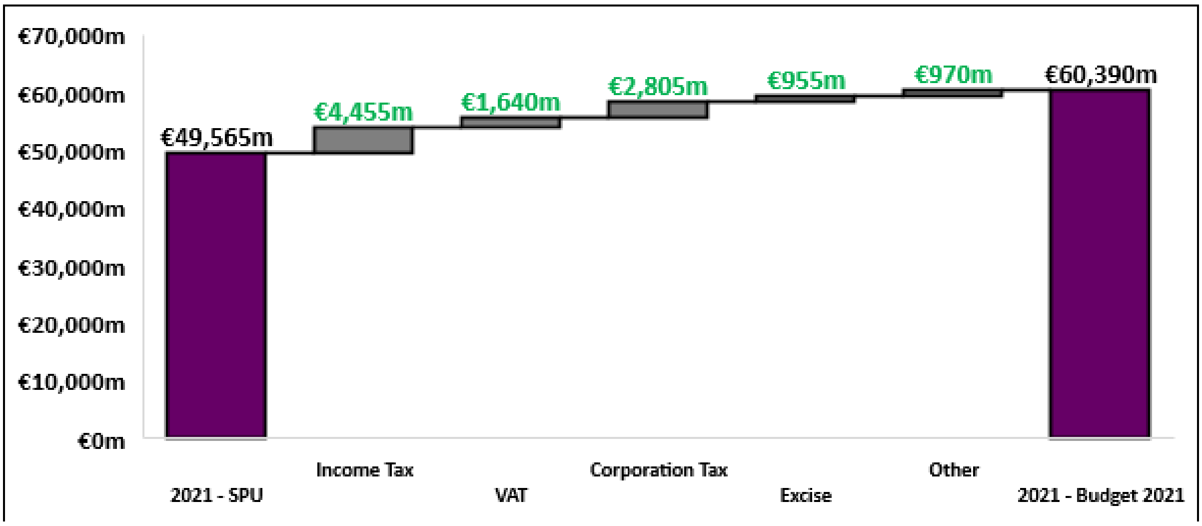


Source: Budget 2021 – Economic and Fiscal Outlook; Stability Programme Update 2020.

- Figure 8 shows the revisions to revenue forecasts for 2021. For next year, aggregate tax revenue has been revised upwards by €10.8 billion. This is driven largely by changes to forecasts of Income Tax (revised up by €4.5 billion), followed by Corporation Tax (revised up by €2.8 billion) and VAT (revised up by €1.6 billion).

4 Or 10.3%, excluding revenue from Customs.
5 Related to this, revenue from Customs is expected to rise dramatically from 2020 to 2021 (by €720m), however, only a quarter of this is retained by the Exchequer.

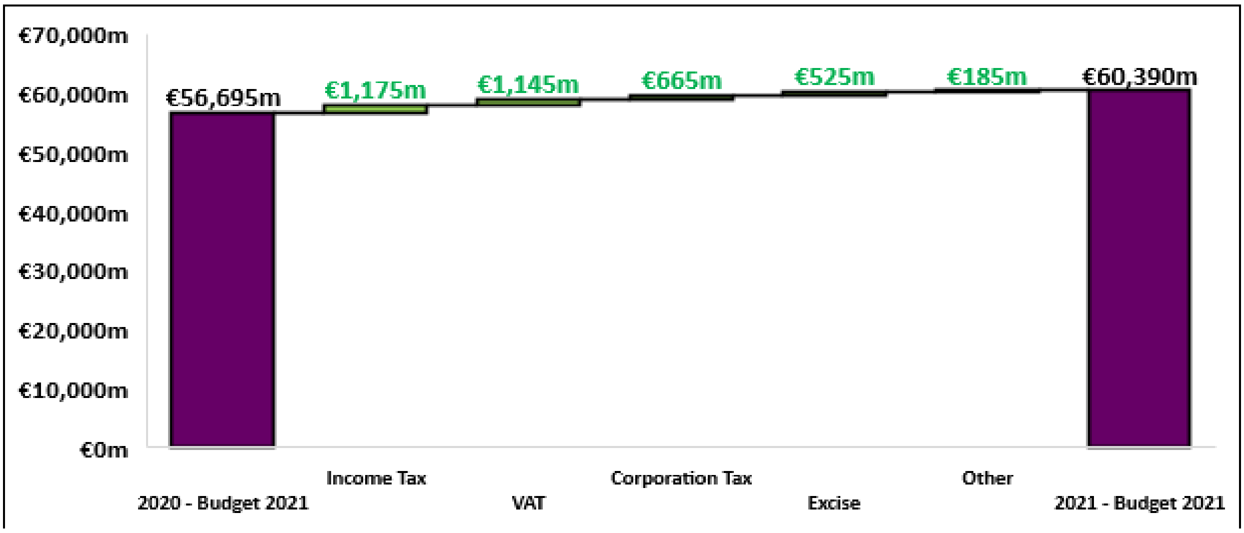
Figure 8. Tax revenue forecasts for 2021 – SPU vs. Budget 2021



Source: Budget 2021 – Economic and Fiscal Outlook; Stability Programme Update 2020.

- Finally, Figure 9 compares budgetary forecasts of tax revenue for 2020 and 2021. Most of the year-on-year increase is being driven by Income Tax (increasing by €1.2 billion) and VAT (increasing by €1.1 billion);
- The Department has indicated that the recovery in employment projected for 2021 is unlikely to drive substantial growth in Income Tax receipts, as the recovered jobs are likely to be in the most impacted sectors (which tend not to contribute a significant portion of Income Tax receipts);
- For VAT receipts, the recovery will depend largely on whether additional restrictions on commercial activity are imposed (and indeed, if current restrictions are extended). Consumer expectations of future restrictions will likely limit the recovery through 2021, as uncertainty surrounding the path of the virus drives up precautionary savings.

Figure 9. Tax revenue forecasts for 2020 & 2021 – Budget 2021



Source: Budget 2021 – Economic and Fiscal Outlook

The costing of tax-policy changes in such an uncertain economic environment is a complex task. Reflecting this uncertainty, the PBO would welcome the publication of a sensitivity (or scenario) analysis of the cost estimates underpinning Budget 2021, particularly for more substantial policy-changes.

- This approach would provide a range of potential costings for a tax-policy change, rather than a point estimate, and could also capture the inherent uncertainty in any tax-policy change with implications for tax-payer behaviour;
- Generally, given the uncertain economic context, costings included in Budget 2021 should be closely monitored over time, to ensure that they remain feasible.

To assist in the scrutiny of tax policy-changes included in the budget each year, and departmental costings of those changes, the PBO would welcome the publication of additional information, including:

- Multi-annual costings for policy changes that are likely to have a longer-term impact. Currently, costings are only provided on a first- and full-year basis;
- Individual rather than aggregated costings, with each policy costed separately; and,
- A methodological note, detailing the approach taken to a costing and including any underlying assumptions used (particularly for more substantial costings).

The unprecedented impact of COVID-19 presents new and unique challenges for revenue forecasting.

- For Corporation Tax, the outperformance versus forecasts seen throughout 2020 is effectively a continuation of the trend observed in recent years. However, other (traditionally more stable) taxes have also positively surprised throughout the year, particularly Income Tax;
- The PBO would welcome the publication of an update on progress made by the Department in responding to, or implementing, recommendations laid out in the report by the Tax Forecasting Methodological Review Group (December 2019).[6]

As previously cautioned by the PBO,[7] measures that serve to narrow the tax base should be targeted and temporary. While certain tax measures introduced in the budget risk further narrowing the base, these measures will help to support the sectors most impacted by COVID-19. However, their effectiveness will ultimately depend on the degree and duration of current and potential future restrictions on commercial activity.

