



Tithe an  
Oireachtais  
Houses of the  
Oireachtas

**Tithe an Oireachtais**  
**An Coiste um Fhormhaoirsiú Buiséid**  
**Tuarascáil Iar-Bhuiséid 2019**

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**Houses of the Oireachtas**  
**Committee on Budgetary Oversight**  
**Post-Budget 2019 Report**

**32CBO012**

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## CHAIRMAN'S PREFACE



Between December 2018 and January 2019, the Committee on Budgetary Oversight held a number of meetings with stakeholders including the Parliamentary Budget Office (PBO), the Irish Fiscal Advisory Council (IFAC), the Department of Health and the Minister for Finance and Public Expenditure and Reform, to carry out ex-post scrutiny of issues raised in relation to Budget 2019.

This report is a summary of the Committee's views based on the evidence received during these ex-post scrutiny sessions.

In line with its Terms of Reference, one of the main goals of the Budgetary Oversight Committee is to enhance our budget framework, so that the budget process is more transparent, inclusive and subject to greater parliamentary scrutiny. The Committee has benefited from the significant interaction that now takes place with key stakeholders during the budget cycle.

We particularly acknowledge the commitment of IFAC and the Minister for Finance and Public Expenditure and Reform for committing to an exchange of views on budget priorities and the quality of budget information throughout the year, and for the attendance of officials from the Department of Health at Committee meetings.

I also wish to acknowledge the assistance of the Parliamentary Budget Office, which provided analysis and briefing material to the Committee, and to the Secretariat for their support. I am pleased to present this report to the Dáil on behalf of the Select Committee.

A handwritten signature in black ink, appearing to be 'Colm Brophy', written in a cursive style.

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Colm Brophy T.D.

Chair

## RECOMMENDATIONS

1. Corporation Tax: The Committee recommends that, in light of evidence regarding the over-reliance on and sustainability of Corporation Tax receipts, a second independent review be carried out to examine the sustainability of Corporation Tax beyond 2020 (2020 – 2030). Once it is concluded, the results of the review should be presented to the Committee on Budgetary Oversight.
2. Brexit: In light of questions raised by the Committee in relation to the Government's plans for a no-deal/disorderly Brexit, there is a need to prepare more detailed forecasts of the impact of Brexit in 2019 / 2020 on tax receipts, employment, expenditure and economic growth. The Committee recommends that the Minister for Finance and Public Expenditure and Reform engage with the Committee, in advance of submitting the Stability Programme Update (SPU), in order to discuss the detailed budget and fiscal projections that will underpin the SPU.
3. Expenditure Ceilings: The Committee recommends that the Department of Public Expenditure and Reform carry out a review of the current system of three year expenditure ceilings, with a view to ensure that medium term expenditure projections are more credible. This review should also consider moving away from an annual budget cycle by introducing a multiannual budget cycle. On completion of this review, the Department should revert to the Committee.
4. Control of Health Expenditure: The Committee is of the view that its questions on the health budget and the consistent pattern of budget overruns, leading to supplementary budget allocations, have not been answered in sufficient detail. It acknowledges that the Department of Finance is now involved in a monthly review process with the HSE and Department of Health in order to track expenditure. The Committee recommends that officials from the Department of Finance, the Department of Health and the HSE present to the Committee in early July 2019, on the level of expenditure at the half yearly mark, and on the provisional findings of the Mid-Year Expenditure Report. The Committee urges the Minister to ensure that the Mid-Year Expenditure Report is published before the Dáil rises in July 2019.

5. Department of Public Expenditure & Reform: The Committee discussed management and control of health expenditure with the Department of Health at its Dec 11th 2018 meeting. The Committee notes that the Department of Public Expenditure and Reform declined an invitation to attend the meeting. On the 16<sup>th</sup> of January 2019, the Committee agreed to bring the matter to the attention of the Ceann Comhairle as Chair of the Committee on Procedure of Dáil Éireann. The Committee notes that on the 23<sup>rd</sup> of January 2019, an invitation was extended to Mr. Robert Watt, the Secretary General of the Department of Public Expenditure and Reform, to attend a meeting with the Committee to discuss budgetary control and public procurement in relation to Capital Projects, a reply to which is awaited.
6. The Committee recommends that the Department of Public Expenditure and Reform provides it with an analysis of the budgetary impact of the additional capital costs, arising from the National Children's Hospital Project, on the completion of all other Capital Projects.

## INTRODUCTION

This report considers evidence received by the Committee in relation to post-budget issues in respect of Budget 2019 such as the overruns in Health, the criticisms raised by IFAC in its Fiscal Assessment Report November 2018 and the increasing reliance on Corporation Tax receipts.

As part of its post-Budget 2019 review, the Committee met with the Irish Fiscal Advisory Council to consider its [Fiscal Assessment Report \(FAR\)](#), which was published on 28<sup>th</sup> November 2018.

While the FAR acknowledged the substantial progress that has been made by the Department of Finance in relation to its macroeconomic forecasting, it also criticised the budget on a number of fronts such as; the Government's medium-term budget plans and increases in in-year expenditure (i.e. Supplementary Estimates).

