Financial Emergency Measures in the Public Interest Act 2013 (No. 18 of 2013)

Annual review and report to the Houses of the Oireachtas by the Minister for Public Expenditure and Reform under section 12 of the Act

June 2021

I – Introduction and Background

1. Under section 12 of the Financial Emergency Measures in the Public Interest Act 2013 (No. 18 of 2013) the Minister for Public Expenditure and Reform is obliged, before 30 June 2021, and in respect of the following four Acts;

   - Financial Emergency Measures in the Public Interest Act 2009 (No. 5 of 2009),
   - Financial Emergency Measures in the Public Interest (No. 2) Act 2009 (No. 41 of 2009),
   - Financial Emergency Measures in the Public Interest Act 2010 (No. 38 of 2010),
   - Financial Emergency Measures in the Public Interest Act 2013 (No. 18 of 2013),

   a) to carry out a review of the operation, effectiveness and impact of the relevant Acts, having regard to the overall economic conditions in the State and national competitiveness,
   b) consider whether or not any of the provisions of the relevant Acts continue to be necessary having regard to the purposes of those Acts, the revenues of the State and State commitments in respect of public service pay and pensions,
   c) make such findings as he or she thinks appropriate consequent on the review and consideration, and
   d) cause a written report of his or her findings resulting from the review and consideration to be prepared and laid before each House of the Oireachtas.

2. The Financial Emergency Measures in the Public Interest Act 2009 introduced a number of measures, the principal of which was the introduction of a new deduction from the remuneration of pensionable public servants, which is known as the Pension-Related Deduction (PRD); the percentage reduction rates applied were subsequently amended in section 13 of the Social Welfare and Pensions Act 2009. In addition, the 2009 Act contained measures allowing public service bodies to reduce the professional fees paid by them to external service providers, implementing changes in the early child care supplement and facilitating the payment of grants under the Farm Waste Management Scheme on a phased basis. With respect to the professional fees reduction measure, section 9(13) of the Act provided that the Minister for Health may review the operation, effectiveness and impact of the amounts and rates of payments to health professionals

fixed by regulation under the Act and consider the appropriateness of same. This requirement to review has now been repealed under the Public Service Pay and Pensions Act 2017. More information on this is contained in Section VI: Phase 2 of the Unwinding of FEMPI.

3. The purpose of the Financial Emergency Measures in the Public Interest (No. 2) Act 2009 was to provide for the reduction of the remuneration of public servants (including members of the Houses of the Oireachtas and certain Office Holders), and to provide for related matters. The Act was amended by the Financial Emergency Measures in the Public Interest (Amendment) Act 2011. The primary purpose of this Act was to apply the terms of the Financial Emergency Measures in the Public Interest Acts 2009 to serving members of the judiciary, and to a military judge once appointed. The 2011 Act also made provision for the reduction of salary rates for newly appointed members of the judiciary and to further increase the level of salary reductions for certain Office Holders.

4. The principal purpose of the Financial Emergency Measures in the Public Interest Act 2010 was to introduce a reduction in public service pension costs, by way of the introduction of the Public Service Pension Reduction (PSPR). It also provided for a reduction in pay rates of members of the Government and a reduction to the National Minimum Wage.

5. The Financial Emergency Measures in the Public Interest Act 2013 implemented a further pay reduction for public servants earning annual salaries of more than €65,000 and extended the Public Service Pension Reduction to those pensions awarded from 1 March 2012 over €32,500.

6. The Financial Emergency Measures in the Public Interest Act 2015 commenced the gradual, fiscally sustainable, unwinding of certain measures contained in the earlier Acts. The primary purpose of the 2015 Act was to ameliorate the impact of the reductions provided for under the Financial Emergency Measures in the Public Interest Acts 2009-2013 through a series of amendments to the relevant Acts.

7. The Public Service Pay and Pensions Act 2017, provides the statutory road map for the unwinding of the remaining FEMPI measures, relating to reduction in remuneration, including the repeal of the 2009 Act.

8. The proposed Public Service Pay Act 2020, which is under consideration by the Oireachtas, amends or repeals Sections 4 and 5 of the Financial Emergency Measures in the Public Interest (No. 2) Act 2009 to amend the restrictions on increases to public service pay introduced by the Financial Emergency Measures in the Public Interest (FEMPI) No. 2 Act 2009. This will allow for implementation of pay measures in the new public service agreement 'Building Momentum' and other matters.