- The reduction in the 13.5% rate of VAT (to 9%) for hospitality and tourism until end-2021, will provide support to some of the sectors most impacted by COVID-19 related restrictions. However, the effectiveness of this measure will depend on the severity and duration of current and future restrictions (e.g. on the extent to which economic activity will be curtailed in response to the virus);
- The PBO notes that certain tax measures included in Budget 2021 will help to broaden the tax base, including the decision to raise the Carbon Tax by €7.50 per tonne,[8] changes to

6 Tax Forecasting Methodological Review 2019, 16 December 2019.
7 Pre-Budget 2021 Commentary, Parliamentary Budget Office, 30 September 2020.
8 With effect from midnight on budget night (i.e. October 14th), this represents an extra €1.30 and €1.51 on a 60-litre fill of petrol and diesel respectively.

Motor Tax and Vehicle Registration Tax (VRT), anti-avoidance measures in respect of Corporation Tax, and the 50c increase in Excise Duty on cigarettes.

Spending

Overall, Exchequer Spending in 2021 is expected to be €97 billion.

This spending is made up of:

- **Voted Spending of €87.8 billion**, including:
    - €72.2 billion in allocated voted current spending;
    - €10 billion in allocated voted capital spending;
    - €5.5 billion of additional resources can also be deployed in relation to challenges from both COVID-19 and the risk of a no Brexit;
    - €0.05 billion provision for a Shared Island Fund; and
    - €0.05 billion reserve for allocation to capital investment if required in 2021.
- **Non-Voted Spending of €9.2 billion**, made up of:[9]
    - €8 billion in non-voted current spending; and
    - €1.2 billion in non-voted capital spending.

The primary role of the Dáil in relation to the scrutiny and approval of Exchequer spending relates to Voted spending as set out in this PBO infographic.

The starting point for analysis of Budget 2021 is the *Pre-Budget Expenditure Update 2020* (PBEU 2020) which was published this day last week (6 October). The PBEU 2020 set out gross voted spending **for 2020** of €86.6 billion, including COVID-19 spending and unallocated spending (the latter of €2 bn). The Budget 2021 Expenditure Report, published today, sets out spending for 2020 of €87.1 billion. Spending this year may therefore increase by a further €2.5 billion compared to what was allocated pre-Budget. This spending will be set out in Estimates for Public Services which will be scrutinised by the Dáil.

The Expenditure Report sets out that the gross voted spending **next year** will total €87.8 billion, including COVID-19 spending (€6.4 billion of which has been allocated) and an unallocated Covid Contingency Reserve (€2.1 billion) and Recovery Fund (€3.4 billion). This is therefore an increase of €0.7 billion in the funds available for spending on public services in 2021 (+0.9%) compared to what the Government now expects (pending Dáil scrutiny and approval) to be spent in 2020.

The changes in allocations between 2020 and 2021 are not easily accessible as they are complicated by Estimates yet to come before the Dáil, funding not yet allocated between Departments and COVID-19 / Brexit-specific spending. Other issues include the allocation of spending between Vote 37 Social Protection and the Social Insurance Fund (SIF). The increases in some areas are however striking; current spending in Health and capital spending in Housing and Transport. This section of the PBO's Budget night Preliminary Review will address the most fiscally significant areas of voted spending.

Spending Overview

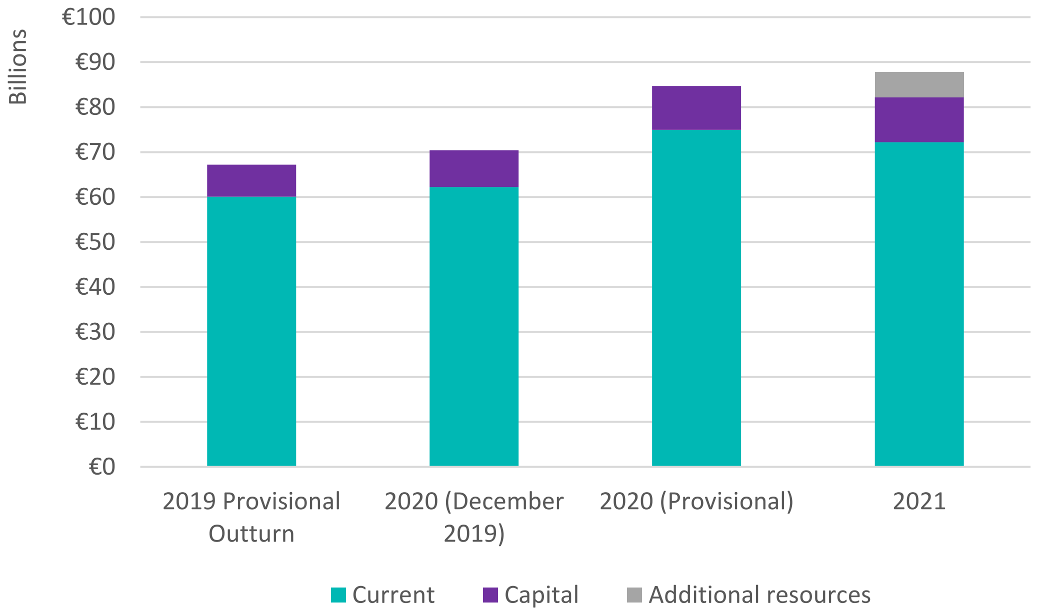
Prior to the pandemic, gross voted spending was expected to grow modestly in 2020 - by about €2.1 billion for current spending (3.5%) and €1 billion for capital spending (14.5%). While some in-year increases to allocations would have been expected within 2020, given the Government's approach

[9] *Budget 2021 Economic & Fiscal Outlook*, Table 8.

to expenditure ceilings,[10] the COVID-19 pandemic and the resultant increase in Exchequer spending was not anticipated.

The additional Gross Voted spending allocated by Government in response to the pandemic in 2020 is currently €14,191 million.[11] The Government's *Pre-Budget Expenditure Update 2020* (PBEU 2020) published on 6 October set out a further potential spending of €2 billion on COVID-19 related measures, bringing the total pandemic response to approx. €16.2 billion. It would appear, from Budget 2021, that the figure for potential spending will increase to €2.5 billion. Figure 10 illustrates developments in Voted spending for the period 2019-2021.

Figure 10: Developments in Exchequer Spending 2019-2021.



Source: PBO based on DPER, 'Databank' (2020); *Revised Estimates for Public Services 2020* (December 2019); and DPER, *Expenditure Report 2021* (13 October 2020).

Gross voted spending in 2021 is projected to be €82.2 billion (with a further €5.6 billion available and, as yet, unallocated to Votes) with notable increases in:

- Health;
- Housing; and
- Transport.

Spending on employment and unemployment supports is difficult to estimate as they are directly linked to the public health status of the country and which level of the *National Framework for Living with COVID-19* is in operation. Spending on health will increase above 2020 levels to reflect increased employment, COVID measures, and the increased cost of delivering services safely in the context of the pandemic.

Depending on the public health situation and the prospects of an effective COVID-19 vaccine, the fiscal impact of the pandemic could (in theory) abate in 2021. Spending could therefore reduce in

[10] See PBO Publication 11 of 2019, *Multiannual Expenditure Ceilings: An effective control for spending or simply the baseline?*
[11] A detailed analysis of Voted spending to end-September 2020 is provided in PBO Publication 56 of 2020.

2022. However, Government Departments are entering into long-term commitments now by increasing public sector staffing levels to improve services during the pandemic.

The scale of the increases are set out in Table 2– net numbers will increase by over 5% with a fall seen only in Transport. The increase of 10% in Health employment is particularly noticeable.

Table 2: Changes in Associated Public Service employees identified in the Budget 2021 Expenditure Report

Vote Group	Staff in 2020	Staff in 2021	Increase/ Decrease
Agriculture, Food and the Marine	5,023	5,237	+214
Children, Equality, Disability, Integration and Youth	5,543	6,027	+484
Defence Group	10,441	10,441	0
Education	88,743	90,958	+2,215
Enterprise, Trade and Employment	2,893	3,015	+122
Environment, Climate and Communications	1,615	1,677	+62
Finance Group	7,279	7,596	+317
Foreign Affairs Group	2,085	2,599	+514
Further and Higher Education, Research, Innovation and Science	24,582	25,142	+560
Health Group	125,124	137,639	+12,515
Housing, Local Government and Heritage	3,111	3,241	+130
Justice Group	26,402	26,942	+540
Public Expenditure and Reform Group	4,118	4,256	+138
Rural and Community Development	249	254	+5
Social Protection	6,070	6,258	+188
Taoiseach's Group (including Legal Votes)	1,937	1,975	+38
Transport	2,187	1,657	-530
Tourism, Culture, Arts, Gaeltacht, Sport and Media	1,810	1,848	+38
Total	**319,212**	**336,762**	**+17,550**

Source: PBO, based on *Expenditure Report 2021*.