The Committee met with officials from the [Department of Health](#) to discuss control of health expenditure on the 11<sup>th</sup> of December 2018. It subsequently met with the Minister for Finance and Public Expenditure and Reform on the 16<sup>th</sup> of January 2019 to receive his response to IFAC's analysis of Budget 2019<sup>1</sup>, to discuss the budgetary impact of Brexit, and to consider issues in relation to control of health expenditure, and budget over-runs in relation to the National Children's Hospital.

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<sup>1</sup> CBO-R-220-2019 Letter from Minister Paschal Donohoe.

## CORPORATION TAX (CT)

The Committee raised concerns regarding the sustainability of Corporation Tax receipts beyond 2020. Corporation Tax receipts in 2018 amounted to €10.4 billion. This is almost double the €5.5 billion that was forecast in 2015<sup>2</sup>. In a meeting on December 5, speaking as the author of the 2016 [review of Corporation Tax](#)<sup>3</sup>, Mr. Coffey stood over his conclusion that this level of receipts was sustainable up to 2020. However, Mr Coffey noted that for budget planning purposes, 2020 was not a very long time horizon, and he could not make any assertion about receipt levels after 2020.

In addition, as the [PBO](#)<sup>4</sup> has pointed out “Corporation Tax is mostly collected at the end of the year (October to December) and is based on the previous year’s profits, it could be well into 2020 before a shortfall in Corporation Tax becomes apparent.”

Members noted with concern the increasing reliance on a small number of multi-national companies to deliver windfall corporation tax receipts, and noted evidence received that this feature makes the economy more vulnerable to external shocks, or to changes in international tax policy. In light of these concerns, and the fact that the Coffey Report has become outdated in view of the growth in tax revenues since 2016, the Committee recommends that a second independent review be carried out to examine the sustainability of Corporation Tax receipts.

In his [meeting](#)<sup>5</sup> with the Committee, the Minister for Finance responded to these concerns by highlighting policy measures taken in Budget 2019 to broaden the tax base, such as the increase in the rate of VAT on hospitality, in addition to the fact that the Department’s conservative tax forecast for 2019 was almost €1 billion less than CT revenue collected in 2018. Both of these measures were introduced in an effort to reduce dependence on CT receipts. Following a request by Committee members, the Minister also stated that he would consider commissioning a further independent review of CT receipts.

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<sup>2</sup> Transcript 16-01-2019

<sup>3</sup> Review of Ireland’s Corporation Tax Code

<sup>4</sup>Parliamentary Budget Office, Quarterly Economic and Fiscal Commentary – Q4 2018 PBO Publication 5 of 2019, p. 3.

<sup>5</sup> Transcript 16-01-2019

## THE BUDGETARY IMPACT OF BREXIT

In its meeting with the Minister for Finance and Public Expenditure and Reform, the Committee raised the issue of the potential impact of a no-deal or hard Brexit on Budget 2019. In its post-Budget [review of Budget 2019](#)<sup>6</sup>, the PBO highlighted the fact that the figures underpinning Budget 2019 are based on a central, orderly Brexit scenario. Given that the risk of a 'hard Brexit' appears to have increased following the rejection of the draft Agreement on the withdrawal of the United Kingdom from the European Union by the House of Commons, the Committee queried whether the Minister has made adequate preparations for a supplementary budget for 2019, or for possible changes to expenditure that may result from a disorderly or 'no-deal' Brexit.

The Minister responded to the Committee that he did not foresee any significant changes to the expenditure plans as a result of Brexit. The Minister stated that he would provide the Committee on Budgetary Oversight with a further assessment of spending plans and Ireland's economic outlook in the Stability Programme Update in April. However, he emphasised the challenges involved in preparing accurate, detailed economic forecasts for such an unprecedented event.

The Committee notes that the Minister was confident that the spending plans, as laid out in Budget 2019, would stand. He also confirmed the high level of engagement between Finance and the other Departments on expenditure needs in the case of a no-deal Brexit. This engagement has mainly focussed on how infrastructure needs in ports and airports could be put in place faster than expected, in an orderly Brexit scenario.

Following the meeting with the Committee, the Department of Finance published its [initial assessment](#)<sup>7</sup> of the impact of a "no-deal Brexit" on Wednesday 30<sup>th</sup> January 2019. The Committee notes that this update closely echoed the evidence which the Minister provided to the Committee. The initial assessment stated that:

*"As part of the Government's ongoing contingency planning for a no deal Brexit, this preliminary assessment prepared by the Department of Finance suggests that a disorderly exit will reduce the level of GDP (the size of the economy) by around 4¼ percentage points (relative to the Budget 2019 central scenario forecast) over the medium term (to 2023) and by around 6 percentage points relative to a hypothetical 'no Brexit' scenario."*

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<sup>6</sup> Parliamentary Budget Office, Preliminary Review of Budget 2019.

<sup>7</sup> Press release, Minister outlines [initial assessment of economic and fiscal impact of "no deal" Brexit](#).