9. The preambles to these Acts provide information on the purpose and policy underpinning the Acts and in this context extracts from the preamble to the Financial Emergency Measures in the Public Interest (No. 2) Act 2009, the Financial Emergency Measures in the Public Interest Act 2013, the Financial Emergency Measures in the Public Interest Act 2015, and the Public Service Pay and Pensions Act 2017 are set out below and may be considered representative:

Extract from the preamble to the Financial Emergency Measures in the Public Interest (No. 2) Act 2009

"WHEREAS a serious disturbance in the economy and a decline in the economic circumstances of the State have occurred and are continuing, which threaten the well-being of the community;

AND WHEREAS as a consequence a serious deterioration in the revenues of the State has occurred and there are significant and increasing State commitments;

AND WHEREAS it is necessary to take urgent measures to reduce the significant shortfall between expenditure and revenue and to reduce the unsustainable levels of public borrowings consequent on the deterioration in those revenues;

AND WHEREAS it is necessary to reduce State expenditure to maintain international confidence and to protect the State's credit ratings;

AND WHEREAS it is necessary to take urgent steps to help to restore the State's competitiveness;

AND WHEREAS it is necessary for the State to achieve significant savings in its expenditure, both directly and indirectly, on remuneration".

Extract from the preamble to the Financial Emergency Measures in the Public Interest Act 2013

> "WHEREAS budgetary and fiscal measures have been taken by the State since 2009 to address a serious disturbance in the economy and a decline in the economic circumstances of the State that have occurred;
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> AND WHEREAS it is necessary for the State to achieve further significant savings in its expenditure, both directly and indirectly, on remuneration and in its expenditure on public service pensions as a contribution to the reduction of the shortfall between revenue and expenditure that is needed to put debt on a downward path;
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> AND WHEREAS it is necessary for the State to take measures as part of remedial action to maintain the State's path toward correcting the excessive deficit by 2015 in line with the recommendation to that effect of the Council of the European Union (Council Recommendation with a view to bringing to an end the situation of an excessive deficit in Ireland of 7 December 2010)"

Extract from the preamble to the Financial Emergency Measures in the Public Interest Act 2015

> "WHEREAS economic growth has resumed and the State's international competitiveness has improved and a significant improvement in the fiscal circumstances of the State has occurred;
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> AND WHEREAS it remains necessary to retain firm control of current Exchequer expenditure so as to ensure ongoing access to international funding and improve competitiveness, while taking into account the continuing risks to the public finances which remain, and the need to meet the State's commitments to have a prudent fiscal policy under the Stability and Growth Pact and the Fiscal Compact;
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> AND WHEREAS the reductions in the remuneration and superannuation of public servants and former public servants effected by legislation enacted in the last 6 years have contributed substantially to improvements brought about in the public finances and it is equitable to implement a partial and phased reversal of those reductions"

Extract from the preamble to the Public Service Pay and Pensions Act 2017

> "WHEREAS the economic recovery has progressed to a level that the economy is now more balanced than heretofore, with a considerable improvement in the State's international competitiveness and fiscal position being witnessed
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> AND WHEREAS the economy remains vulnerable, in significant respects, due to various factors, including, domestically, from high levels of public and private debt and, internationally, by reason of the process initiated by the United Kingdom to withdraw from membership of the European Union and the uncertainty associated with the risk of protectionist trade and taxation policies:
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> AND WHEREAS reductions in the remuneration and superannuation of public servants and former public servants effected by legislation enacted in the last 8 years have materially contributed to the stabilisation of the public finances:
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> AND WHEREAS there is an obligation on the part of the State to have a prudent fiscal policy under the Stability and Growth Pact and the Fiscal Compact and the repeal of the foregoing legislation in one Budget year would not be sustainable in financial terms but its repeal, in a phased manner, over a number of years would be so sustainable"

10. This report is carried out in accordance with section 12 of the Financial Emergency Measures in the Public Interest Act 2013 and is in respect of the period July 2020 to June 2021.

11. The sections which follow review the overall economic conditions in the State, national competitiveness and Exchequer commitments in respect of public service remuneration and pensions, and represent my findings in the light of that review in accordance with section 12 of the 2013 Act.