Spending Pressures in 2020

The COVID-19 Pandemic and Spending (Voted & Non-Voted)

The COVID-19 pandemic has had a significant impact on spending in 2020, driving increases across many areas. However, these increases have been concentrated in a number of areas:

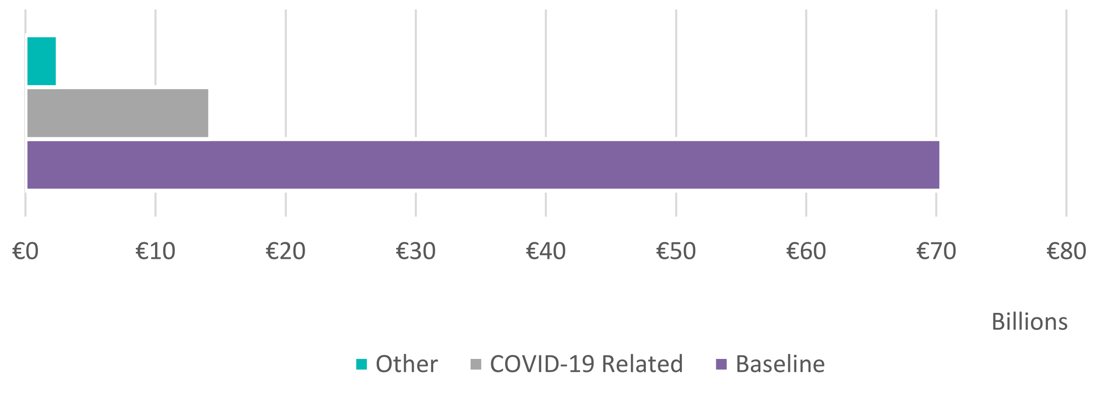
- Health;
- Employment and unemployment supports; and
- Business & enterprise supports.

Overall, it is expected that **€87.1 billion of Gross Voted spending will occur in 2020**, €17.3 billion more than originally planned (€16.5 billion of which is attributable to the pandemic). The PBO has written previously on these impacts12 – the measures introduced to respond to the pandemic have been necessary to support the economy and individual's incomes but, should become increasingly more targeted as understanding of the pandemic and its impact on the economy, tax revenues, and spending becomes clearer.

Beyond this, it is necessary to ensure, **from a parliamentary scrutiny and oversight perspective** – that pandemic spending can be tracked, is targeted efficiently, and is subject to performance measurement. If these criteria are not met – then it is possible that the use of scarce resources is sub-optimal – with limited possibility for timely input to rectify these issues. The absence of (or poor quality) performance information increases the risk that inefficient spending will occur and limits the ability of Parliament (or others) to identify it in a timely manner.

Figure 11 illustrates core spending for 2020 (as outlined in the *Revised Estimates for Public Services 2020* (December 2019)), alongside additional spending within 2020 which is primarily COVID-19 related but also includes additional non-pandemic spending.

Figure 11: Provisional Spending in 2020



Source: PBO based on *Revised Estimates for Public Services 2020* (December 2019); DPER, *Pre-Budget Expenditure Update 2020* (October 2020), and *Budget 2021 Expenditure Report*.

Main spending areas

This section examines some of the major spending Votes, in particular Votes impacted by COVID-19, namely:

- Enterprise, Trade and Employment;
- Housing, Local Government and Heritage;
- Social Protection; and
- Health

It also discusses some other overarching spending issues including Brexit, capital expenditure and demographics.

Enterprise, Trade and Employment (Vote 32)

The Expenditure Report 2021 outlines new levels of expected spending on Enterprise, Trade and Employment in 2020 over that already approved by Dáil Éireann.[13] This reflects an increase of more than €450 million within 2020 – suggesting that a Supplementary Estimate or Further Revised Estimate to that effect can be expected later in 2020.

The Expenditure Report 2021 sets out a reduced level of spending under Vote 32 Enterprise, Trade and Employment for 2021 against the revised 2020 figures outlined above (see also **Figure**). In 2021 the proposed allocations are:

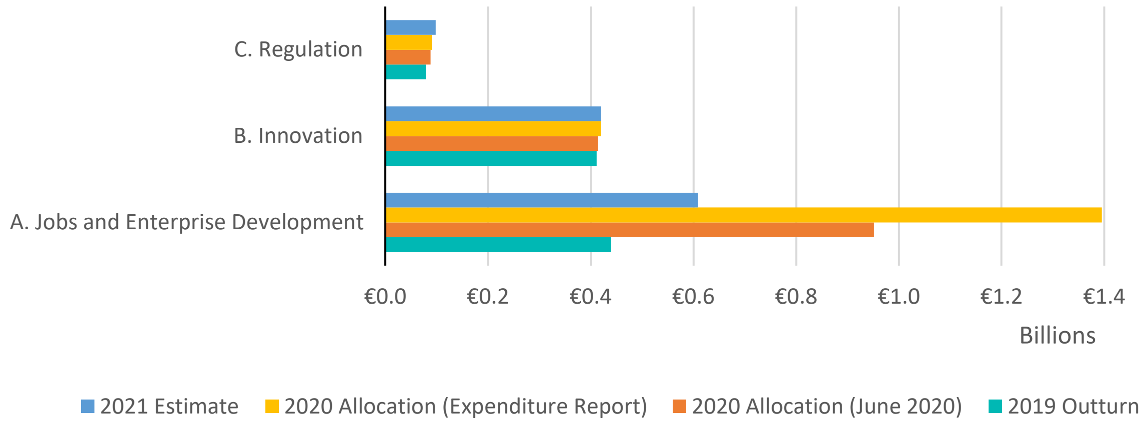
- Programme A: Jobs and Enterprise Development: €609 million. Down almost €786 million (-56.3%) on the 2020 allocation;
- Programme B: Innovation: €420 million. Up €0.1 million (0.02%) on the 2020 allocation; and
- Programme C: Regulation: €98 million. Up €7.56 million (8.3%) on the 2020 allocation.

This area has been subject to high levels of uncertainty in recent years – initially this was associated with Brexit – with the impending end of the transition period at the end of 2020 it was clear that supports would be required for enterprises to limit the impact of a new trading relationship with the UK. While 2020 has, and continues to be, dominated by the impacts of the pandemic on social and economic life – Brexit has once again come to prominence.

The prospect of a deal being agreed is lower than previously– with the general understanding a deal was required by mid-October at the latest, to be implemented by January 2021. The prospect of a deal in the near future remains obscure – in particular because of the negative impacts of the *United Kingdom Internal Market Bill* on negotiations, specifically resulting in the EU commencing a formal infringement process on 01 October.[14]

[13] See *Revised Estimates for Public Services* (June 2020).
[14] European Commission, 'Withdrawal Agreement: European Commission sends letter of formal notice to the United Kingdom for breach of its obligations' (01 October 2020).

Figure 12: Developments in Enterprise, Trade and Employment Spending



Source: PBO based on Comptroller and Auditor general, *Appropriation Accounts 2019* (30 September 2020), *Revised Estimates for Public Services* (June 2020), and *Expenditure Report 2021* (13 October 2020).

Figure 12 illustrates that the pandemic had a specific and significant impact upon Programme A – Jobs and Enterprise Development in 2020 – with the Expenditure Report 2021 setting out projected spending in 2020 reaching almost €986 million over the spend in 2019. This is more than twice the level of spending in 2019 (217.5%).

