REVEALED: THE €14.4BN BUDGET TRICK

Minister for Public Expenditure & Reform Paschal Donohoe and Minister for Finance Michael McGrath

How the budget numbers stack up

€6.4bn

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€17.7bn

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€15.8bn

Except that's not what the budget package was last year. The overall budget package announced last October was actually €15.8 billion

€14.4bn

If the cost of living package is closer to €4 billion for 2024, that would mean a total budgetary package of €14.4 billion or so, which is much larger than the government is letting on

Behind the core Budget 2024 package of €6.4bn lie shadow 'temporary' spending figures that bring the total to €14.4bn

Daniel Murray

Much has been made by this government of its prudent approach to the public finances as it heads into Budget 2024.

"It will be a prudent budget," Michael McGrath, the Minister for Finance, said at the National Economic Dialogue during the summer. "But it will also seek to respond to the pressures that are there."

The government must tread a careful line between spending enough to keep the country happy and addressing its needs but not so much as to imperil its public finances.

It has already accepted that it will breach its own 5 per cent spending rule due to higher levels of inflation. It argues, however, that it will only do so marginally, providing for a modest 6.1 per cent increase in spending next year.

According to McGrath and Paschal Donohoe, the Minister for Public Expenditure, there will be a core budget package of €6.4 billion this year. This will be made up of €5.25 billion in spending increases and €1.15 billion in tax cuts.

On the face of it, this is not dissimilar to last year's budget package of €6.9 billion, which broke down into €5.8 billion in spending increases and €1.1 billion in tax cuts.

Except that's not what the budget package was last year. The overall budget package announced last October was actually €15.8 billion, though this wasn't advertised by the government or reported anywhere in the media. And it looks likely that this year's budget will be of a similar scale.

How can that be the case?

Opaque approach

The difference in the publicised and actual budget figures has been created by the several new ways of categorising expenditure the government has come up in recent years, including core spending, non-core spending, and once-off cost of living spending.

This opaque approach to disclosing expenditure disguises just how much the state is actually spending in each budget and creates the perception that the public finances are on a more prudent and sustainable footing than they actually are.

The actual €15.8 billion figure for last year's budget package was made up of three elements: the widely cited core package of spending increases and tax cuts of €6.9 billion, €4.5 billion of so-called temporary or 'non-core' spending on the likes of Covid-19 and accommodating Ukrainian refugees; and a further €4.4 billion of once-off spending on cost of living measures.

"In the past, this would have all just been called current spending," Ciarán Casey, economic historian with University of Limerick told the *Business Post*.

"The fear is that you come up with a terminology like core and non-core and it acts as a fig leaf for doing whatever you want down the road."

So what's happened to bring about this change? And why does it matter?

When the Covid-19 pandemic hit in 2020, it was clear that extraordinary levels of state spending would be required to help the country through the pandemic.

The additional money that was provided was eventually labelled as 'Covid spending' in the subsequent budget, with the understanding that it was exceptional and temporary in nature. In Budget 2021, Covid spending of €12.7 billion took the total budget package to €17.7 billion.

Then, in Budget 2022, this type of spending was relabelled 'non-core' expenditure, made up primarily of Covid-19, but including some other 'temporary' spending too.

Suddenly there were two categories of spending: the usual core spending package, that was considered permanent and recurring, and non-core expenditure, which was considered temporary.

This new categorisation has persisted, and as new crises have arisen, new 'non-core' expenditure has appeared.

Between the pandemic, the war in Ukraine and the cost of living emergency, the government has understandably felt the need to support people on a temporary basis several times in the last number of years, thus maintaining the need for the 'non-core' element of the budget.

At this stage, significant levels of temporary spending have seemingly become a permanent feature of our new budgetary cycles. Donohoe, though, doesn't quite agree.

"This expenditure isn't in some way becoming permanent," he told the *Business Post* earlier this summer.

"We've massively reduced it over the last number of years and we'll be keen to again in next year's budget and in the budget after that – which I know we will get to, I'm confident we'll see another again," he said at the launch of the Summer Economic Statement.

Third element

But while non-core spending may be slowly reducing, last year, the third element of this new three-headed spending package – a once-off cost of living package – appeared in the mix.