II - Economic Context

12. Over the period 2007-2009, the Irish economy experienced the most severe economic contraction, at the time, since the foundation of the State. The peak-to-trough decline in real GDP was 8 per cent over this period. Sharp declines in personal consumption (4 per cent) and in particular investment (27 per cent), in conjunction with the global financial crisis, were the primary reasons for this unprecedented downturn in the economy.

13. In the period leading up to the recession, the Irish economy had experienced a significant loss in competitiveness reflecting domestic cost and price developments resulting in a moderation in export growth. During that period, pay increases exceeded productivity growth on an economy wide-basis while headline inflation exceeded the EU average. Rapid growth in property prices had a detrimental impact on Irish competitiveness.

14. This loss of competitiveness has been reduced in the years since 2008. Prices and wages, while starting from a high base, have risen at rates slower than in trading partners. Actual and nominal adjustments in wages also contributed to the improvement in competitiveness. As a result, Ireland's real harmonised competitiveness index, as reported by the Central Bank of Ireland, improved by approx. 20 per cent from January 2008 to January 2017. However, since 2017 Ireland's competitiveness has remained largely static according to the index and has even worsened slightly since the Pandemic began.

15. The labour market was particularly affected by the economic downturn with a peak-to-trough decline in employment of just over 16 per cent. The unemployment rate peaked at 16 per cent in early 2012 having been around 4 ¾ per cent in late 2007. Strong employment growth from 2013 resulted in the highest level of employment ever recorded in the state by the end of 2019. This was accompanied by an associated decline in the unemployment rate, falling back to around 4 ¾ per cent prior to the pandemic by the end of 2019.

16. The economy grew along a similar trajectory with fitful growth from 2010 to 2013. However, in 2014 it returned to strong growth of 8.6%, excluding the exceptional GDP growth in 2015 due to statistical distortions related to the activities of multinationals, growth averaged a healthy 6 ¼ per cent between 2016 and 2019. Notwithstanding the well-known limitations with GDP, it is clear that the economic expansion has been strong in recent years, with underlying growth in modified domestic demand, which provides a better measure of domestic economic activity, averaging around 4 per cent per annum in

the 5 years preceding the Covid-19 pandemic. This placed the Irish economy in a strong position, with robust growth, balanced public finances, a current account surplus and a labour market close to full employment.

17. However, the onset of the pandemic had a profound impact on the economy, with the domestic economy, as proxied by modified domestic demand, contracting sharply by 5 ½ per cent in 2020. However, as a result of the strength of MNC exports, particularly in the pharma and ICT sectors, GDP grew by 3.4% last year, indeed Ireland was the only economy in Europe to record positive GDP growth. Nonetheless, the Covid-19 shock had a disproportionate impact on domestic sectors, in particular labour-intensive service sectors, where home-working is not possible. On the other hand, 'knowledge-intensive' sectors proved more resilient. The economic fall-out from Covid-19 is therefore most evident in the labour market – having peaked at over 30 per cent in April 2020, the unemployment rate remains elevated at approximately 22 ½ per cent in April this year, once all recipients of the Pandemic Unemployment Payment are included.

18. The Department of Finance published the Stability Programme Update (SPU) in April which set out its forecasts for the coming years. These forecasts were based on the prevailing assumptions at the time on the speed at which restrictions were to be lifted, they assumed that the vaccine roll-out will accelerate over the second quarter and thereafter, in line with government projections. Wider vaccine coverage was then assumed to allow for a gradual relaxation of containment measures and a modest pick-up in economic activity, with recovery gaining momentum from the summer onwards. Under these assumptions, the Department of Finance was forecasting GDP growth of 4 ½ per cent in 2021 and 5 per cent in 2022. Modified domestic demand (MDD), was projected to increase by 2 ½ per cent this year and 7 ½ per cent next year.

19. As restrictions are lifted over the second half of the year the labour market is expected to recover in line with the recovery in the economy. By year end the COVID-adjusted unemployment rate is forecast to be just over 11 per cent. While for the year as a whole the COVID-adjusted unemployment rate is forecast to average around 16 ¼ per cent.