The *Expenditure Report* sets out spending in 2021 that is €198 million above 2019 levels. This is a 21.3% increase. This increase suggests lingering costs of the pandemic, specifically in Programme A – Jobs and Enterprise Development. The *Expenditure Report* identifies that Budget 2021 provides €100 million for COVID and €26 million for Brexit related supports. The *Expenditure Report* also sets out that €3.4 billion will be allocated to a Recovery Fund "to allow for specific, targeted measures to be introduced when and where the need arises and is to be used for measures to support the economy as we respond to Brexit and Covid-19."[15]

Housing, Local Government and Heritage (Vote 34)

Budget 2021 continues recent trends in prioritising spending on housing. A total allocation of more than €5.1 billion is proposed for Housing, Local Government and Heritage for 2021. In 2021 the proposed allocations (nearest million) are:

- Programme A: Housing: €3,117 million. Up €518 million (20%) on the 2020 allocation;
- Programme B: Water Services: €1,405 million. Up €69 million (5.1%) on the 2020 allocation;
- Programme C: Local Government: €225 million. Down €562 million (-71.4%) on the 2020 allocation;
- Programme D: Planning: €189 million. Up €7 million (3.6%) on the 2020 allocation;
- Programme E: Met Éireann: €43 million. Up €7 million (19.7%) on the 2020 allocation; and
- Programme F: Heritage: €139 million. Up €44 million (46.2%) on the 2020 allocation.

[15] *Expenditure Report 2021* (13 October 2020) p.24.

Overview

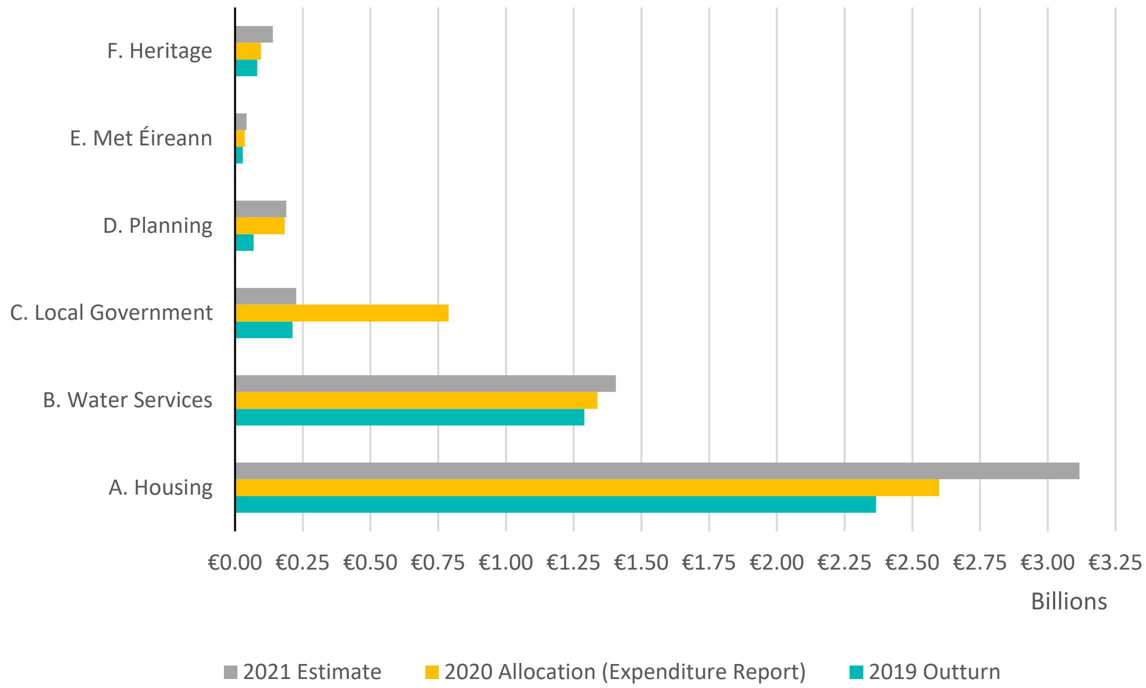
Housing, Local Government and Heritage is Vote 34 and incorporates all programmes from the former Vote 34, Housing, Planning and Local Government:

- Programme A: Housing;
- Programme B: Water Services;
- Programme C: Local Government;
- Programme D: Planning; and
- Programme E: Met Éireann.

This Vote incorporates a new Heritage Programme, Programme F. Programme F Heritage incorporates elements of what was previously Vote 33, Culture, Heritage and the Gaeltacht. Specifically Programme B Heritage has been reallocated to Vote 34, as well as a single subhead from Programme D – North – South Co-Operation, specifically Subhead D.4 Waterways Ireland.

From this analysis the PBO has, in Figure 13, illustrated year-on-year changes in Programme allocations within the new Vote 34 – to include the Heritage spending now found in Programme F.

Figure 13: Developments in Housing, Local Government and Heritage Spending



Source: PBO based on Comptroller and Auditor General, *Appropriation Accounts 2019* (2020); *Revised Estimates for Public Services 2020* (30 September 2020); and *Expenditure Report 2021* (13 October 2020).

- The rapid expansion of spending on Programme C in 2020 reflects the Government waiver on commercial rates as a COVID response measure. This reduced pressure on enterprises but necessitated that the rates shortfall would be compensated for by the Exchequer, so that local authorities could continue to provide full services to the public

As of Budget 2021, the Minister for Public Expenditure and Reform outlined that an additional €300 million would be required to fund an extension of this waiver to end-2020.[16]

Programme A housing represents the greatest proportion of spending in Vote 34. It is unclear that the levels of spending outlined for 2021 are realistic given that delivery of housing units in 2020 (to end Q2) was far below target.[17] As of end Q2 2020, just 725 (9.4%) of the 2020 builds target (7,736) had been delivered. Even if construction recovered robustly through Q3 and Q4, it is highly likely that a backlog in project delivery may continue into 2021. This may impact on the start dates of projects originally scheduled for 2021 – therefore impacting on both spending and delivery in 2021.

A recent ESRI paper (Allen-Coghlan et. al, 2020) noted that the disruption of the pandemic could undermine supply of housing units, exacerbating existing problems within the housing market as the economy recovers and demand rebounds. That paper considers this risk to be the main impact of COVID-19 on the housing market. That paper notes that:[18]

> *[O]ne of the most appropriate policy responses is for an increase in State provision of social and affordable housing. An increase in the supply of such housing at this point would help to reduce the extent to which the imbalance would be exacerbated by the present crisis. Ultimately, facilitating cheaper, more efficient housing supply is the primary policy concern in the housing market over the medium term.*

Budget 2021 provides for considerable expansion of social housing delivery in Ireland. However, the greatest challenge in this area may not be the funding available, but the capacity of the construction sector to deliver sufficient units. This is particularly relevant in relation to keeping enough staff on sites to deliver projects as quickly as possible.

Key Drivers of Spending in 2021

Spending in 2021 is expected to rise to almost €82.6 million above 2020 levels. This increase may appear modest at first; however, the scale of increase is masked by high levels of local government spending in 2020. This increase was driven by high levels of spending under subhead C.3 Local Government Fund. This spending represented a policy of reimbursing local authorities for forgone commercial rates – a COVID mitigation policy for enterprises.

A supplementary estimate for 2020 can be anticipated in 2020, with the Minister for Public Expenditure and Reform outlining that a further €300 million will be paid to local authorities to reflect an extension of the waiver on commercial rates for the final quarter of 2020.[19]

The reduction in spending on Programme C – Local Government in 2021 more than offsets increases in spending on Programme A Housing. While the details of the forthcoming Supplementary Estimate for Vote 34 are not yet completely clear, just reflecting the extension of the commercial rates waiver will result in spending in 2021 falling to approximately €200 million below 2020 levels.

