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 2017

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 2017, 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 provides 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.

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 effected a reduction in public service pensions 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 is 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. In understanding the purpose and policy underpinning these Acts and consequently the context of the review, the preambles to the Acts should be noted. In this connection text 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, and the Financial

Emergency Measures in the Public Interest Act 2015 is set out below and may be considered representative:

Extract from 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 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 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"

8. 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 2016 to June 2017.

9. 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

10. The Irish economy experienced the most severe economic contraction since the foundation of the State over the period 2007-2009. The peak-to-trough decline in real GDP was 9 per cent over this period. Sharp declines in personal consumption (5 per cent) and particularly investment (27 per cent), in conjunction with the global financial crisis, were the primary reasons for this unprecedented downturn in the economy.

11. In the period leading up to the recession, the Irish economy had experienced a significant loss in competitiveness reflecting domestic cost and price developments which resulted in a sharp 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 in particular had a detrimental impact on Irish competitiveness.

12. 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 seen over the past few years also contributed to the improvement in competitiveness. As a result, Ireland's real harmonised competitiveness index, as reported by the Central Bank of Ireland on a monthly basis, has improved by approximately 20 per cent between 2008 and 2017.

13. The labour market was particularly affected by the economic downturn with a peak-to-trough decline in employment of just over 15 per cent. The seasonally adjusted rate of unemployment peaked at just over 15 per cent in early 2012 having been as low as 5 per cent in early 2008. However, in the period since there has been a remarkable turnaround in the labour market with strong employment growth resulting in steady declines in the unemployment rate. The latest data for May 2017 indicates that the unemployment rate was 6.4 per cent.

14. From 2010 to 2013, the growth performance was fitful. The economy returned to growth in 2010 but this was not the turning point as the economy was once again in recession in

2011 and 2012. Modest growth in 2013 meant that annual GDP growth averaged 0.5 per cent between 2010 and 2013. While positive, this was well below the potential growth rate of the economy. The recovery has strengthened in recent years, with underlying growth averaging around 5 per cent per annum over the last three years. Following a number of years of rebalancing, the composition of activity is also now more sustainable, with all sectors positively contributing to growth.

15. The economic recovery is now entering a mature stage but considerable vulnerabilities remain. Domestically, notwithstanding recent improvements, levels of private debt remain high, which may prompt households and firms to increase the pace of deleveraging over the medium-term. Ireland's highly concentrated industrial base represents another recurring risk facing the economy. As a result, output and employment are exposed to firm and sector-specific shocks. Loss of competitiveness is another recurring risk for the Irish economy which is amplified by the supply constraints in the housing sector.

16. Internationally, the degree of uncertainty remains high. While improvements in competitiveness have been beneficial, it is important to point out that as a small open economy, Ireland is particularly susceptible to external risks including *inter alia*:

    a) The Irish economy is particularly exposed to the UK's decision to leave the EU; in the long run any barriers to trade will impact on Irish growth while in the short run, the depreciation of Sterling has led to a loss of competitiveness. Work carried out by the Department of Finance and the ESRI shows the impact of Brexit on Ireland will be significant. Over the long run, in the worst case scenario, i.e. in the absence of a trade deal with the UK, after 10 years, Irish GDP could be almost 4 per cent below what it otherwise would have been in a no-Brexit scenario.

    b) The Irish economy is vulnerable to weaker-then-expected trading partner growth which could adversely affect exports, inward investment and result in lower economic activity. While growth is picking up in many advanced economies, it remains fragile and subject to downside risk while imbalances remain a feature of some Emerging Market Economies.

Policy uncertainty in the US with regard to trade protectionism and tax reform represent a considerable risk to the Irish economy.

III - Budget Context

17. The State's public finances, in particular tax receipts, have been very severely affected by the sharp contraction in economic activity.

18. Through the early part of the previous decade, net voted expenditure broadly tracked growth in taxation. However, significantly, much of this growth in taxation was driven by an unsustainable increase in transitory taxes. From 2007 on, with the collapse of the property market, a significant gap emerged between revenue and expenditure. Exchequer tax revenue fell 33 per cent, from €47 billion to €32 billion, by 2010. At the same time, net voted expenditure rose to €47 billion over the same period.

19. Since mid-2008, significant action has been taken to restore sustainability to the public finances. A series of "across the board" revenue-raising and expenditure-reducing measures have been introduced. These measures have affected all sectors of society. On the spending side, public service pay and pensions have been reduced as well as social welfare expenditures. There has been a significant widening of the tax base with the introduction of the USC and Local Property Tax while income, capital, inheritance, indirect, carbon, pensions and property related taxes have all been increased since the adjustment process began. In addition, the tax system has been restructured so that it is based on more stable and less cyclical sources of tax revenue.

