

Minister Paschal Donohoe

1. Opening Statement

Chair, and members of the Committee, I would like to thank you for the opportunity to meet with you today as part of the pre-Budget scrutiny process.

When I appeared here in July the Government had published the Summer Economic Statement and we discussed the agreed Budget parameters. Today I would like to address the developments since then that will impact on the considerations being made as part of the budgetary negotiation process ahead of Budget Day on the 1st October.

Context

While Budget 2024 was framed in the context of the cost of living crisis, thankfully inflation rates have now eased significantly with headline inflation falling to below 2% in August. Budget 2025 is therefore being prepared with a view to building on the progress made in this Government's previous four financial statements.

This will be a Budget that will;

- continue the improvement made in public services and capital infrastructure to support a population that has grown faster than expected,
- sustain strong economic growth,
- support improvement in living standards.

The last four budgets delivered by this Government have successfully balanced the dual challenge of remaining responsive to economic and social developments while ensuring fiscal sustainability of the public finances. Throughout the numerous crises experienced over the lifetime of this Government, we have delivered sustainable and continued investment in public services and infrastructure and also targeted additional supports towards those most vulnerable in our society. The utilisation of temporary measures helped households and businesses with elevated costs while avoiding adding to the inflationary pressures.

In terms of delivery, the previous budget packages supported strong economic performance in a number of ways:

- delivering increased capital and infrastructural investment under the National Development Plan,
- expanding public services to meet increased demand from a growing population,
- reducing the cost of key public services such as public transport, childcare, education and healthcare while
- extending the public sector pay deal to ensure continued industrial stability in a challenging economic period.

As Minister Chambers has already pointed out, our economy continues to perform extremely well and current projections suggest that this will continue over the medium term. The recovery and strength in the economy has delivered record levels of employment with a projection for almost 2.8 million in employment next year compared to just over 2.3 million pre-pandemic. This level of employment also supports higher tax revenues, in turn helping to drive demand across the economy for goods and services.

While the economy continues to perform strongly and medium term forecasts are positive there are, of course, competing pressures to be managed as we finalise the Estimates process for 2025.

At the end of August gross total voted spending was €63.6 billion – this is 4.3% above profile and 12.9% higher than during the same period last year. The key drivers of this overrun are health spending on the current side and housing and education spend on the capital side.

These challenges continue to be assessed and reviewed as we progress the preparation of Budget 25. Discussions are now being finalised within all government Departments to agree a budget that will benefit Irish society and improve standards of living.

Budget 2025 – Expenditure Strategy

As previously discussed at this Committee in July, the strategy for Budget 2025 will focus on continuing to invest in and improve public services and infrastructure in a balanced manner consistent with supporting growth in our population.

Budget 2025 will see total expenditure increase by €6.9 billion or 6.9%. This can be broken down into total current expenditure ceiling of €90.9 billion and a total capital ceiling of €14.5 billion.

A key element of the overall expenditure amount for 2025 is the agreement reached with the Department of Health and the HSE over the summer. An additional amount of €1.5 billion has been provided for the Health sector in 2024 with Existing Level of Service (ELS) funding of €1.2 billion to be provided in 2025. This additional funding provides an opportunity to strengthen financial planning and governance within the HSE and it is crucial that there is a clear link between the significant funding provided and the delivery of healthcare outputs and better health outcomes for patients.

The overall medium term expenditure strategy set out in the SPU included the provision of a €4.5 billion contingency reserve from 2025 onwards. At this stage it is envisaged that the full amount of the contingency reserve will be required to meet spending commitments in 2025. These commitments include the

provision of humanitarian assistance to arrivals from Ukraine, temporary funding to relieve the pressures on agencies and departments that provide services to people seeking international protection, legacy impacts on the health service from the Covid-19 pandemic and certain European capital funding programmes such as RePower EU and the Recovery and Resilience fund.

This funding is included in the overall ceiling and will be allocated to Departments during the Budget. Given the uncertainties in relation to the quantum and duration of the bulk of this expenditure, the contingency provision will be reviewed as part of the annual estimates process.