The Committee notes that this assessment does not set out in detail the impact that a no-deal Brexit will have on Budget 2019, nor does it make any reference to the possibility of a revised or supplementary budget. However, it does set out the short-term approach that the Minister intends to take to address the potential economic impact of a “no-deal Brexit”:

*“In the short-term, the appropriate fiscal strategy would be to allow the public finances absorb the shock – the in-built automatic stabilisers will provide the first line of defense for our economy (allowing a deficit to occur). More information will be available at the time of Budget 2020, which will be introduced in October of this year, and this will enable Government to design the appropriate budgetary policy response.”*

In light of the questions and concerns raised by the Committee in relation to the Government’s Brexit contingency plans, the Committee recommends that the Minister and officials from the Department of Finance appear before the Committee in advance of the submission of the Stability Programme Update to discuss the projections that will underpin the Stability Programme Update in a greater level of detail.

The Committee will continue to monitor the budgetary and fiscal impact of Brexit, as part of its Work Programme for 2019, and in line with its remit.

## MEDIUM-TERM BUDGETARY PLANS

In its [Fiscal Assessment Report \(FAR\) November 2018](#), the Irish Fiscal Advisory Council (IFAC) criticised the Government's medium-term budgetary plans, stating that the medium-term plans were not credible. This criticism is based on a number of factors set out in the FAR, for example, IFAC contended that:

- The Government's system of three year budget ceilings does not appear to be effective, as there have been repeated pro-cyclical upward revisions of these expenditure ceilings.
- Medium-term spending forecasts are based on unrealistic technical assumptions.
- Previous commitments to over-achieve on the fiscal rules and to reduce debt to 55% of GDP have been dropped from budget documentation without explanation.

The Committee raised these criticisms with the Minister in its meeting of the 16<sup>th</sup> January 2019. In response, the Minister stated that, while he was in agreement with IFAC on a number of the issues highlighted in the FAR, he does not accept the criticism regarding medium-term budgetary plans, as he believes this assessment does not take account of the fact that:

*"...Any Government on budget day must be able to make its own policy priorities and must be able to make discretionary expenditure decisions. Those must be funded and in many cases must be built on to medium-term forecasts that are published."*

In his [formal](#)<sup>8</sup> reply to IFAC's November Fiscal Assessment Report November 2018, the Minister sets out his response to IFAC's criticism of medium-term budgetary plans and forecasts in more detail, stating that;

*"The approach currently adopted in relation to Departmental expenditure amounts ('ceilings') is informed by the experience during the lead-up to the fiscal and economic crisis. Large and ultimately unsustainable increases in expenditure were implemented during the pre-crisis period.*

*When preparing expenditure allocations beyond 2019, the ceilings are prepared on a prudent and contained basis, which maintains allocations across all spending areas and which takes account of demographic factors in the areas of Health, Social Protection and Education. In addition, the overall spending projections include a*

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<sup>8</sup>Minister Donohoe reply to IFAC November 2018 Fiscal Assessment Report, published on January 17<sup>th</sup> 2019. <https://www.finance.gov.ie/updates/minister-donohoe-reply-to-ifac-november-2018-fiscal-assessment-report/>

*separate unallocated provision. This amount is distributed across Departments in the context of the annual budget process to reflect developments, for example, in public service pay and pension agreements.*

*This approach mitigates the risks inherent in re-stating expenditure ceilings applying inflationary increases as a new baseline (i.e. floor) for any new increased expenditure. A key objective of fiscal policy is that public expenditure is affordable both now and in the future”.*

Although the Committee acknowledges that decisions on discretionary expenditure may arise, it is of the view that such decisions need to be based on more robust medium term projections, and that more work needs to be carried out by DPER to improve the quality of financial data that underpins medium-term forecasting and planning. It is the Committee’s view that more structured and robust medium-term plans can help to reduce the pattern of pro-cyclical increases in expenditure ceilings, and improve the monitoring and control of expenditure across all Departments.

The Committee recommends that the Department of Public Expenditure & Reform carry out a review of the current system of three year expenditure ceilings with a view to ensuring that medium term expenditure projections are more credible. This review should also include consideration of a move away from an annual budget cycle by introducing a multi-annual budget cycle. On completion of this review, the Department should revert to the Committee.

## HEALTH EXPENDITURE

The Committee [met](#)<sup>9</sup> with officials from the Department of Health on December 11<sup>th</sup> 2018 to discuss overruns in the Health budget. Consideration of this issue arose from discussion with the Minister for Finance and Public Expenditure and Reform in July 2018, and recommendations in the Committee's [Final Pre-Budget Report](#)<sup>10</sup> (September 2018), which stated that:

*“The Committee recommends that any additional monies required by Government Departments, arising from Budget over-runs, should be clearly identified in the allocations set out in the Revised Estimates. The Committee has agreed to request a meeting with officials from DPER and the Department of Health to discuss the current approach to managing budgets in the Department of Health and in particular, the impact of Supplementary Estimates on budget planning.”*

During the December 11<sup>th</sup> meeting with the Department of Health, the Committee raised a number of concerns around the consistent pattern of budget overruns and the need for regular Supplementary Estimates. The Supplementary Estimate for 2018 amounted to €625m, and this was effectively carried into the base for 2019. This brings the total budget allocation for the Health Vote in Budget 2019 to approximately €17 billion<sup>11</sup>.

The Committee noted that the breakdown of the Supplementary Estimate confirms that this funding is not being used for additional activity or services, but simply to maintain current levels of services. The Committee questioned whether there would be a need for a Supplementary Estimate in 2019, as the HSE national Service Plan is also structured around achieving a similar level of savings to those not achieved in 2018.