20. Consistent achievement of fiscal targets, combined with significant structural reforms have facilitated Ireland's correction of the excessive deficit in 2015. However, Ireland continues to record deficits, both in general government and structural terms. The reduction of these will represent a continuing challenge.

21. While tax revenues continue to show year-on-year improvement, receipts in 2016 have only now returned to levels last seen in 2007. It is worth noting that some commentators (IMF/EU) have signalled concerns regarding the increased reliance on 'windfall' corporation tax receipts, with the Irish Fiscal Council pointing out that a significant contributing factor for the volatility and unpredictability of corporation tax receipts is the high concentration of receipts from a number of companies.

22. The rules of the preventive arm of the Stability and Growth Pact require improvements in the structural budget balance each year until the Medium Term Budgetary Objective, a structural deficit of 0.5 per cent of GDP, is achieved. This in turn can only be delivered by a continuation of fiscal prudence, and avoiding excessive increases in expenditure or tax cuts.

23. General Government Debt measures the total debt of the State and is used for comparative purposes across the European Union. At end-2016 General Government Debt was estimated to have been 75.4 per cent of GDP. Although the ratio of debt-to-GDP is expected to fall to 69.5 per cent of GDP as a result of strong GDP growth, this measure is heavily distorted by developments to the GDP denominator.

24. Alternative metrics, such as Interest to Revenue and Gross Debt to Revenue, which relate more to domestic indicators may therefore be considered as less prone to distortion from the effects of globalisation. An analysis, using these alternative metrics, was included in Budget 2017 which showed that Ireland is currently outside the interquartile range for debt performance relative to the EU28.

25. At almost €201 billion, the nominal level of debt at end 2016 is forecast to increase by some €13.5 billion over the next three years. Carrying this high level of debt limits the ability of the public finances to cope with possible external stocks to the economy. The implementation of continued budgetary prudence coupled with growth friendly economic policies, can reduce the debt levels to a lower, safer level over the coming years.

26. Furthermore, Ireland's success in the international debt markets is partly based on the expectation that Ireland will continue to reduce its deficit and debt levels and manage its public finances in a prudent manner.

27. Despite this progress, fiscal challenges and risks still remain with a number of potential headwinds on the horizon. Externally, given our high level of global integration, issues such as the impact of Brexit and the potential for international policy changes to impact upon corporation tax are paramount. If any major changes to the fiscal position emerge, there could be implications over the medium term for the general government deficit, the structural balance and, potentially, for the level of fiscal space that could be used. In this regard, developments will be monitored closely, and Ireland remains committed to adhering to the fiscal rules of the Stability and Growth Pact.

IV – Cost of Public Service Remuneration

28. In 2009 the gross Exchequer pay bill was €17.514 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 deduction was €900 million per year. The 2009 (No. 2) Act provided the legislative basis necessary to facilitate a reduction in the gross pay bill cost of public servants (Exchequer funded and local government) by some €1 billion in 2010 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 implemented a reduction in public service pensions over €32,500. The pay reduction to those earning over €65,000 delivered approximately €210 million in savings.

[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.

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 amounts 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 amounts to some €3.7 billion over the same period. This has been 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. The continued operation of the provisions of the Acts has allowed for targeted recruitment in 2015 and 2016 to fill critical gaps in public service numbers, due to the recruitment moratorium, and meet additional staffing requirements in frontline services related to demographic change, for example teachers. In total between Q4 2013 and Q1 2017 an additional 20,850 public servants have been recruited to meet demands for enhanced public service delivery. These include 5,243 teachers, 2,360 Special Needs Assistants, 3,073 Health and Social Care Professionals, 2,267 nurses and 1,426 consultants/doctors/dentists.

31. Improvements in the public finances also 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 which the overwhelming majority of public servants have accepted and subscribed to. Under the original terms of the Lansdowne Road Agreement, €290 million was included in the 2017 paybill for ameliorating the impact on public service pay of the previous Acts.

32. As a result of the necessary increase in numbers and the provisions of the Financial Emergency Measures in the Public Interest Act 2015, the outturn for the Exchequer paybill increased to €15.1 billion in 2015 and €15.6 billion in 2016. The estimate for 2017 is €16.5 billion. It should be noted that this estimate is dependent on the continued operation of the pay reductions under the 2009 (No. 2) Act and the further reductions to the pay of higher paid public servants, provided for by way of amendment to the 2009 (No. 2) Act under the Financial Emergency Measures in the Public Interest Act 2013. It is also

dependent on the Pension-Related Deduction (PRD), as levied on the wages and salaries of pensionable public servants under the 2009 Act as amended.