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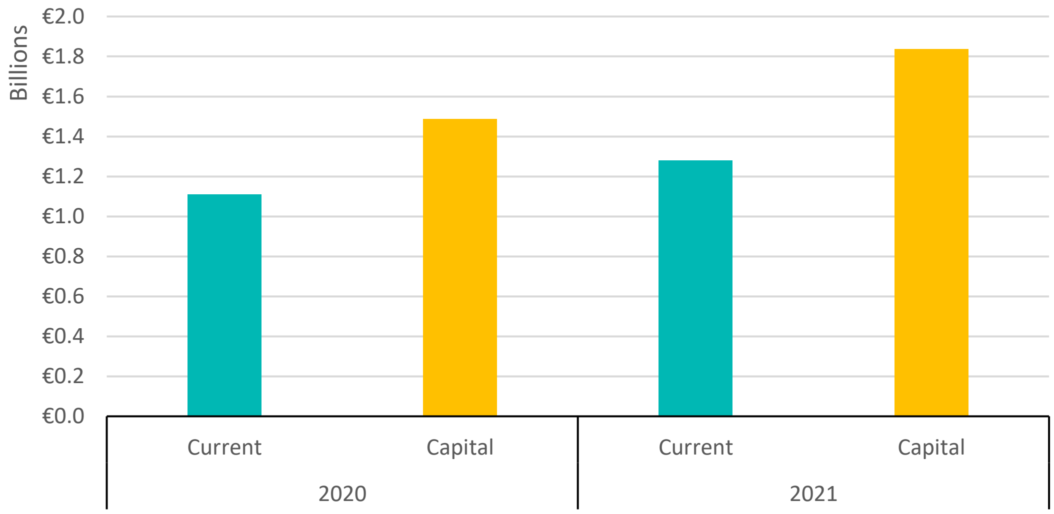
[16] Gov.ie, '**Budget Speech by the Minister for Public Expenditure and Reform, Michael McGrath**' (13 October 2020).

[17] Department of Housing, Local Government and Heritage, '**Overall social housing provision: Rebuilding Ireland - Progress against Targets**' (2020).

[18] M. Allen-Coghlan, K. McQuinn and C. O'Toole, '**Assessing the impacts of COVID-19 on the Irish property market: An overview of the issues**' (30 September 2020) p.20.

[19] Gov.ie, '**Statement of the Minister for Public Expenditure and Reform, Michael McGrath T.D. 13th October 2020**' (13 October 2020).

Figure 14: Programme A: Housing



Source: PBO based on the *Expenditure Report 2021* (13 October 2020).

Figure 14 illustrates that spending on Programme A – Housing, is projected to increase significantly in 2021 above 2020 levels. In particular, this increase is concentrated in capital spending (almost €348.6 million).

As outlined above, the PBO is concerned that the construction sector may struggle to deliver units in line with proposed levels of capital spending due to a backlog in project completion that can be expected due to public health measures[20] and constraint issues.[21]

Social Protection (Vote 37)

The *Expenditure Report 2021* (13 October 2020) provides for more than €25 billion in spending in 2021. This is a decrease in overall Social Protection Spending in 2021 compared to projected spend for 2020 of €5.2 billion (-17.2%).

The *Expenditure Report* sets out spending for 2020 above currently approved levels – at approximately €30.3 billion compared to approved spending of €28 billion. The PBO notes that the *Expenditure Report* does not provide for a transfer of funds from the Social Insurance Fund (SIF) as per the *Social Welfare (Covid-19) (Amendment) Act 2020*. **As such, the increased levels of gross spending of under the Vote outlined for 2020, from over €16.5 billion to almost €18.6 billion will necessitate a Supplementary Estimate in 2020 of some €2,035.5 million.**

The *Social Welfare (Covid-19) (Amendment) Act 2020* provides that costs associated with the Pandemic Unemployment Payment (PUP), a pandemic unemployment support scheme would be borne by the SIF. **The PBO had expected that the Expenditure Report would provide greater clarity as to this transfer. As the SIF's expenditure is not subject to Dáil approval, this transfer should not be contingent on the anticipated Supplementary Estimate in 2020**.

[20] Department of Finance, *Stability Programme Update 2020: Incorporating the Department of Finance's Spring Forecasts* (April 2020) p.18

[21] Department of Public Expenditure and Reform, *Build 2020: Construction Sector Performance and Capacity* (July 2020).

The *Expenditure Report* reflects continued pandemic pressures resulting in unemployment and the necessity for in-employment (working) supports. Projections show these pressures easing in 2021 and as such overall spending levels are lower than in 2020. Rather than a programme basis, Employment Affairs is delineated between the Social Insurance Fund (SIF) and the Vote. These are further broken down by categories of scheme.

Table 3 sets out total Social Protection expenditure (both the Vote and the SIF) for 2020 and 2021. 2020 figures are based on the Revised Estimate for Vote 37 in May 2020 and therefore does not reflect extensions to pandemic schemes announced in the *July Jobs Stimulus* (23 July 2020) or the Christmas Bonus.

Table 3: Total Expenditure Broken Down by Administration and Programme (€ millions)

	2020 (May 2020)	2020 (Expenditure Report)	2021 (Expenditure Report)	Change 2021 over 2020 (€ / %)
Administration	658.968	658.968	699.481	40.513 (6.1%)
Pensions	8,425.47	8,425.47	8,825.729	400.259 (4.8%)
Working Age – Income Supports	7,755.15	7,956.67	5,085.548	-2,871.12 (-36.1%)
Working Age – Employment Supports	2,748.328	4,846.098	2,127.014	-2,719.08 (-56.1%)
Illness, Disability and Carers	4,752.75	4,752.75	4,851.83	99.08 (2.1%)
Children	2,783.17	2,783.17	2,658.8	-124.37 (-4.5%)
Supplementary Payments, etc.	916.934	916.934	877.86	-39.079 (-4.3%)
Total	*28,040.77*	*30,339.274*	*25,126.262*	*-5,213.01 (-17.2%)*

Source: PBO based on *Revised Estimates for Public Services* (May 2020), and *Expenditure Report 2021* (13 October 2020).

Overview

The budget for Employment Affairs & Social Protection comprises two elements.

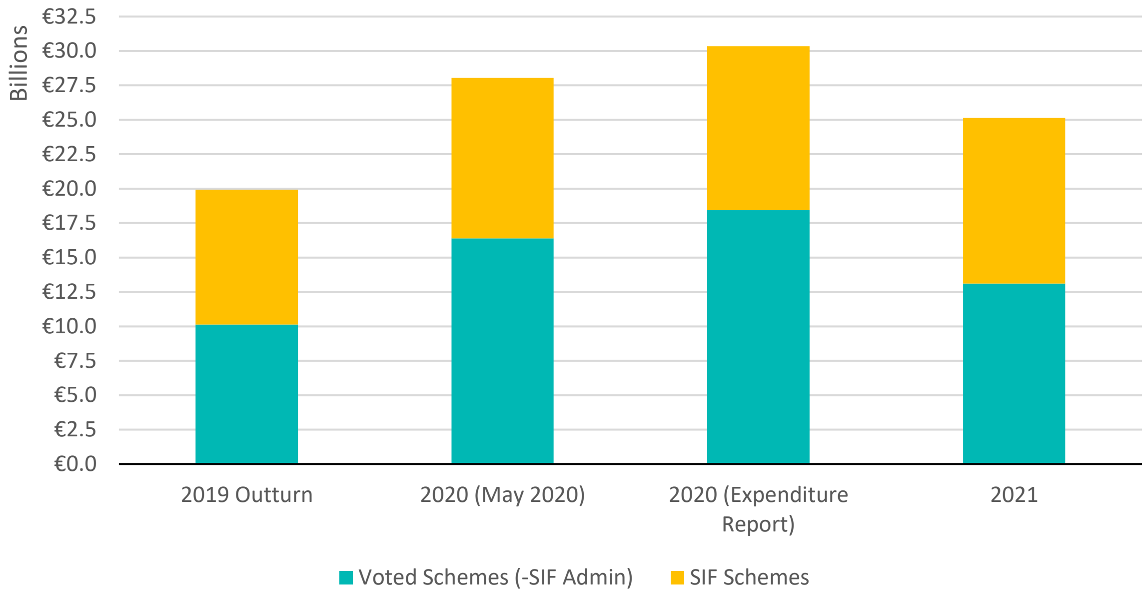
- The allocation To Vote 37 (Voted): €13.1 billion; and
- The Social Insurance Fund (SIF): €12 billion.