In response the Department explained that, although a performance framework is in place and levels of expenditure are monitored throughout the year, it “is not an exact science”. This uncertainty arises due to unforeseen circumstances, often in the acute sector, and extreme weather events, such as Storm Emma were cited. The Department stated that its objective is to make every effort to manage within the limits of the Supplementary Estimate.

The Committee also raised a number of issues in relation to the budget process and the level of interaction between the Department of Health and the Department of Public

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<sup>9</sup> Meeting with official from Department of Health, December 11, 2018.

<sup>10</sup> Committee on Budgetary Oversight, Final Pre-Budget Report, September 2018.

<sup>11</sup> Statement by Minister Paschal Donohoe, 9<sup>th</sup> October 2018.

Expenditure and Reform. The Committee questioned how predictable the budget overrun for 2018 was, and the reason why it wasn't flagged earlier in the year.

The Department of Health explained that monthly management reports are compiled by the HSE and monitored by the Department. It stated that there was an element of unpredictability in health expenditure due to demographic pressures. The Committee noted that demographic pressures are already included in budgetary projections, and sought clarity on why this would be a significant factor unless those projections are substantially inaccurate. The Department went on to explain that due to the fact that the HSE does not operate on an accruals accounting basis, there is a time lag for the recognition of some expenditure.

The Committee raised concerns about the fact that, as stated by the Department of Health,

*“The budget that was achieved includes the benefit of the Supplementary Estimate and has gone into the base for 2019”.<sup>12</sup>*

The Members questioned where the overrun originated, as the 2018 Supplementary Estimate figures would appear to suggest that the Department has overrun in various sections of the Vote by the same amount - approximately 5%. The Committee was of the view that this appears to indicate a lack of regard for expenditure targets.

High level concerns around the health budget were also raised in the Committee's [meeting](#) with the Minister for Finance and Public Expenditure and Reform. The Minister was asked to outline what measures were put in place to gain control of health spending. The Minister stated that DPER would now be engaging with the HSE and DOH on a monthly basis in a process to closely monitor expenditure.

The Committee is of the view that its questions on the health budget and the consistent pattern of overruns have not been sufficiently answered, and that the Committee does not have access to enough financial information to monitor the position on an ongoing basis. The Committee acknowledges that DPER is now involved in a monthly review process with the HSE and DOH in order to track expenditure. The Committee recommends that officials from the Department of Public Expenditure and Reform, the Department of Health and the HSE present to the Committee on Budgetary Oversight in June 2019 on the level of expenditure at the half yearly mark and to outline the measures taken to address any cost overruns.

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<sup>12</sup> Opening Statement from Department of Health for meeting with Budgetary Oversight Committee on 11<sup>th</sup> December 2018.

## APPENDIX



An Roinn Airgeadais  
Department of Finance

Oifig an Aire  
Office of the Minister

Our Ref: FIN-MO-00712-2018

15 January 2019

Mr. Colm Brophy T.D.  
Chair  
Select Committee on Budgetary Oversight  
[Miriam.Plunkett@oireachtas.ie](mailto:Miriam.Plunkett@oireachtas.ie)

Dear Colm

I would like to thank you for your letter of 7<sup>th</sup> December last and assure you that the views of the Committee, both those articulated during my appearance last January and also the views set out in your *Interim Pre-Budget Report* have been taken into consideration in the published *National Surplus (Reserve Fund for Exceptional Contingencies) Bill 2018*. This is the formal title of the legislation establishing the Rainy Day Fund. The drafting of this Bill also took account of views set out by the Irish Fiscal Advisory Council (IFAC) and the Parliamentary Budget Office (PBO).

I am confident that the publication of the *National Surplus (Reserve Fund for Exceptional Contingencies) Bill 2018* last October gives greater clarity on the issues raised in the Committee's Interim Pre-Budget Report. The Oireachtas scrutiny process of the Bill and the information set out below should provide further clarity on the issues that you have raised, including:

- The overall size of the fund and the time period required to resource the fund to a significant size;
- The purpose and design of the Fund, particularly in relation to whether it is to be used as a counter-cyclical tool or a contingency fund;
- The IFAC's proposal for higher automatic payments into the Rainy Day Fund to increase its countercyclical effect; and
- The need for greater flexibility in EU fiscal rules to allow the Fund to be deployed to counter a future economic shock.

### Overall size and resourcing of the Rainy Day Fund

There has been considerable focus on the overall size of the Rainy Day Fund, and particularly on the proposed cap of €8 billion. The proposed cap has been influenced by a number of important factors related to the interest carry cost of funds in the Rainy Day Fund, i.e. the opportunity cost of alternatively reducing the national debt with these funds. These factors include:

#### 1. *Ireland's existing high public debt levels*

My Department's *Annual Report on Public Debt in Ireland* sets out that the State's existing debt levels are very high relative to other EU member states and these levels pose significant risks to future economic growth. The proposed overall size and contribution levels to the Rainy Day Fund reflect that these contributions are effectively a trade off in not reducing the national debt. A decision not to reduce the national debt



has consequences for the amount of funds available for increases in public services and/or reductions in taxation, as a reduction in the national debt would yield interest rate savings. A simple quantification of the potential interest rate savings at different borrowing levels on a Rainy Day Fund of €8 billion are:

- (i) Annual interest rate savings of almost €90 million at current borrowing levels<sup>[1]</sup>, which are abnormally low due to the current low interest rate environment; or
- (ii) Annual interest rate savings of approximately €240 million based on State borrowing with a yield of 3.00% - which is illustrative of a more normalised interest rate environment.