€4.4 billion worth of "once-off" cost of living measures, combined with the core and non-core measures, brought the total budget package to €15.8 billion.

Unlike the core and non-core spending elements, the cost of living package wasn't catered for under gross voted expenditure at all, but seemed to be taking place completely off the books in that it wasn't accounted for in the official budget documentation.

The government certainly discussed its cost of living package widely, but the total €15.8 billion figure of the budget package was never announced publicly.

As Budget 2024 nears, the government looks set to adopt the same approach again.

It has already committed to a core package of €6.4 billion, and a non-core package for Ukrainian refugees and Covid spending. It had also created a new strand of spending outside of the spending rule called 'windfall' capital investment of €250 million, of which the Irish Fiscal Advisory Council (Ifac) has been highly critical.

An additional cost of living package of between €3 billion and €4 billion is also expected again. Yet it is nowhere to be seen in the government's Summer Economic Statement, which is meant to set out the fiscal parameters for the year ahead.

If the cost of living package is closer to €4 billion for 2024, that would mean a total budgetary package of €14.4 billion or so, which is much larger than the government is letting on.

Further muddying the waters of budget arithmetic are the departmental overruns recorded in recent years.

Last year saw one of the largest bailouts of departments across government, as current spending surged ahead of profile across the board, mostly due to inflation, but also as additional cost of living spending announcements eventually had to be accounted for within the year's budget.

The Department of Health has had the most high-profile and most serious of the departmental overruns, and is at risk of running a €1 billion to €2 billion deficit again this year.

Stephen Donnelly, the Minister for Health, has argued that this is partly because he wasn't given the necessary budgets in the first place, and that much temporary or 'non-core' Covid spending has now become permanent in nature.

Michael McMahon, the acting chairman at Ifac, told this newspaper that departmental overruns were continuing to grow, resulting in even less accuracy in the actual budget process.

"The council, and everyone assessing the government's spending plans, would benefit from projections that are clear and transparent. That means making it clear how overruns are factored in and the costs related to population ageing and the climate transition," he said.

While McMahon said he had less of an issue with the sustainability of temporary spending measures from a long-term budgetary perspective, he did have a problem with the impact of large temporary spending packages on inflation.

"We've been clear that there is little to no justification for further temporary non-core measures in Budget 2024. Energy prices are falling and more temporary measures risk adding to price pressures, potentially making everyone poorer."

While the government is currently in good financial shape due, in part, to booming corporate tax receipts and an expected €10 billion surplus this year, it is aware that these receipts could be 'windfall' in nature and therefore is planning to put a sizeable quantity of the receipts aside for new state investment funds.

But it may also need to be more upfront about just how temporary some of its spending actually is, and just how realistic its budget projections are if departments need to be bailed out come year end.

"Coming up with more palatable terms to disguise extraordinary spending makes it increasingly difficult for politicians to turn off the tap," Casey, the UL lecturer, said.

"That's not to say it's the not the right call now, but we may live to regret this," he said.

If for any reason our corporate tax bounty was to run out, the bills due for accommodation for Ukrainian refugees, or Covid-19 spending in hospitals, or cost of living supports that may be needed for those who have come to rely on them, would be much harder to meet.

Majority of voters support abolition of Universal Social Charge before election

A large majority, seven out of ten, support the abolition of the Universal Social Charge (USC) in the lifetime of this government, according to new Red C poll findings.

The new poll comes following the *Business Post*'s revealing last week that the government is planning a significant cut to the USC in the upcoming budget.

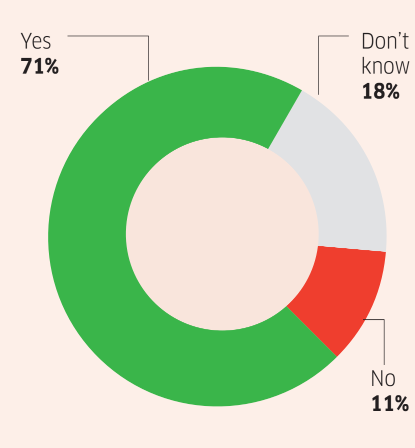
The USC was introduced in 2011 as a tiered income tax that increases with the level of income. It replaced the income levy and the health levy. The tax brings in approximately €5 billion in revenue every year. The rates of USC are staggered depending on income level from 0.5 per cent to 11 per cent, with the main rate for middle income earners being 4.5 per cent.