Together, spending on Employment Affairs & Social Protection will decrease from approximately €30.3 billion (not yet approved by Dáil Éireann) to €25.1 billion in 2021.

The primary changes in 2021, as outlined in Table 3, are:

- An increase in pension costs of €400 million, mainly arising from the deferral of an increase in the state pension age - pending the report of the Commission on Pensions and any subsequent Government decisions on its recommendations;
- An increase of almost €100 million in Illness, Disability and Carers payments;
- A decrease of almost €2.9 billion in Working Age Income Supports;
- A decrease of more than €2.7 billion in Working Age Employment Supports; and
- A decrease of €124 million in Child related payments.

Figure 15: Developments in Social Protection Spending

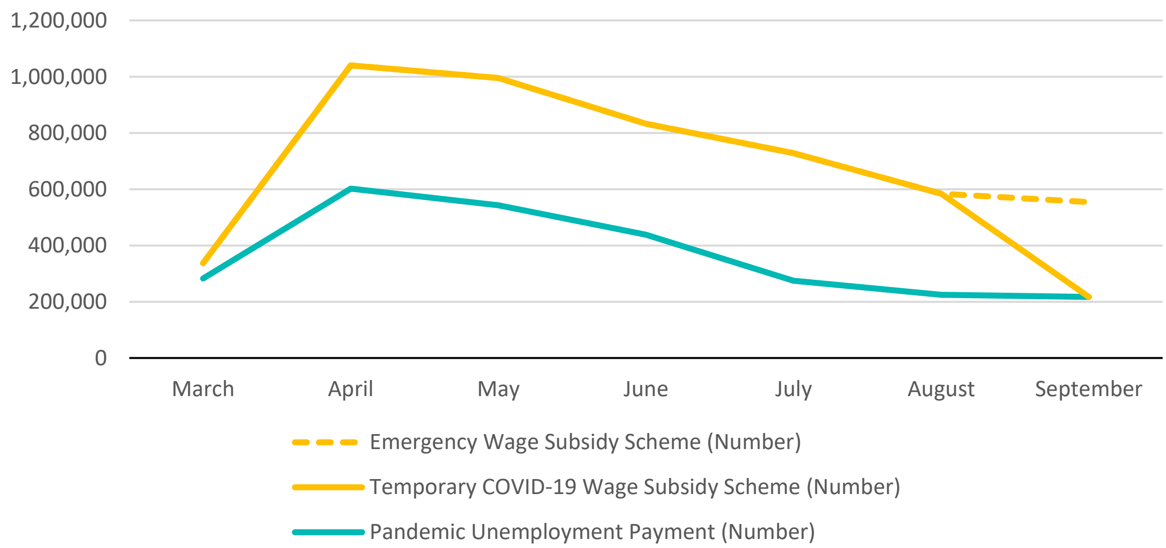


Source: PBO based on Comptroller and Auditor general, *Appropriation Accounts 2019* (30 September 2020), *Revised Estimates for Public Services* (May 2020), and *Expenditure Report 2021* (13 October 2020).

Gross spending on Employment Affairs & Social Protection is the sum of gross expenditure of the SIF and of the Vote minus a deduction in respect of administration fees paid by the SIF to the Vote (this prevents this transfer from being double-counted). These fees are deducted from gross spending by the Vote. As such, in 2019, gross spending on Employment Affairs and Social Protection reached more than €19.9 billion. Spending in 2020 is now expected to exceed €30 billion, before reducing to approximately €25 billion in 2021.

Pandemic Supports

Figure 16: Recipients of the TWSS & PUP (March to September) (Stacked)



Source: PBO based on CSO, 'LRM20: Persons on the Live Register and Persons in receipt of the Pandemic Unemployment Payment and the Temporary COVID-19 Wage Subsidy Scheme by Age Group, Sex, Month and Statistic' (13 October 2020); and Revenue Commissioners, *COVID-19 Wage Subsidy Schemes Preliminary Statistics (as at 8 October 2020)* (October 2020)

Figure 16 illustrates that pandemic unemployment and employment supports were being paid to in excess of 1 million people in April 2020.[22] Statistics for the Emergency Wage Subsidy Scheme (EWSS), which replaced the Temporary Wage Subsidy Scheme (TWSS) from 1 September 2020, have yet to be finalised. As such, Figure uses preliminary Revenue Commissioner data to illustrate the provisional number of EWSS recipients for September.

The PBO notes that there is no provision for the Pandemic Unemployment Payment (PUP) in 2021 in the *Expenditure Report 2021* (p.231). A new category of SIF payment, the Pandemic Unemployment Benefit, receives no mention within Part II of the Expenditure Report, despite approximately €1.4 billion spending on this scheme in 2020 – falling to approximately €640 million in 2021. It would appear that this new scheme under the SIF represents the assuming of responsibility for PUP payments in line with the *Social Welfare (Covid-19) (Amendment) Act 2020.*

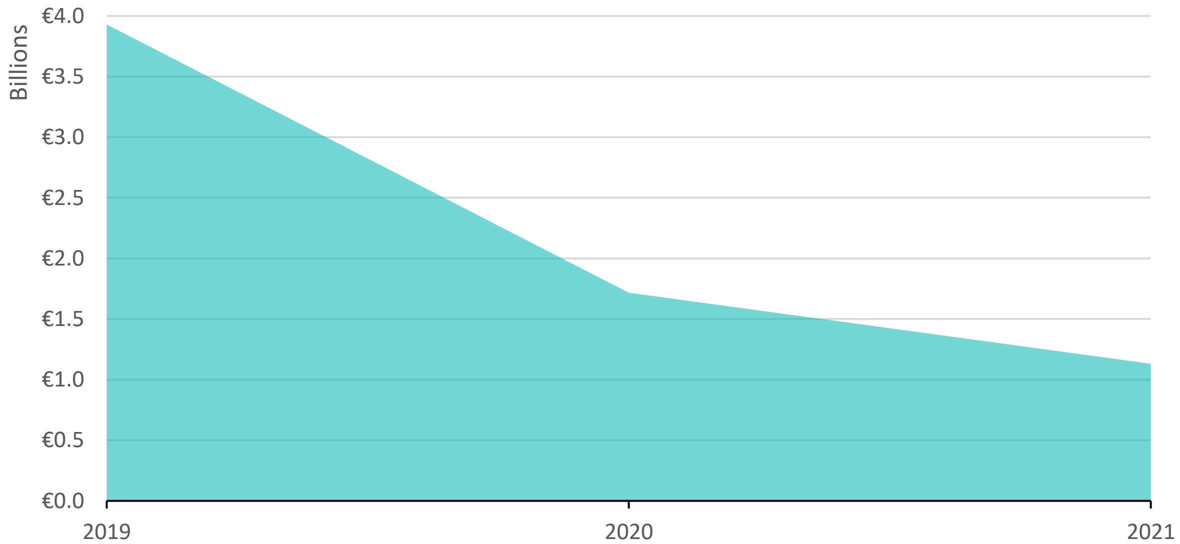
The PBO notes that there are increases to both the Jobseekers Allowance and Jobseekers Benefit schemes for 2020 of more than €1 billion.

The Social Insurance Fund (SIF)

The PBO has previously calculated the opening balance of the SIF in 2020 as approximately €3.93 billion.[23] The *Expenditure Report 2021* (p.232) outlines that the SIF is projected to run deficits of approximately €2.2 and €0.6 billion in 2020 and 2021 respectively. Together, these deficits will reduce the SIF's reserves to approximately €1.13 billion at end 2021.

In years where the SIF runs a deficit it disposes of its reserves to meet its costs. If the reserves of the SIF are insufficient to meet its liabilities – it receives funding from the Vote. This funding is known as a subvention. Figure 17 and the analysis below indicate that the risk of subventions being required for the SIF is high in the coming years.

Figure 17: Social Insurance Fund Reserves



Source: PBO based on Department of Employment Affairs and Social Protection, *Social Insurance Fund: Financial Statements 2018* (2019); *Revised Estimates for Public Services – DEASP* (2020); and *Expenditure Report 2021* (13 October 2020).