**2. *Existing State cash balances***

Connected to the opportunity cost of the Rainy Day Fund and the national debt are the State's cash balances, as these are primarily funded by State borrowing. The interrelationship between the Rainy Day Fund and the State's cash balances was highlighted in my Department's Budget 2018 Consultation Paper on the Rainy Day Fund (October 2017), which identified that the State holds significant cash balances – over €15 billion at year end 2018 (broadly equivalent to 12 months of cash required for the State). The existence of the State's cash balances serves to reduce the required size of the Rainy Day Fund as these funds will be the first draw in the event of a requirement for additional State funds for fiscal policy.

**3. *The Government and Oireachtas of the day must make fiscal policy decisions in a crisis***

The Rainy Day Fund should not be the entirety of the State's response to a future economic and/or fiscal crisis. Each crisis will require crisis specific economic, fiscal and structural changes that the Government and Oireachtas of the day will be best placed to decide upon. Therefore, it is inadvisable that the State hold surplus funds in the Rainy Day Fund given its carry cost, when the Government of the day will be required to take specific economic, fiscal and structural policies in response to the crisis faced. Also, a Rainy Day Fund of very significant size could allow a future Government and Oireachtas to defer making the necessary but difficult decisions to respond to an economic and fiscal crisis.

**4. *Rainy Day Fund of €8 billion is significant in historic terms***

The proposed cap of €8 billion is nearly 15% of the tax revenue projected for next year. That is a very significant amount for the purposes of an economic intervention, particularly given already existing priorities, including the requirements for capital investment in housing and health. To illustrate the effectiveness of €8 billion as a Rainy Day fund: the shortfall of tax revenue in 2008 was €8 billion from a forecast of almost €49 billion, which equates to a 16% shortfall. It must be remembered that this shortfall was from a far more unbalanced tax system that was overly reliant on transaction taxes from one sector (the property sector). The rebalancing of the tax system away from transactions in just one sector, will mean that future tax shortfalls should not be so dramatic.

### **Purpose of Rainy Day Fund: Counter-cyclical tool or Contingency Fund?**

My Department's Budget 2018 Consultation Paper on the Rainy Day Fund (October 2017) gave an overview of the considerations related to the Rainy Day Fund and its potential role as a counter-cyclical tool and/or contingency fund, which also including an in-year contingency fund. The Paper sought the views of stakeholders, and was drafted broadly so as to facilitate comments. My Department has reflected on these views and taken account of them in the published draft Bill.

The drafting of the proposed Rainy Day Fund in the *National Surplus (Reserve Fund for Exceptional Contingencies) Bill 2018* allows the Fund to meet multiple objectives in terms of:

- Potentially acting as both a counter-cyclical tool and a contingency fund to support Government fiscal policy in the event of a downturn by obtaining Government and Oireachtas approval to drawdown funds as set out under section 9 of the draft legislation; and
- Acting as an in-year contingency fund in order to defray the unforeseeable costs of natural or other disasters as set out in section 5(5) of the draft Bill.

The ability of the Fund to meet these multiple objectives reflects the views of different bodies, which saw a role for the Rainy Day Fund to act as both a counter-cyclical tool and a contingency fund.

Excluding the use of the in-year contingency fund, the use of the established Rainy Day Fund will be particularly influenced by how well the State is prepared for future crises. Given the lessons learnt over the past decade, the State is better prepared to meet "standard" crises due to the taking of pro-active mitigation measures and the preparation of better crisis management plans.

However, tail risks will always remain and the Rainy Day Fund will therefore be most likely deployed in the event of a crisis of such significant scale. This will likely be a crisis where the Rainy Day Fund will be used as both a contingency fund and a counter-cyclical tool. It should be noted that State funds are fungible and the State's most recent economic and fiscal crisis saw State financial reserves being used both as contingency funds, in terms of funding public services and for counter-cyclical purposes, such as employment incentives (i.e. VAT reductions) so these funds cannot be viewed as being distinctively for one purpose.

### **Irish Fiscal Advisory Council**

Firstly, I welcome Irish Fiscal Advisory Council's (IFAC) overall endorsement of the Rainy Day Fund as "a welcome step towards making fiscal policy in Ireland more countercyclical" and their support for the overall policy. I note IFAC have suggested that the design of the Rainy Day Fund should require higher payments into the Fund so as to ensure it is sufficiently countercyclical to offset faster-than-prudent growth rates as allowed under the application of the spending rule<sup>[2]</sup>.

The insertion of statutory provisions in the Bill in order to set out a formula that would determine the amount to be paid into the Rainy Day Fund annually would be inappropriate as decisions on the allocation of Exchequer funds should be made as part of the annual Budgetary process. The draft legislation provides a definitive annual allocation of €500 million for a



limited period between 2019 and 2023 to the Rainy Day Fund. This provision is designed so as to give the Oireachtas full clarity on what the transfer to the Rainy Day Fund will be over the medium term. However, the insertion of a formula into the statute would give the Oireachtas no clarity as to the amount of ongoing payments to the Rainy Day Fund and as such would complicate the making of budgetary decisions.