33. If these provisions were repealed with immediate effect, the cost to the Exchequer would be an additional €1.4 billion on top of pre-existing commitments under the Lansdowne Road Agreement. Pay increases of this magnitude, in one budget year, are unsustainable as they would: exceed available additional resources; violate the terms of EU Stability and Growth Pact; broaden the deficit; increase the national debt; and result in reduced shares of Government Expenditure for capital investment and programme interventions. By contrast the phased approach to unwinding the provisions of the Financial Emergency Measures in the Public Interest Acts allows for strong fiscal planning, with dedicated resources ring-fenced within multi-annual expenditure ceilings, without compromising service delivery or capital investment. This provides greater certainty in Budget preparation, as the cost of pay and pensions restoration can be balanced against other urgent demands for Exchequer funding, including funding the recruitment of additional public servants.

V – Cost of Public Service Pensions

34. The 2017 estimate for the Exchequer pension bill is €2.59 billion in net terms. Underlying cost-increasing trends, notably improvements in life expectancy and connected demographic factors, will continue to challenge the financing of public service pensions. In particular, the expansion of the public service throughout the 1970s will lead to a large cohort of retirements in the current decade. In this context the launch at the start of 2013 of a new career-average pension scheme for new-joiner public servants, known as the Single Public Service Pension Scheme, will be important in curbing upward cost pressures over the longer-term.
35. The Public Service Pension Reduction (PSPR), as provided for in the Financial Emergency Measures in the Public Interest Act 2010, and selectively increased on all public service pensions over €32,500 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.

VI – Impact of the Financial Emergency Measures in the Public Interest Act 2015

36. As detailed above the terms of the Lansdowne Road Agreement are being implemented through the Financial Emergency Measures in the Public Interest Act 2015. This agreement extends the terms of the existing Haddington Road Agreement to September 2018, while securing an Industrial Relations framework that will foster and support further productivity and change at the level of the workplace.

37. The provisions of the Financial Emergency Measures in the Public Interest Act 2015 partially unwind 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.

38. The provisions of the Financial Emergency Measures in the Public Interest Act 2015 also allow for the amelioration of the Public Service Pension Reduction (PSPR) as it applies to the pensions of public servants. The cost of the measures is estimated at some €30 million per annum or a full year cost of €90 million to end 2018. As a result, by 2018, significant numbers of pensioners (approx. 65,000) will be removed from the application of the measure and only approx. 25,000 public service pensions, representing the top 20% high value pensions, will be impacted by PSPR. For 2017, there will be a return of €500 to most PSPR-impacted pensioners.

39. As required under the legislation, measures applied to contracted Health Professionals and certain other groups under section 9 of the Financial Emergency Measures in the Public Interest Act 2009 are also being considered in the context of the overall unwinding of FEMPI legislation.

VII – Anomalies under the Lansdowne Road Agreement

40. In response to the anomalies created by the Labour Court Recommendations on Garda pay the Government agreed a €1,000 increase in respect of the period April to August 2017 inclusive for:

    - those on annualised salaries up to €65,000;
    - who are parties to the Lansdowne Road Agreement; and
    - who do not stand to benefit from the Labour Court recommendations issued in respect of the Garda Associations.

    The cost of this increase which was over and above existing pay allocations provided for in respect of the Lansdowne Road Agreement for 2017 will be met through existing Departmental budgets taking into account the scope for the reallocation of expenditure while ensuring that core public services are not adversely impacted. The cost of this once off additional payment for 2017, is not a recurring cost. The payment will be replaced by the already scheduled and budgeted payment for public servants on similar terms of €1,000 to annualised salaries up to €65,000 from 1 September 2017. The carry over costs into 2018 of this payment have already been provided for in 2018 allocated costs in respect of the Lansdowne Road Agreement.

VIII – Proposed Public Service Stability Agreement 2018-2020

41. 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 is the proposed Public Service Stability Agreement 2018 -2020 (PSSA 2018-2020) which extends the Lansdowne Road Agreement. The terms of the proposed Agreement have been commended to both parties by the Workplace Relations Commission (WRC) who facilitated the negotiations.

42. The terms of the proposed Agreement provide for the following public service pay and pension measures:

- Conversion of existing FEMPI Pension Related Deduction (currently €700m p.a.) into a permanent Additional Superannuation Contribution (€550m p.a. by 2020).
- Salary increases for public servants combined with raising the threshold for PRD which will give different income groups increases of between 6.2% and 7.4% over three years.
- New entrant members of the Single Public Service Pension Scheme will attract increases of some 7% to 10%.
- The proposed agreement would run from 2018 to 2020 and has a cost over that period of €887 million. Breakdown of costs are as follows: 2018 – €178m, 2019 – €370m, 2020 – €339m, Total – €887m

Under the terms of this proposed Agreement-pay reductions effected under the FEMPI (No. 2) Act 2009 will be restored to all public servants earning up to €70,000 which is equal to almost 90 per cent of public servants. The proposed conversion of the current PRD measures under the FEMPI 2009 Act will ensure that over 70 per cent of public servants will be making an additional permanent contribution to their pensions over and above existing superannuation arrangements. This will make a major contribution to the future sustainability of public service pensions.

