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 2022

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 2022, 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 Public Service Pay Act 2021, which was signed into law by the President in July 2021, 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.

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;
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> AND WHEREAS as a consequence a serious deterioration in the revenues of the State has occurred and there are significant and increasing State commitments;
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> 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;
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> AND WHEREAS it is necessary to reduce State expenditure to maintain international confidence and to protect the State's credit ratings;
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> AND WHEREAS it is necessary to take urgent steps to help to restore the State's competitiveness;
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> 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;

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;

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;

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;

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
>
> 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:
>
> 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 2021 to June 2022.

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.

18. At the start of 2022, the unwinding of pandemic related restrictions facilitated the rebound in the domestic economy. Strong growth in domestic activity supported the labour market recovery, with the Covid-19 adjusted unemployment rate falling to 7% in early 2022. With the multinational dominated export sectors expected to continue perform strongly and robust growth expected in domestic oriented sectors, the Irish economy was forecast to perform strongly in the coming years.

19. However Russia's invasion of Ukraine and the consequent increase in wholesale energy and other commodity prices have had a profound impact on the outlook for Ireland and the global economy more generally. Due to Russia's role in global energy supply, wholesale energy prices have risen sharply since February, as has the price of certain metals and agricultural commodities. These prices remain elevated and will continue to feed into further higher inflation over the coming months. The war and associated sanctions continue to cause considerable uncertainty surrounding commodity prices and the wider geopolitical situation with knock-on effects on consumer confidence and business investment decisions.

20. The Department of Finance published the Stability Programme Update (SPU) in April which set out its forecasts for the coming years. The economic and fiscal projections set out in the SPU were prepared against the backdrop of this considerable uncertainty regarding the war and its impacts. Whilst the Department forecasted modified domestic demand (MDD) growth of 4¼ per cent this year and just below 4 per cent for next year, there is considerable downside risks to this forecast as many of the risks outlined in the SPU have materialised.

21. At the time of the SPU the Department of Finance forecast inflation to average 6¼ per cent for 2022 as a whole. However given the sustained volatility in the energy markets and the broadening of price pressures, inflation is now expected to stay elevated for longer. The war in Ukraine and in particular the escalation of sanctions against Russia will continue to shape the outlook for inflation over the short term.

III - Budget Context

22. The cost of living and Covid-19

- The budgetary context has, until recently, been dominated by the effects of the Covid-19 pandemic. Government intervened on an unprecedented scale to protect households and businesses, deploying the public sector balance sheet to make €48 billion of supports available. Early this year, the success of Ireland's vaccination programme and a less virulent variant combined to allow for the removal of virtually all public health restrictions. The prospects for the Irish economy were, as a result, more positive.

- The Russian invasion of Ukraine has significantly altered the outlook. Although Ireland's direct economic links with both Russia and Ukraine are limited, the conflict, and the ensuing international sanctions imposed on Russia, have resulted in a supply-side shock to the economy and significantly exacerbated existing inflationary pressures. Government has intervened to ease the burden of the rising cost of living on households through a number of measures to offset the impact of rising energy prices. When including the reductions in personal taxation implemented in *Budget 2022*, the total cost of measures has amounted to over €2.4 billion.

23. Deficit

- Last year, a general government deficit of €8.1 billion, or 3.6 per cent of modified gross national income (GNI*) was recorded. For this year, a deficit of almost €2 billion, or 0.8 per cent of GNI* is expected. This is based on the assumption that the Covid-19 expenditure contingency is fully drawn down to fund, *inter alia*, the costs associated with the re-settlement of Ukrainian refugees which are expected to be very significant. This would mean that, since the start of 2020, the combined deficit would stand at almost €30 billion.

24. Debt

- At end-2021, the stock of general government debt was €236 billion, or almost 106 per cent of GNI* up 11 percentage points since 2019. On a per capita basis, this is among the highest levels of debt in the developed world at around €47,000 for every person in the country.

- For this year, the stock of debt is expected to decline slightly, to €234 billion, while the ratio of debt to GNI* will fall to 96½ per cent.