[22] There may be some dual counting of persons in this series – with a person transitioning from employment (TWSS) to unemployment (PUP0 or *vice versa* within any given month.

[23] See PBO, *PBO Analysis of Voted Spending on Public Services at end-September 2020* (08 October 2020) p.6.

Figure 17 illustrates the SIF's reserves based on the PBO's calculation of the SIF's reserves at end 2019. This reserve will be eroded through 2020 and 2021 based on figures in the *Expenditure Report 2021*. However, as already noted in this paper, the *Social Welfare (Covid-19) (Amendment) Act 2020* provides that costs associated with the Pandemic Unemployment Payment (PUP) would be borne by the SIF.

The *Expenditure Report 2021* (p.231) sets out an anticipated cost for the TWSS of almost €3.14 billion in 2020 – which is currently attributed to the Vote. Figure illustrates that, based on these projections, the SIF will be unable to bear the costs of the PUP - legislated for in the *Social Welfare (Covid-19) (Amendment) Act 2020.* Spending in excess of SIF income in 2020 and 2021 will result in a clear and substantial reduction to the reserves of the SIF even in the absence of a refund from the SIF to the Vote. **It is now clear that the SIF's reserves are likely to be entirely depleted at some stage in 2021 if the SIF does indeed reimburse the Vote in line with the above Act**.

Health (Vote 38) & HSE

Summary of Health (Vote 38) & HSE Allocations in Budget 2021

There are two main strands to the Health budget allocation – the Department of Health and the HSE. While the funding for the HSE is allocated via the Health Vote, the administration of spending is an internal matter – although based on the Letter of Determination (for current spending) agreed with the Department.

- Vote 38 allocation: €6,835 million; and
- HSE allocation: €15,281 million.

Together, spending on Health and the HSE will increase from €20,328 million in 2020 to €22,117 million in 2021, a change of €1,789 million (+8.8%).

Of this increase, €1,476 million is in the allocation to the core HSE subhead.

Overview

Despite COVID-19 representing a public health crisis for the State, the additional financial requirements in 2020 and 2021 for Vote 38 and the HSE are, perhaps, not as substantial as might have been anticipated. While spending to date in 2020 on mitigation measures exceeds €1,855 million, in the context of the overall Health budget, these measures do not represent the extent of increases witnessed in other impacted Votes (e.g. Social Protection, Business). The budgeted allocation for COVID-19 measures in 2021 stands at €1,704 million – made up of €650 million for PPE, €650 million for building out the tracking and tracing programme, and a further €404 million to continue the services established in 2020.[24] This reflects a number of drivers, which include the expansion of the new testing and tracing workforce of more than 3,000, as well as the higher cost of delivering non-COVID healthcare.

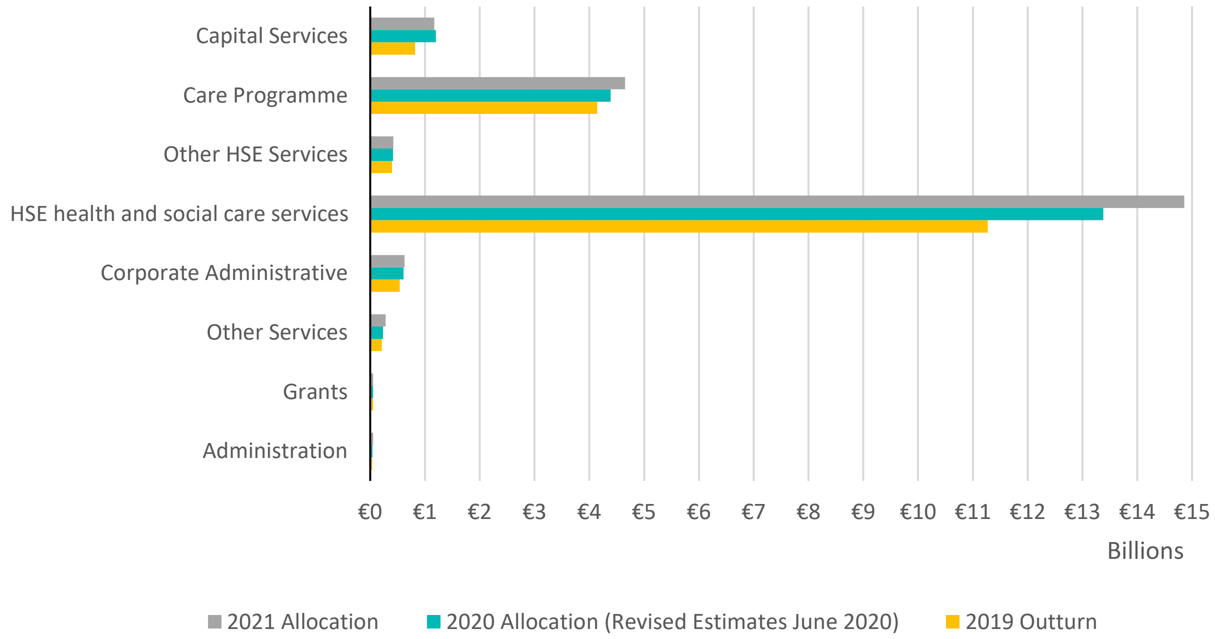
A further €1,656 million in funding was announced for a raft of specific measures which are not directly linked to the impact of the pandemic, though will have a bearing on alleviating the knock-on effects on the health service generally. Included in these measures is €467 million for increased capacity (2,717 beds in critical, acute, and community beds), €425 million for community and social care services (including 5 million Home Care hours, reduced prescription charges, increased medical cards etc), and €318 million under improving access to care (€250 million Access to Care Fund, €30 million for the National Treatment Purchase Fund).

The associated public service workforce is set to increase in 2021 by over 12,000 individuals, representing 10% over 2020 levels.

It is not presently clear what level of funding was allocated to reflect the knock-on impact of the pandemic on core healthcare services i.e. delayed procedures may require new diagnostic tests to be undertaken, conditions may have advanced and require more intense treatments, and there may be overall pressure to try and reach a pre-pandemic position in relation to waiting lists. However, the Department of Health has indicated previously that they will require a supplementary estimate, of unknown value, for 2020 which the PBO has estimated may be in excess of €1 billion.[25]

[24] **PBO Analysis of Voted Spending on Public Services at end-September 2020**, October 2020
[25] Ibid

Figure 18: Developments in Health Spending



Source: PBO based on DPER, 'Databank' (2020); *Revised Estimates for Public Services 2020* (June 2020); and DPER, *Expenditure Report 2021* (13 October 2020).

Brexit

As with Budget 2020, the decision has been made to frame the 2021 allocations on the assumption that no future trading agreement will be reached with the UK between now and 1 January 2021 and Ireland, along with the EU, will commence trading under WTO rules from that date forward.

The approach taken in budget 2021 has, therefore, been to establish a recovery fund of approx. €3.4 billion which will look to mitigate the impact of both a disorderly Brexit and the ongoing effect of the Covid-19 pandemic. These funds have not been built into the spending ceilings of the Votes but rather retained for use in the event they are required.

Given the uncertain nature of the negotiations and the unpredictable outcome which may come to pass, Budget 2021 allocates only an additional €100 million, across a number of Departments and agencies. When aggregated with measures announced in previous budgets for 'Brexit preparedness measures'- such as assisting industry's access to new markets outside of the UK, and the staffing and facilities required for regulatory checks - the Department of Public Expenditure and Reform envisages €350 million in direct spending in 2021.

The €100 million announced in Budget 2021 is split between current and capital spending €54 million and €46 million, respectively. The current spending is allocated to the Department of Agriculture (€25 million, including Bord Bia), the Office of the Revenue Commissioners (€14 million), Health (€5 million), and Foreign Affairs (€10 million). The capital allocation is split across Enterprise, Trade & Employment (€26 million, Local Enterprise Offices and Enterprise Ireland), Agriculture (€4 million), and the Office of the Revenue Commissioners (€16 million).