III - Budget Context

20. **Covid-19**

- Since the onset of the Covid-19 pandemic last year the country has faced, first and foremost, a public health emergency that required a robust public health response. In tandem with the public health situation the economy has faced a severe and unprecedented shock that necessitated the full mobilisation of the public sector balance sheet. The full suite of fiscal tools has been deployed including direct public expenditure, the taxation system and 'below the line' supports such as loan guarantees to replace lost income in the private sector and to minimise the long-term damage ('scarring') caused by the pandemic.

- This counter-cyclical budgetary policy remains the correct approach. Prior to the launch of the Economic Recovery Plan (ERP), around €38 billion (nearly one-fifth of national income as measured by GNI*) has been made available: with the total value of payments on the Government's three main income and business support schemes amounting to nearly €15 billion[1], or c. 6 ½ per cent of national income (GNI*). The ERP included measures to the value of up to further €5 billion. Measures that have been put in place to support individuals and businesses through this pandemic will remain in place for as long as they are needed. However, equally, with recovery in sight, it was important that the ERP outlined how temporary supports will be phased out.

21. **Deficit**

- Last year, a general government deficit of €18½ billion was recorded – equivalent to nearly 9 per cent of GNI*, or 5 per cent GDP. For this year, a deficit is projected at around €18 billion – the equivalent of 8½ per cent of GNI*, or 4.7 per cent of GDP. Importantly, this estimate was made on a no-policy-change (NPC) basis. Following the release of the ERP, the deficit for this year will be greater than the €18 billion assumed on an NPC basis in the SPU.

- As a share of GDP, Ireland's deficit remains within the 'norm' and a keystone of the fiscal strategy over the past year has been 'staying in the pack' of EU Member States. However,

[1] As of 18th June 2021

as a share of GNI*, these figures are at the upper end of the distribution and Ireland risks becoming a fiscal outlier.

22. **Debt**

- At end-2020, the stock of General Government Debt stood at €218.2 billion, a rise of €14 billion, while as a share of GDP it increased to 59.5 per cent in 2020, an increase of 2.2 per cent. General government gross debt is projected to be just over €239 billion for 2021, a nominal increase of just over €21 billion on last year, which equates to just under 10 per cent of an increase. Ireland's debt-to-GDP ratio for 2021 is projected to be 62.2 per cent, improving to 60.2 per cent in 2022. Again, the measures announced in the ERP will worsen these metrics.

- General Government Debt to GNI*, viewed as a more appropriate indicator of the repayment capacity of the economy, increased to 105.6 per cent in 2020. This is an increase of 10 per cent. General Government Debt to GNI* is expected to increase again in 2021, reaching 111.8 per cent in 2021 but is projected to improve in 2022 to 107.4 per cent. On a temporary basis, the public finances can absorb this shock but the debt-income ratio must be put on a downward trajectory once circumstances allow.

23. **Monetary policy**

- The level of debt accumulation of over such a short period of time would not have been possible without unprecedented monetary support from the European Central Bank. While the stance of monetary policy has helped keep borrowing costs at a historic low, such support is temporary; recent economic experience clearly demonstrates that borrowing costs can change rapidly. A faster-than-assumed recovery in the euro area could have implications for the current supportive borrowing environment. A spike in consumer price inflation could trigger a faster-than-assumed 'normalisation' of monetary policy. In short, the current context is likely to change – this could come from ECB tapering, a shift in inflation expectations, or a decision by the European Commission to re-apply the European fiscal rules. Overall, there are now more reasons to expect the supportive policy environment to change than stay the same and domestic policy must be conscious of this.

24. **Corporation Tax**

- Efforts to reform the international corporate tax environment under the OECD's Base Erosion and Profit Sharing (BEPS) process, or via alternative unilateral or multilateral action, will impact on the level of corporation tax the State receives over the medium-term. The SPU projections include an assumption that, by 2025, corporation tax receipts will be €2 billion less than they otherwise would be as a result of these changes. This figure is a technical assumption, which will be revised when there is more clarity. Depending on the particulars of any changes, the impact could be far greater.