25. **Monetary policy**

- Ireland benefitted from historic lows in borrowing costs during the pandemic, which allowed Government to fund the extraordinary levels of fiscal support necessary. However, with the passing of the pandemic and the rapid increase in inflation, monetary policy in most advanced economies is now exiting the extraordinary policies that have been in place for over two years. Borrowing costs – including sovereign borrowing costs – are now on a rising trajectory. Accordingly, trade-offs are once again apparent and choices about tax and spending will have to be made, as revenue and expenditure will need to be aligned in order to avoid adding to the stock of debt.

26. **Corporation Tax**

- The agreement to reform the international corporate tax environment under the OECD's Base Erosion and Profit Sharing (BEPS) process, is expected to reduce the level of corporation tax received by the Exchequer over the medium term. The Stability Programme Update 2022 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 and the actual impact could be far larger.

- Corporation tax receipts have benefitted the fiscal position and reduced the State's borrowing requirements, but there are significant risks to relying on this revenue stream. The corporation tax base is highly concentrated, with over half of all receipts being paid by just ten companies. This means that a shock that hits the FDI sector could have severe implications for the public finances. In summary, the concentration in the tax base and the impact of international tax reform, continue to represent a threat to the public finances.

27. **Summary**

- The economy, and the fiscal position, has begun to recover from the pandemic, but international inflationary pressures and economic uncertainty arising from the war in Ukraine are expected to slow the pace of the recovery in the public finances.

- Serious fiscal challenges lie ahead: an ageing population, an almost-certain fall in corporation tax revenues; climate and digital transitions and, in the near-term, the need to finance humanitarian assistance to refugees fleeing war in Ukraine. Public debt is already very high and the cost of borrowing is now rising. All of this means that choices will have to be made; the public sector balance sheet cannot be deployed to address every challenge.

IV – Savings under FEMPI

28. In 2009 the gross Exchequer pay bill was €17.5 billion[1]. 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.

29. 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.

30. 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.

31. Since 2015, as the economy started to recover and the public finances stabilised, successive Governments have committed to dismantling the Financial Emergency

[1] 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.

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.

32. 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 has continued 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.

33. 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 2022 an additional 73,917 public servants have been recruited to meet demands for enhanced public service delivery. These include 10,006 teachers, 7,502 Special Needs Assistants, 3,319 Health and Social Care Professionals, 8,572 nurses and 3,835 medical and dentistry staff.

V – Phase 1 of the Unwinding of FEMPI

34. 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.

35. The provisions of the Financial Emergency Measures in the Public Interest Act 2015 partially unwound the pay reduction measures imposed on public servants and were 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 was €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 was 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.

36. 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

37. 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.

38. 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.

39. Section 19 of the Act provided 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. The Attorney General has provided legal advice on the potential to amend this legislation. It is clear from the advice received that the Government are bound by the terms of the legislation and must proceed to provide restoration to all eligible persons by 1 July 2022.

40. 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.

41. The Public Service Pay and Pensions Act 2017 also provided for the complete 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 was 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.

42. The Public Service Pay Act 2021, which was signed into law by the President in July 2021, 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.

VII – Operation, Effectiveness and Impact of the Acts Reviewed

43. 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 Public Service Pay Act 2021, 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 on our fiscal responsibilities. This has placed the state in a better position to deal with the public health emergency and the economic impact of COVID-19.

44. 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 70,000 additional public servants to meet enhanced demands for enhanced public service delivery. Between Q4 2013 and Q1 2022, there has been significant recruitment in particular in key public services of Health and Education, with an additional 10,006 teachers, 7,502 Special Needs Assistants, 3,319 Health and Social Care Professionals, 8,572 nurses and 3,835 medical and dentistry staff recruited over the period.

45. Considerable resources have also been allocated to capital investment which has risen from €3.7 billion in 2015 to an allocation of over €11.4 billion in 2022. These resources would not have been available if the FEMPI Acts had been repealed in one Budget year.

46. 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

47. 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.

48. The economy, and the fiscal position, has begun to recover from the impact of the Covid-19 pandemic, however international inflationary pressures and economic uncertainty arising from the war in Ukraine are expected to slow the pace of the recovery in the public finances. There are serious fiscal challenges ahead: an ageing population, an almost-certain fall in corporation tax revenues; climate and digital transitions and, in the near-term, the need to finance humanitarian assistance to refugees fleeing war in Ukraine. Public debt is already very high and the cost of borrowing is now rising. All of this means that choices will have to be made; the public sector balance sheet cannot be deployed to address every challenge.

49. 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
28 June 2022