When it was announced by Brian Lenihan at the height of the financial crisis in 2010, the belief was that the tax would be temporary in nature. However, the 'bailout tax' has been rolled over repeatedly by governments for over a decade.

Today's poll findings show overwhelming support for the abolition of the tax before the end of this government's term. But while the government is preparing to cut the rate of USC in the upcoming budget, it has always resisted the idea that it would abolish the tax altogether.

"It will not be abolished. We have to be honest with people. All of the time, there are increasing demands on public expenditure," Micheál Martin, leader of Fianna Fáil, told Today FM last year.

I would support the abolition of the USC within the lifetime of the current government



But a cut to the rate was all but confirmed last week as a key aspect of the income tax package being prepared by the government ahead of the budget. Michael McGrath, the Minister for Finance, emphasised that any tax cuts would have to ensure "people on low and middle incomes as well as those on higher incomes benefit". This was code for cutting the USC and not just fiddling with tax bands.

"So I am examining the role the USC can play in that regard but have come to no final decision yet," he said.

While 71 per cent of people in today's Red C poll said they would be in favour of abolishing the tax, 11 per cent said they would be opposed to its abolition within the lifetime of this government, and 18 per cent said they didn't know.

Separately, 63 per cent of people said they did not have high expectations that they would personally benefit from tax cuts in the budget. Additionally, 31 per cent said they would be disappointed if they don't benefit from tax cuts.

A split emerged over whether people would support more spending on tax cuts than public services. Some 44 per cent of respondents said they believed the government should spend more of the available funds on tax cuts than public services, while 45 per cent said the government should prioritise public services. And 11 per cent said they didn't know or had no preference.

The poll has bad news for the state's fiscal watchdog, as only 37 per cent said the government should follow the advice of the Irish Fiscal Advisory Council which has been warning the government to limit spending and stick to its own 5 per cent spending rule.

When asked, 50 per cent said the additional funds available from corporate tax receipts should be used to spend more in the upcoming budget, while 13 per cent said they didn't know or didn't have a position.

Daniel Murray

Analysis

Government has to put the brakes on runaway public spending train

Daniel Murray The pandemic kicked off eye-watering 'temporary' expenditure that has somehow become permanent

Something very strange has been happening to state's public finances that hasn't been getting much attention.

While there has been lots of talk about how tax revenues have exploded thanks to thriving multinationals based here, there has been less talk about the scale of overall spending increases by our government.

Spending has gone gangbusters, so much so that we should probably be talking about it a bit more. But we're not, because corporate taxes have followed the same trajectory, masking the underlying spending mania.

In the space of just five years, planned budget spending has grown by 45 per cent, from €66.5 billion in Budget 2019, to €96.5 billion in 2024.

By any measure, this is an extraordinary growth in public spending. And yet, the figures above only account for spending projected during the budget process and leave out the figures for actual spending in any given year, which has been consistently ahead of budget projections for every one of the last five years.

Let's go back to 2019, the last normal year before Covid-19. When Budget 2019 was launched, it proposed €66.5 billion in voted expenditure for the year but actual spending came in about €900 million ahead of that.

At the time, overspends of that scale were considered quite serious. But they had no idea what was to come in the years ahead.

It is somewhat spooky to look back at the documents prepared for Budget 2020. The aspiration then was to spend a total of €71.3 billion.

What transpired by the end of 2020, after Covid-19 had effectively put the economy into a coma, was a total spend of €85.3 billion, an incredible €17.9 billion ahead of the original budget projections, almost all of which was due to Covid-related spending.

In 2020 and 2021, pandemic spending surged past projections, and by Budget 2022 the ambition was to spend even more, a record €87.5 billion over the year.

The now familiar "Covid spending" had been relabelled "non-core spending" and was expected to amount to €7.5 billion across the year, with core – or ordinary government spending – expected to account for €80 billion.

Of course, two things happened in 2022: Russia's invasion of Ukraine begot a migration crisis across Europe, while it also turbocharged energy inflation across the bloc.