- Furthermore, although corporation tax saw a record outturn last year, and provided a boost to the public finances, end-year receipts were some €500 million below what had been forecast at Budget time. This underlines the inherent volatility of this tax head, and the risks of relying on these receipts. Corporation tax receipts are heavily concentrated, with half of all receipts being paid by just ten companies. This poses a risk to the public finances via an exogenous shock effecting one or more of these firms. In short, the specific risks of over-concentration and international tax reform, continue to represent a substantial threat to the public finances.

25. **Summary**

- Overall, budgetary strategy remains one of providing strong counter-cyclical budgetary support to the economy while it is needed, and to unwind it as the recovery gather pace While the response has been both appropriate and necessary, the cost continues to be significant. Further, the risks to the economy that existed before the outbreak of the pandemic remain. The Irish economy is small and highly globalised, and thus exposed to further external market risks such as increased trade tensions. The elevated, and rising, stock of debt compounds these risks with a diminished ability to absorb any shock to the tax base or further spikes in expenditure.

IV – Savings under FEMPI

26. In 2009 the gross Exchequer pay bill was €17.514 billion[2]. The Financial Emergency Measures in the Public Interest Act 2009 implemented a Pension-Related Deduction (PRD) on the wages and salaries of pensionable public servants. Across all sectors of the public service, the full year saving of the then deduction was €900 million per year. The 2009 (No. 2) Act provided the legislative basis necessary to facilitate an estimated full year savings of €1bn in the gross pay bill cost of public servants (Exchequer funded and local government) through reductions in the remuneration of public servants of between 5 per cent and 20 per cent effective from 1 January 2010. In addition, the Financial Emergency Measures in the Public Interest Act 2013 implemented a further pay reduction for public servants earning annual salaries of over €65,000, and also extended the reduction in public service pensions to those pensions awarded from 1 March 2012 over €32,500. The pay reduction to those earning over €65,000 delivered an estimated full year saving of €210 million.

27. As a consequence the gross Exchequer pay bill (which does not reflect the savings from the Pension-Related Deduction) reduced to €16.0 billion in 2010, €15.7 billion in 2011, €15.3 billion in 2012, €15.1 billion in 2013 and €14.7 billion in 2014. This amounted to a reduction of €2.8 billion over the 2009 figure of €17.5 billion. When account is taken of the Pension-Related Deduction, the reduction amounted to some €3.7 billion over the same period. This was achieved primarily through the reductions applied under the Acts, supported by a reduction in the number of serving public servants together with other cost reduction and productivity measures

28. In addition, the Public Service Pension Reduction (PSPR), as provided for in the Financial Emergency Measures in the Public Interest Act 2010 and increased and extended under the Financial Emergency Measures in the Public Interest Act 2013, played a key role in dampening overall public service pension costs at an important time. Estimated full year savings from the measure were €135 million at peak rates.

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[2] The Exchequer pay bill does not include the pay bill for public servants in local government or those paid from the Central Fund. The Act applied to the pay rates of those public servants, and savings were therefore also achieved in those costs.

29. Since 2015, as the economy started to recover and the public finances stabilised, successive Governments have committed to dismantling the Financial Emergency legislation. Given the level of savings associated with the measures, and the continued constraints on expenditure growth, repeal of the FEMPI Acts in any one budget year would have exceeded available additional resources; violated the terms of EU Stability and Growth Pact; broadened the deficit; increased the national debt; and resulted in reduced shares of Government Expenditure for capital investment and programme interventions.

30. Instead a phased unwinding of the FEMPI acts was negotiated with relevant staff interests through the Lansdowne Road Agreement and the Public Service Stability Agreement 2018 - 2020. This phased approach will continue under 'Building Momentum: A New Public Service Agreement 2021 – 2022.' This approach allowed for strong fiscal planning, with dedicated resources ring-fenced within multi-annual expenditure ceilings, without compromising service delivery or capital investment. In turn this provided greater certainty in Budget preparation, as the cost of unwinding the Emergency Legislation over time could be balanced against other urgent demands for Exchequer funding, including funding the recruitment of additional public servants and capital investment in social housing, health and education.

31. Importantly the phased approach to unwinding and the continued operation of the provisions of the Acts has allowed for significant recruitment in the public service, in particular to meet additional staffing requirements in frontline services. In total between Q4 2013 and Q1 2021 an additional 62,831 public servants have been recruited to meet demands for enhanced public service delivery. These include 9,126 teachers, 6,527 Special Needs Assistants, 2,275 Health and Social Care Professionals, 7,161 nurses and 3,415 medical and dentistry staff.