#### **Greater flexibility in EU fiscal rules**

The EU's fiscal rules as currently constituted do not make specific provision for the development of a Rainy Day Fund. As the Fund will be within general government, the transfers to the fund will not count as expenditure under the EU's fiscal framework. More importantly, if the government draws down from the Fund in a recession, the money accessed will not be considered general government revenue and the accompanying, counter-cyclical, expenditure will worsen the deficit and, hence, compliance. Such a treatment of the transfers to and from the Rainy Day Fund is very difficult to avoid as it is governed by ESA accounting rules.

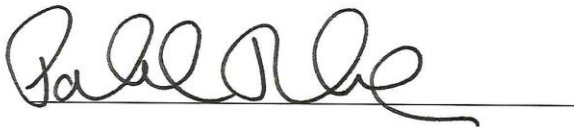
However, the Stability and Growth Pact (SGP) does provide flexibility in relation to Member States' fiscal requirements in certain circumstances. One such provision relates to unusual events outside of the control of government which have a negative impact on the budgetary position. This provision is directly mirrored in section 1 of the Fiscal Responsibility Act 2012, which, in turn is cited in section 7 of the Bill regarding the transfer of assets from the Fund. In other words, although a drawdown from the Fund would worsen the deficit under the EU's accounting treatment, the fiscal rules make allowance for a temporary deviation from the budgetary requirements in the case of unusual events outside the control of government.

The Department of Finance has raised the wider issue of the treatment of national Rainy Day Funds under the SGP with the European Commission, who have acknowledged the issue.

#### **Conclusion**

I look forward to giving these matters further consideration as the Bill goes through the Oireachtas and I would welcome the views of the Committee.

Yours sincerely



Paschal Donohoe T.D.  
Minister for Finance and Public Expenditure and Reform

[\[1\]](#) Based on NTMA 10 year syndicated bond issued on 9<sup>th</sup> January 2019

[\[2\]](#) based on estimates of potential or "sustainable" output that are derived from the Commonly Agreed Methodology

## REFERENCES

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Department of Health, Opening Statement to Committee on Budgetary Oversight for meeting on 11<sup>th</sup> December 2018, [Available here](#).

Irish Fiscal Advisory Council, *Fiscal Assessment Report*, November 2018. [Available here](#).

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Parliamentary Budget Office, *Preliminary Review of Budget 2019*, [Available here](#).

## TERMS OF REFERENCE

Go ndéanfar, de réir mholadh an Fhochoiste ar Athleasú na Dála faoi Bhuan Ordú 107(1)(a), Buan-Orduithe Dháil Éireann i dtaobh Gnó Phoiblí a leasú tríd an mBuan-Ordú seo a leanas a ghlacadh:

‘186A. (1) Beidh arna bhunú, a luaithe is féidir i ndiaidh ationól na Dála tar éis Olltoghcháin, Buanchóiste, dá ngairfear an Coiste um Fhormhaoirsiú Buiséid, chun scrúdú a dhéanamh agus, más cuí leis é, chun tuarascáil a thabhairt don Dáil—

- (a) ar an staid fhioscach fhoriomlán, lena n-áirítear—
  - (i) an staid chomhiomlánaithe maidir le hioncam agus caiteachas agus larmhéid Ginearálta an Rialtais, lena n-áirítear spriocanna struchtúracha;
  - (ii) réamh-mheastacháin mheántearma don airgeadas poiblí;
  - (iii) réamhaisnéisí agus forbairtí maicreacnamaíocha; agus
  - (iv) rialachas fioscach ginearálta, lena n-áirítear rialacha agus priacail fhioscacha a fheidhmiú maidir leis an staid fhioscach;
- (b) ar an mbeartas maidir le caiteachas poiblí, lena n-áirítear—
  - (i) an staid chaiteachais ag féachaint don Uasteorainn Caiteachais Rialtais agus don tslat tomhais chaiteachais faoin gComhaontú Cobhsaíochta agus

That, in accordance with the recommendation of the sub-Committee on Dáil Reform under Standing Order 107(1)(a), the Standing Orders of Dáil Éireann relative to Public Business be amended by the adoption of the following Standing Order:

‘186A. (1) There shall stand established as soon as may be, following the reassembly of the Dáil subsequent to a General Election, a Standing Committee, to be known as the Committee on Budgetary Oversight, to examine and, where it considers it appropriate, report to the Dáil on—

- (a) the overall fiscal position, including—
  - (i) the aggregated position on revenue and expenditure and the General Government Balance, including structural targets;
  - (ii) medium-term projections for the public finances;
  - (iii) macro-economic forecasts and developments; and
  - (iv) general fiscal governance including the application of fiscal rules and risks to the fiscal position;
- (b) public expenditure policy, including—
  - (i) the expenditure position having regard to the Government Expenditure Ceiling and the expenditure benchmark under the Stability and Growth Pact; and