43. Subject to the ratification of the proposed PSPR 2018-2020, by Unions and Associations representing public servants, it is my intention to bring forward legislation to the Oireachtas for the implementation of the terms of the PSSA 2018-2020. The proposed legislation will form a significant unwinding of the pay and pension reduction measures provided for within the FEMPI legislation as they apply to public servants and former public servants.

IX – Operation, Effectiveness and Impact of the Acts Reviewed

44. 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 future sustainability. The phased

amelioration of the impact of the relevant Acts as provided for by the Financial Emergency Measures in the Public Interest Act 2015 has allowed for appropriate fiscal planning to ensure that unwinding of the measures under the previous Acts is accomplished without undermining the public finances. The proposed further legislation referred to above will allow for continued sustainable unwinding of the FEMPI legislation.

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

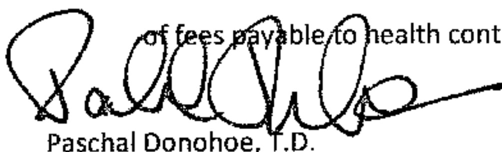
45. The consistent achievement of fiscal targets combined with significant structural reforms facilitated Ireland's exit from the EU/IMF support programme in late 2013. Although strong growth has been recorded since, considerable risks remain due to the severity of the crisis. Ireland's openness to exogenous shocks and continuing high levels of public and private debt pose real risks to the public finances and economic progress. The goal for fiscal policy is to achieve the Medium-Term Objective (MTO) by end-2018, which is a deficit of -0.5% of potential GDP in structural terms. This is currently expected to be achieved. In actual headline balances, there will be a projected deficit in the Government finances in 2018, with the year expected to finish with a -0.1% of GDP deficit. The requirement for the state to borrow to meet existing commitments will likely end in 2019, with an expected slight surplus of 0.1% of GDP in the Government finances by end-2019. Adherence to the EU Stability and Growth Pact and the fiscal rules designed to limit the scope for pro-cyclical government expenditure increases represent the best means of limiting risks to our economic recovery. Within these fiscal rules the Government has been able to balance the competing demands of society as a whole: for example by meeting the needs for enhanced public services through recruitment of staff in the Health and Education sectors which itself adds to the cost of the pay bill. These measures, and the commencement of the unwinding of the Financial Emergency Measures in the Public Interest Acts, have been agreed and provided for within Budget 2017 allocations

46. The fiscal targets in Budget 2017 are based on the reduced remuneration rates as well as on the revenue accruing from the PRD and PSPR as currently provided for under the Acts here reviewed. The Government is committed to meeting the targets set out in Budget 2017.

47. The Financial Emergency Measures in the Public Interest Act 2015 which implements the terms of the Lansdowne Road Agreement constitutes a prudential and agreed approach to the phased unwinding of the measures in the relevant acts. The intention is that this collective approach will be extended through acceptance of the proposed Public Service Stability Agreement 2018-2020. This would provide certainty for economic planning in the context of medium term expenditure ceilings and the operation of the fiscal rules.

48. Having considered the matter in line with section 12 of the 2013 Act, I am satisfied, having regard to 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 measures put in place by the Acts here reviewed continue to be needed in 2017.

49. I also find that it is appropriate, taking account of the improvements brought about in the public finances, the continuing risks which remain and the need to meet our commitments to have a prudent fiscal policy under the Stability and Growth Pact, and subject to the amendments effected in the measures through the Financial Emergency Measures in the Public Interest Act 2015:
    a. to continue to apply the public service Pension-Related Deduction;
    b. to continue to apply the relevant provisions controlling the cost of remuneration of public servants, and other measures controlling the cost of the public service pay and pensions bill;
    c. to continue to apply the Public Service Pension Reduction; and
    d. to maintain provisions in the legislation which provide for the reduction of payments to health professionals but allow, subject to the considerations of the Minister for Health and other Ministers of Government under sections 9 and 10 of the Financial Emergency Measures in the Public Interest Act 2009 and Government's priorities for the development of the health service, for a variation of fees payable to health contractors.



Paschal Donohoe, T.D.
Minister for Public Expenditure and Reform
29 June 2017