Capital Expenditure

Budget 2021 has seen the largest ever gross capital spending allocation of €9,735 million, exceeding the original anticipated allocation for 2021 of €9,052 million by €683 million. This spending relates to the core expenditure ceilings of the Vote Groups and does not take into account a further €336 million in COVID-19 and Brexit capital spending, which brings the estimated total for 2021 to €10,071 million.

Table 4 sets out the increase or decrease in some of the larger Vote Groups in Budget 2021, against the estimates for 2020 set out in the *Pre-Budget Expenditure Update 2020*. Spending increases in Housing, Environment, and Transport are in line with policy objectives set out in the Programme for Government.

Table 4: Capital spending in selected Vote groups

Vote Group	PBEU 2020 (millions)	Budget 2021 (millions)	Change (millions)
Environment, Climate and Communications	€377	€617	€240
Further and Higher Education, Research, Innovation and science	€174	€266	€92
Transport	€1,981	€2,475	€494
Tourism, Culture, Arts, Gaeltacht, Sport and Media	€169	€172	€3
Housing, Local Government and Heritage	€2,350	€2,766	€416
Defence	€113	€131	€18
Enterprise, Trade and Employment	€1,549	€642	-€907
Health	€1,074	€880	-€194

Source: PBO, based on PBEU 2020 and Budget 2021 Expenditure Report.

It remains to be seen to what extent the Recovery fund, if required to be used, is split between capital and current spending, particularly given the allocation of grant funding (classed as capital expenditure) from Vote 32, Enterprise, Trade & Employment.

Demographics

The PBO published *Demographics and Voted Expenditure* (January 2019) as a primer and to help identify the fundamental issues related to Demographics in the allocations presented to Dáil Éireann for approval and to Select Committees (for scrutiny).

The Department of Public Expenditure and Reform (DPER) has provided projections of annual cost changes based primarily on net changes to the composition of demographic cohorts for the period 2020-2030 ('pure costs').[26] The PBO has previously pointed out that the way in which these changes

[26] DPER (IGEES) Spending Review Paper, ***Budgetary Impact of Changing Demographics from 2020 – 2030*** (2019).

are incorporated in the annual budgetary process (particularly the changes to the spending ceilings of individual Votes in the Budget Expenditure Report) is unclear – this situation appears, on an initial analysis, to be unchanged.

The DPER Spending Review paper concentrates on three main areas directly affected by demographic changes; Social Protection, Health and (to a lesser extent) Education.

The main demographic factor affecting Social Protection spending is Pensions. The 2019 Spending Review paper detailed the net increases in spending because of demographic changes but made provision for significant savings estimated because of planned changes to the age of entitlement to the State pension.[27]

The PBEU 2020 states that:

> *[I]n relation to the state Pension, the Programme for Government sets out that pending the report of the Commission on Pensions and any subsequent Government decisions on its recommendations, the State Pension age will remain at 66 years. Consequently, this is included as a policy pre-commitment in the amount of €0.5 billion provided for demographics.*

The means that Government has, in Budget 2021, assumed that demographic spending in Vote 37/SIF will continue to increase at about the same rate as in previous years. The Expenditure Report (p.94) sets out a figure of €260 million for such costs in respect of Social Protection in 2021.

The PBO notes that savings expected to be made as a result of demographic changes impacting on the Early Childhood Care and Education (ECCE) scheme have been re-allocated within the Vote rather than returned to the Exchequer.[28]

IGEES Spending Review

The year 2020 is the beginning of a new 3-year cycle of the Spending Review process. The PBEU 200 (p.31) describes its purpose now as being:

> *[T]"to provide a key platform enabling evidence informed policy making. It does this by facilitating the critical assessment, on a rolling basis, of expenditure programmes.*

The Spending Review papers produced by the Irish Government Economic and Evaluation Service (IGEES) are a key resource for parliamentary scrutiny and are intended to feed into the budgetary planning process.[29] In relation to the last Spending Review cycle, the PBEU 2020 (p.25) states that:

> *It was found that over a third of papers informed broader policy discussions with a further 20 per cent informing broader policy decisions. In the context of the Budget, 26 per cent of papers either informed estimates negotiations or budgetary decision making.*

Therefore, only a sub-set of a quarter of the papers fed into budgetary decision-making. In general, how they fed in was never made clear.

The independent review of the Spending Review process undertaken by Professor John O' Hagan of Trinity College Dublin has not been published. It is stated (p.27), however, that this informed internal

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[27] Increases in the pension age in 2021 and 2028. The age of eligibility will be increased to 67 in 2021 and will rise to 68 from 2028 onwards.

[28] *Budget 2021 Expenditure Report* (p.59).

[29] See PBO infographic here.

discussions and that as a result one of the areas for further development identified was "Enhancing communication with decision makers". The PBO assumes, in that context, this Spending Review cycle will be much more accessible to parliamentary scrutiny.

The PBO scrutinised the previous Spending Review cycle (2017-2019) on several occasions. Some of the recommendations made by the PBO, in the context of the future of the Spending Review, were that each paper should:[30]

- Clarify the amount of expenditure being reviewed;
- Provide clarity as to the purpose of the paper vis-à-vis the Budget;
- Establish whether the policy area had been effective and had made efficient use of resources; and
- Recommend actions including re-allocation of funding.

The **first tranche of SR papers** were published on 6 October along with the PBEU 2020. A **second tranche** were published today. A significant paper included in today's release was **Forecasting Jobseeker Numbers & Expenditure 2021**.

[30] See PBO Publication 48 of 2019, *The future of the Government's Spending Review: A parliamentary scrutiny perspective* (p.2).

Appendix 1 – Overview of tax policy changes in Budget 2021

The key revenue-impacting tax policy-changes included in Budget 2021 are listed below, including full-year costings.

Revenue raising measures €204 million

Carbon Tax

Increase in the Carbon Tax rate by €7.50 to €33.50 per tonne/CO2	Full year yield €147m

Excise Tax

Increase of 50c on pack of 20 cigarettes with a pro-rata increase on other tobacco products	Full year yield €57m

Revenue reducing measures €435.1 million

Income Tax

Increase in the Earned Income Credit from €1,500 to €1,650. The cost of this measure for 2020 will be €13m	Full year cost €24m
Increase in the Dependent Relative Credit from €70 to €245	Full year cost €5.9m
Extension of the Sea-going Naval personnel Tax Credit to end of 2021 with increase in the credit to €1,500 for 2021	Full year cost €0.5m

USC

Increase in band ceiling by €203 to €20,484	Full year cost €7m

VAT[31]

Temporary reduction of VAT for Tourism and Hospitality to 9%	2021 cost €336m
Increase in the Farmers Flat Rate Addition to 5.6%	Full year cost €12m

Additional tax measures

Section 481 Film Tax Credit relief extended	Full year cost €2m
Extension of the Help-to-Buy scheme	Full year cost €43m
Weekly income threshold for employer's PRSI increased by €4 to €398	Full year cost €3.7m
Capital Allowances for Energy Efficient Equipment is being extended for three years	Full year cost €1m

31 No full-year cost was provided for this change. The estimated cost in 2021 is used here. The indicative cost from 1 November 2020 to 31 December 2021 is €401m.

Tax policy changes with a potential Exchequer impact

A number of extensions to existing tax measures were included in Budget 2021 and are presented without costings. For example, for medical card holders, the reduced rate of USC is going to be extended for another year. Although the estimated cost is projected to be €44 million in 2021 (and €53 million *per annum* subsequently) as it is already included in the tax base it is classified as revenue neutral and not included in the aggregate cost of tax measures. In addition, no costings have been provided for the extension of the Farm Consolidation (Stamp Duty) relief or the Consanguinity (Stamp Duty) Relief, which are being extended until the end of 2022 and 2023 respectively. Changes to Capital Allowances for Intangible Assets have also been detailed without any indication of the potential Exchequer impact.

The COVID Restrictions Support Scheme is estimated to cost €40 million for every week that the country is operating at Level 3 of the Government's Resilience and Recovery 2020-2021 plan. Forecasting the exact amount of weeks for which the scheme will be in operation is difficult, and depends on the trajectory of the virus. For this reason, an estimate of the overall cost has not been provided and is therefore not included in the aggregate cost of tax measures.