V – Phase 1 of the Unwinding of FEMPI

32. Improvements in the public finances provided the resources necessary to begin the first phase of unwinding the provisions of the Financial Emergency Measures in the Public Interest Acts through the enactment and implementation of the Financial Emergency Measures in the Public Interest Act 2015. This Act gave effect to the terms of the Lansdowne Road Agreement.

33. The provisions of the Financial Emergency Measures in the Public Interest Act 2015 partially unwound the pay reduction measures imposed on public servants and are prudent and sustainable given the level of additional resources available to Government. The estimated overall gross cost of these pay measures (inclusive of the previously committed costs attributable to the Haddington Road Agreement) in each year of the Agreement is €267 million in 2016, €290 million in 2017, and €287 million in 2018 or a total of €844 million by 2018 of which €278 million is attributable to the pre-existing Haddington Road Agreement commitments. This should be compared to public service pay bill savings of €2.1 billion, achieved as a direct result of pay reductions under the FEMPI legislation.

34. The provisions of the Financial Emergency Measures in the Public Interest Act 2015 also allowed for the amelioration of the Public Service Pension Reduction (PSPR). The full year cost of the measure was estimated at €90 million to end 2018. As a result, a significant number of pensioners (approx. 65,000) were removed from the application of the measure and only approx. 25,000 public service pensions, representing the top 20% high value pensions, continued to be impacted by PSPR from 1 January 2018. The completion of PSPR unwinding for these remaining pensions is detailed below.

VI – Phase 2 of the Unwinding of FEMPI

35. In recognition of the improvements in the economy, the contribution of public service pay reductions to the stabilisation of the State's finances and the value of collective agreements, the Government entered negotiations with relevant staff interests in May 2017. The outcome of this process was the Public Service Stability Agreement 2018 -2020 (PSSA 2018-2020) which extended the Lansdowne Road Agreement.

36. The terms of the PSSA were given legal effect through the enactment of the Public Service Pay and Pensions Act 2017, implementation of which would complete the unwinding of the FEMPI legislation in relation to reductions in remuneration. The Act provided for the following public service pay and pension measures:

    - Existing FEMPI Pension Related Deduction (yield approx. €700m p.a.) was converted into a permanent Additional Superannuation Contribution payable on salaries above €34,500 p.a. (estimated yield approx. €550m p.a. by 2020).
    - Salary restoration for public servants combined with raising the threshold for ASC gave different income groups increases of between 6.2% and 7.4% from 2018 to 2020.
    - New entrant members of the Single Public Service Pension Scheme attracted increases of some 7% to 10%.
    - Allowances reduced under FEMPI were fully restored from 1st October 2020.

    The costs associated with the agreement were estimated at €887 million over the years 2018-2020.

37. Unwinding of pay and pension reduction measures under FEMPI will be completed in 2021 and 2022 through measures provided under the Public Service Pay and Pensions Act through the following provisions:

    - Under Section 19 of the Act, the Minister will, by order, provide for the complete unwinding of remaining FEMPI measures on public servants paid an annual basic salary of up to €150,000 on 1 July 2021.
    - Section 20 of the Act states that the Minister, by order, shall provide for the complete unwinding of remaining FEMPI measures on public servants paid and annual basic salary of more than €150,000, on any date before 1 July 2022.

38. The Public Service Pay and Pensions Act 2017 also repealed, after a transitional period, section 9 of the Financial Emergency Measures in the Public Interest Act 2009 which applies to contracted Health Professionals and certain other groups. The 2017 Act now provides relevant Ministers, with effect from 1 January 2019, the statutory power to set and vary fees, where contracts permit, after consultation with relevant interests.