Fáis; agus

- |   |  |
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| <p>(ii) na hUasteorainneacha Caiteachais Aireachta a bhfuil feidhm acu maidir le Meastacháin ar leith nó grúpaí Meastachán i gcomhair Seirbhísí Poiblí i gcás go bhféadfadh athruithe suntasacha ar an bpróifíl chaiteachais tionchar a bheith acu ar an staid fhioscach fhoriomlán;</p> <p>(c) ar an mbeartas maidir le fáiltais an Státchiste.</p> <p>(2) Féadfaidh an Coiste breithniú a dhéanamh ar ní a bhaineann le beartas poiblí agus a bhfuil tionchar suntasach aige ar an staid bhuiséid nó ar an staid fhioscach fhoriomlán: Ar choinníoll go rachaidh Cathaoirleach an Choiste, roimh thosach an bhreithnithe sin, i gcomhairle leis an gCoiste earnála iomchuí arna bhunú de bhun Bhuan-Ordú 84A.</p> <p>(3) Féadfaidh an Coiste freisin breithniú a dhéanamh ar an gcreat foriomlán do rannpháirtíocht pharlaiminte le linn an timthrialla buiséid agus féadfaidh sé moltaí i ndáil leis an gcéanna a dhéanamh don Fhochoiste ar Athleasú na Dála, is moltaí a bheidh le breithniú ag an gCoiste sin faoi Bhuan-Ordú 107(1)(b): Ar choinníoll, le linn dó é sin a dhéanamh, go rachaidh an Coiste i gcomhairle—</p> <p>(a) leis na Coistí arna mbunú de bhun Bhuan-Ordú 84A maidir le haon mholtaí a bhfuil tionchar acu, i dtuairim an Choiste, ar ról nó ar chúram na gCoistí sin; agus</p> <p>(b) leis an Aire nó leis na hAirí iomchuí maidir le haon mholtaí a bhfuil tionchar acu, i dtuairim an Choiste, ar ról nó ar chúram Roinne nó Ranna,</p> <p>agus tabharfaidh sé fógra i dtaobh thorthaí na gcomhairliúchán sin don Fhochoiste ar</p> | <p>(ii) Ministerial Expenditure Ceilings applying to individual Estimates or groups of Estimates for the Public Services where significant variations from the expenditure profile could potentially impact on the overall fiscal position;</p> <p>(c) Exchequer receipts policy.</p> <p>(2) The Committee may consider a matter of public policy with significant impact on the budgetary position or on the overall fiscal position: Provided that prior to the commencement of such consideration, the Chairman of the Committee shall consult with the relevant sectoral Committee established pursuant to Standing Order 84A.</p> <p>(3) The Committee may also consider the overall framework for parliamentary engagement throughout the course of the budgetary cycle and may make recommendations thereon to the sub Committee on Dáil Reform for that Committee's consideration under Standing Order 107(1)(b): Provided that, in so doing, the Committee shall consult with—</p> <p>(a) the Committees established pursuant to Standing Order 84A on any recommendations which, in the opinion of the Committee, impact on their role or remit; and</p> <p>(b) the relevant Minister or Ministers on any recommendations which, in the opinion of the Committee, impact on the role or remit of a Department or Departments,</p> <p>and shall notify the results of such consultations to the sub-Committee on Dáil</p> |
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## Athleasú na Dála.

(4) Beidh na cumhachtaí seo a leanas ag an gCoiste:

- (a) an chumhacht chun fios a chur ar dhaoine, ar pháipéir agus ar thaifid mar a mhínítear i mBuan-Orduithe 85(2A) agus 88;
- (b) an chumhacht chun fianaise béil agus fianaise scríofa a ghlacadh agus chun aighneachtaí a ghlacadh mar a mhínítear i mBuan-Ordú 85(1) agus (2);
- (c) an chumhacht chun Fochoistí a cheapadh mar a mhínítear i mBuan-Ordú 85(3);
- (d) an chumhacht chun sainchomhairleoirí a fhostú mar a mhínítear i mBuan-Ordú 85(8);
- (e) an chumhacht chun taisteal mar a mhínítear i mBuan-Ordú 85(9).

(5) Déanfar gach tuarascáil a bheartóidh an Coiste a thabhairt, arna glacadh ag an gCoiste, a leagan faoi bhráid na Dála láithreach agus as a aithle sin beidh cumhacht ag an gCoiste an tuarascáil sin, mar aon le cibé doiciméid ghaolmhara is cuí leis, a chlóbhualadh agus a fhoilsiú.

(6) Maidir leis an gCoiste cúig Chomhalta dhéag a bheidh air, nach comhalta den Rialtas ná Aire Stáit aon duine acu, agus ceathrar acu sin is córam dó: Ar choinníol—

- (a) go mbeidh an Coiste agus aon Fhochoistí a cheapfaidh sé comhdhéanta ar chuma go ndéanfaidh sé nó siad ionadaíocht chothrom don Dáil; agus
- (b) go mbeidh feidhm ag forálacha Bhuan Ordú 95 maidir leis an gCoiste.