Public Expenditure Package (Current and Capital)

As set out in the Summer Economic Statement, this Budget will see the expenditure ceiling rise to €105.4 billion.

Total voted expenditure will increase by €6.9 billion or almost 6.9%. This comprises a current expenditure ceiling of €90.9 billion and capital expenditure ceiling of €14.5 billion. This level of expenditure will:

- > provide further increased levels of investment in the NDP through an increase of €1.4 billion (10.6%) over the 2024 investment;
- > accommodate new measures in line with Government priorities, including in childcare and disability;
- > meet the demand for increasing levels of public service delivery due to a changing demographic profile through an increase of €5.5 billion (6.4%) in current expenditure;
- > continue to fund measures to provide humanitarian assistance to arrivals from Ukraine and those seeking international protection under EU law.

As with last year, it is important to plan an expenditure approach that responds to the economic environment but remains fiscally sustainable.

Approximately €3.7 billion of current expenditure increase is available to meet existing levels of service (ELS) costs. This includes:

- the full year impact of measures carried over from Budget 2024;
- funding for demographic developments, notably to support a growing and aging population;
- The public service pay commitments from the new pay deal.

Capital expenditure under the National Development Plan will increase by €1.4 billion next year, with capital investment reaching some €14.5 billion. This represents an increase of 10.6 per cent, in line with the National Development Plan 2021-2030. This funding will provide for key investment across sectors including housing, education and transport, while also delivering progress towards our climate goals.

The remaining amount of circa €1.8 billion will fund new measures in the Budget; including a social welfare package and other measures that will improve the overall quality of life for our people.

Additional Capital

Investment in infrastructure is a critical long term component of the budget, supporting a brighter, safer and greener future for all. In 2021, the Government committed to €165 billion in capital investment through the National Development Plan (NDP). The Government remains committed to continuing the delivery of the national infrastructure we need to support our future economic and social requirements, as well as our climate change commitments.

Last year's Summer Economic Statement provided that an additional €2.25 billion from windfall corporation tax receipts would be made available over the period 2024 to 2026 to allow the delivery of additional schools, hospital facilities and transport projects that are making a real difference to people's lives. We also took additional measures to meet the climate and environmental challenges that face us now and into the future.

In addition to the existing NDP allocations, there will be additional capital available from 2026 to 2030 through the Infrastructure, Climate and Nature Fund. This is made possible only through the prudent management of the exchequer over the term of this Government.

Budgetary Reform and Transparency

Budgetary reform remains central to public expenditure management. Every summer my Department publishes the Mid-Year Expenditure Report which provides details of the different ways that the Government undertakes measurement of the outcomes of public services or programmes and the delivery of value for money. These range from the Well-being Framework, the Green Budgeting initiative, Performance and Equality Budgeting and published research papers such as the Spending Reviews; all of which support ongoing improvements to public services and public policy through evidence-informed practice.

Closing Remarks

In less than two weeks' time, the Minister for Finance and I will be bringing forward a balanced, sustainable budget package which will improve and enhance our existing public services and deliver more vital infrastructure for the people of Ireland.

This Government has implemented a fiscal and expenditure policy which has proven to be effective over the course of the last four budgets. It has delivered:

- significant increases in access to healthcare
- considerable savings on childcare
- a record increase in the numbers of houses being built; and
- other infrastructure successes like the rural broadband rollout and of course significant increases in the numbers of teachers, nurses and other front line public servants.

Our balanced approach helped to avoid fuelling inflation and we are confident that the expenditure and tax package proposed for the forthcoming Budget will similarly avoid doing so again.

In framing this year's Budget, the Government is cognisant that while 2024 has presented further challenges on the expenditure side, the forecasts and outlook are again tending towards the positive and we are in position to address these issues thanks to the prudent manner in which we have managed the public finances.

Thank you again, Chair, for the opportunity to address the Committee and I look forward to your questions.

Ends (1,638 words)