39. The Public Service Pay and Pensions Act 2017 will also complete the unwinding of PSPR. Further PSPR amelioration from 1 January 2019, by way of rate and/or threshold changes, removed approximately 12,000 public service pensioners from the impact of PSPR, while the changes occurring from 1 January 2020 removed an estimated further 9,500 public service pensioners, leaving just 3,500 of the highest value pre-March 2012 pensions that continue to be subjected to PSPR. The full-year cost associated with elimination of PSPR from this group of pensioners is estimated at approximately €12 million. Under section 27 of the Public Service Pay and Pensions Act 2017, the Minister for Public Expenditure and Reform was required to make an Order, no later than 31 December 2020, specifying a date for the full removal of PSPR from that residual group of PSPR-affected pensions. Following a Government Decision of 8 December 2020, the date for the full removal of PSPR was decided as 1 July 2021 and the Minister gave effect to this through the Public Service Pay and Pensions Act 2017 (Section 27(3)) Order 2020 which was signed on 15 December 2020.

40. The proposed Public Service Pay Act 2020, which is under consideration by the Oireachtas, amends or repeals Sections 4 and 5 of the Financial Emergency Measures in the Public Interest (No. 2) Act 2009 to amend the restrictions on increases to public service pay introduced by the Financial Emergency Measures in the Public Interest (FEMPI) No. 2 Act 2009. This will allow for implementation of pay measures in the new public service agreement 'Building Momentum' and other matters, including Sláintecare consultant contracts.

VII – Operation, Effectiveness and Impact of the Acts Reviewed

41. I am satisfied that the Acts reviewed here have operated effectively since their inception and that they continue to do so. They have made a significant contribution both to the initial stabilisation of the public finances and to their broader sustainability. The phased unwinding of the Financial Emergency legislation, which commenced under the Financial Emergency Measures in the Public Interest Act 2015 and is to be completed under the Public Service Pay and Pensions Act 2017 and the proposed Public Service Pay Act 2020, has allowed for appropriate fiscal planning to ensure that unwinding of the measures under the previous Acts is accomplished without undermining the public finances. In particular the gradual, multi-annual, unwinding of the FEMPI has allowed space for investment in public services while delivering a budget surplus and lower debt to GDP ratio. This has placed the state in a better position to deal with the public health emergency and the economic impact of COVID-19.

42. Working within the parameters of the fiscal rules, the savings made through FEMPI have allowed the Government to balance the competing demands of society as a whole: for example by meeting the needs for enhanced public services through recruitment of over 60,000 additional public servants. Of these over 25,000 were recruited to the Health Service (an increase of 24%) and 2,700 were recruited by An Garda Síochána: public servants who have been at the forefront of the response to the COVID-19 pandemic.

43. Considerable resources have also been allocated to capital investment which has risen from €3.7 billion in 2015 to an allocation of over €10 billion in 2021. These resources would not have been available if the FEMPI Acts had been repealed in one Budget year.

44. On 1 January 2019, the 'Pension Related Deduction' (PRD), brought in as part of the FEMPI Act 2009, was replaced by a permanent pension contribution, the 'Additional Superannuation Contribution' (ASC). This is a structural measure that will provide a permanent source of revenue for the Exchequer. This facilitated the repeal of the FEMPI Act 2009. The ASC rates were amended in 2020, as provided in the Public Service Pay and Pensions Act 2017, and are now the permanent rates in place going forward.

VIII – Consideration of the Need to Continue the Provisions in the Acts Reviewed

45. The expenditure required to complete the unwinding of FEMPI set out in the legislation in relation to reductions in remuneration has been estimated and is accounted for the medium term expenditure ceilings. This provides a degree of certainty for economic planning, stability in Industrial Relations and continuity in vital public service delivery.

46. The impact of COVID-19 on the economy has been a severe and unprecedented shock that necessitated the full mobilisation of the public sector balance sheet. In tandem with a robust public health response, the full suite of fiscal tools has been deployed including direct public expenditure, the taxation system and 'below the line' supports such as loan guarantees to replace lost income in the private sector and to minimise the long-term damage ('scarring') caused by the pandemic. Measures that have been put in place to support individuals and businesses through this pandemic will remain in place for as long as they are needed. However, equally, with recovery in sight, it was important that the Economic Recovery Plan (ERP) outlined how temporary supports will be phased out.

47. Having considered the matter in line with section 12 of the 2013 Act, I am satisfied – based on an assessment of the purposes of the relevant Acts, the overall economic conditions in the State, national competitiveness and Exchequer commitments in respect of public service pay and pensions – that the remaining measures under the Acts (as amended) continue to be necessary.

Michael McGrath

Michael McGrath, T.D.

Minister for Public Expenditure and Reform

22 June 2021