(7) Go dtí go gcuirfear a mhalairt in iúl sa 32ú Dáil, leanfaidh an Roghchoiste um Fhormhaoirsiú Buiséid, a bunaíodh le

## Reform.

(4) The Committee shall have the following powers:

- (a) power to send for persons, papers and records as defined in Standing Orders 85(2A) and 88;
- (b) power to take oral and written evidence and submissions as defined in Standing Order 85(1) and (2);
- (c) power to appoint sub-Committees as defined in Standing Order 85(3);
- (d) power to engage consultants as defined in Standing Order 85(8);
- (e) power to travel as defined in Standing Order 85(9).

(5) Every report which the Committee proposes to make shall, on adoption by the Committee, be laid before the Dáil forthwith, whereupon the Committee shall be empowered to print and publish such report, together with such related documents it thinks fit.

(6) The Committee shall consist of fifteen Members, none of whom shall be a member of the Government or a Minister of State, and four of whom shall constitute a quorum: Provided that—

- (a) the Committee and any sub-Committees which it may appoint shall be constituted so as to be impartially representative of the Dáil; and
- (b) the provisions of Standing Order 95 shall apply to the Committee.

(7) Until further notice in the 32nd Dáil, the Select Committee on Budgetary Oversight, established by Order of the Dáil of 21st

hOrdú an 21 Iúil 2016 ón Dáil, ar marthain mar an Buainchoiste um Fhormhaoirsiú Buiséid, agus dá réir sin, bainfidh comhaltas reatha, Cathaoirleach, páipéir agus clár oibre an Roghchoiste leis an mBuainchoiste.'

July, 2016, shall continue in being as the Standing Committee on Budgetary Oversight, and accordingly, the current membership, Chairman, papers and work programme of the Select Committee shall be those of the Standing Committee.'

—*Ríona Uí Dhochartaigh, Aire Stáit ag Roinn an*

*Taoisigh*

## LINKS TO TRANSCRIPTS

12<sup>th</sup> December 2017 – Officials from Revenue Commissioners

[Transcript](#)

16<sup>th</sup> January 2018 – Officials from the Department of Finance

[Transcript](#)

05<sup>th</sup> December 2018 – Representatives from the Irish Fiscal Advisory Council

[Transcript](#)

11<sup>th</sup> December 2018 – Officials from the Department of Health

[Transcript](#)

16<sup>th</sup> January 2019 – Minister for Finance Public Expenditure and Reform

[Transcript](#)



## MEMBERSHIP OF THE BUDGET COMMITTEE



Maria Bailey TD

Fine Gael



Richard Boyd-Barrett  
TD

Solidarity – People  
Before Profit



Colm Brophy TD

Fine Gael

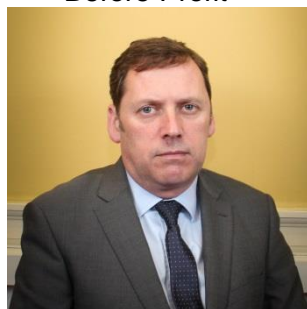


Thomas P.  
Broughan TD  
Independents 4  
Change



Joan Burton TD

Labour



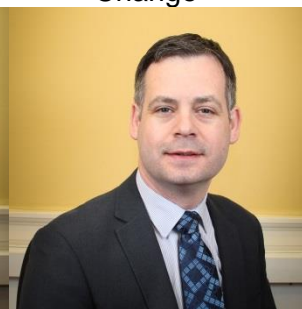
Barry Cowen TD

Fianna Fáil



Lisa Chambers TD

Fianna Fáil



Pearse Doherty TD

Sinn Féin



Declan Breathnach TD

Fianna Fáil



Martin Heydon TD

Fine Gael



John Lahart TD

Fianna Fáil



Michael McGrath TD

Fianna Fáil



Jonathan O'Brien TD

Sinn Féin



Eamon Ryan TD

Green Party



Notes:

1. Committee established by order of the Dáil of 21 July 2016
2. Deputies nominated by the Dáil Committee of Selection and appointed by Order of the Dáil of 21 July 2016.
3. Deputy Marc Mac Sharry was discharged from the Committee and Deputy John Lahart was appointed to Committee in replacement for him by order of the Dáil on 31 January 2017.
4. Deputy Kate O'Connell was discharged from the Committee and Deputy Pat Deering was appointed to Committee in replacement for her by order of the Dáil on 9 February 2017.
5. Deputy John Paul Phelan was discharged from the Committee and Deputy Josepha Madigan was appointed to the Committee in replacement for him by order of the Dáil on 11 July 2017.
6. Deputy Pat Deering was discharged from the Committee and Deputy Martin Heydon was appointed to the Committee in replacement for him by order of the Dáil on 13 July 2017.
7. Deputy David Cullinane was discharged from the Committee and Deputy Jonathan O'Brien was appointed to the Committee in replacement for him by order of the Dáil on 3 October 2017.
8. Deputy Josepha Madigan was discharged from the Committee and Deputy Colm Brophy was appointed as Chairman of the Committee by order of the Dáil on 12 December 2017.
9. Deputy Dara Calleary was discharged from the Committee and Deputy Barry Cowen was appointed to the Committee in replacement for him by order of the Dáil on 17 April 2018.
10. Deputies Seán Barrett and Stephen Donnelly were discharged from the Committee and Deputies Maria Bailey and Declan Breathnach were appointed to the Committee in replacement of them by order of the Dáil on 1 May 2018.