As a result, the government intervened with multiple cost of living packages that hadn't been budgeted for and spent large sums on supports for the nearly 70,000 Ukrainian refugees who arrived in Ireland that year.

As a result, actual spending ended up being €88.8 billion mostly due to an €8.8 billion spend on "non-core" areas.

You might be getting the picture now, but Budget 2023 really shows the difference in projected and real spending.

In that budget, spending was projected to amount to a new record of €90.4 billion. But during 2023, the government again rolled out multiple bumper cost of living packages, while spending in health and across several other departments ran significantly ahead of projections.

The result? Actual spending in 2023 was €94.7 billion, €4.3 billion ahead of projections, making a mockery of the budgetary process that had happened just a year previously.

The question, as we make our way through 2024, is just how much more than this year's €96.5 billion budgetary allocation we will end up spending by year end.

Last week, Paschal Donohoe warned his cabinet colleagues that spending across health and some other departments was already ahead of profile this year. Health is expected to run over budget, having been denied the budget it asked for last year due to the level of repeated overruns.

All of this suggests that public spending in Ireland is truly out of control, as record funding initially allocated to temporary emergency responses has either been absorbed into the permanent spending base or been repeated as "temporary" packages for several years on the trot.

Such a scenario is fine while our tax revenues remain as inflated as our spending habits, as demonstrated by the fact that despite the level of spending, the government is projecting a budget surplus of €8.6 billion by the end of this year.

But, of course, those tax revenues aren't guaranteed, as noted by the government's labelling of at least half of corporate taxes as "windfall", and a portion of income taxes are also unreliable due to Ireland's exceptional employment levels.

The new savings funds being set up by Michael McGrath, the finance minister, are a recognition of how tenuous those receipts are.

But eventually the government will have to address its newfound spending habits as well. What are the chances of that happening in an election year?

McGrath: Day of reckoning coming on temporary spending in budget

New regulations on how government categorises spending will shrink the pot available to all ministers come October

Daniel Murray

Miniater for Finance Michael McGrath attending the Global Economic Summit, a gathering of 400 delegates in Killarney, Co Kerry to discuss the global economy
Domnick Walsh

It may still be a number of months away, but make no mistake, Michael McGrath and his team at the Department of Finance are already working on Budget 2025.

"The next step is the Summer Economic Statement, which is where we finalise the parameters of Budget 2025," the minister for finance told the Business Post during an interview at the Global Economic Summit in the Europe Hotel, overlooking a gleaming Lough Leane in sunny Killarney.

"Once we have an agreed set of parameters, we will have many pre-budget meetings and the three parties will have different priorities as well. We then have to allocate a finite amount of resources across expenditure and taxation."

But just how much money will be available for spending in future budgets has suddenly become very uncertain, despite the fact that Ireland's booming corporate tax receipts are driving massive surpluses in the public finances.

McGrath is now warning that under new EU fiscal rules, big changes to how Irish public spending is accounted for are on the way, which is going to force a reckoning for this and future governments.

The reckoning has to do with new EU rules forcing us to rationalise some accounting trickery or "fiscal gimmickery" as called by the Irish Fiscal Advisory Council that the government has engaged in since the pandemic.

That trickery has involved separating core spending with what the government decided to label as temporary spending (non-core) or once-off spending, such as Covid expenditure, Ukrainian supports, cost of living measures, and even some capital spending

For example, much of last year's budget debate centred around the core package of new tax and spending measures worth €6.4 billion, and how that package marginally breached the government's own self-imposed annual net spending increase rule of 5 per cent.

However, under the new accounting innovations of this government, a further €7.5 billion was actually allocated to "temporary" spending and tax measures in Budget 2024, and therefore not included within the government's own spending rule considerations.

Had that spending been included within the government's own sustainable spending framework, then the 5 per cent spending rule would have been blown out of the water.

Such financial acrobatics, and the fact that a portion of that spending appears to be recurrent in nature, are what led the Fiscal Advisory Council to cry foul to such tactics which amounted to "deliberate attempts to game fiscal assessments".

But according to McGrath, these new rules will now require us to submit a 5-year sustainable spending plan to the European Commission by the end of this year.

Crucially, this won't allow us to distinguish between core, non-core or once-off spending anymore.

"Under the EU's new economic governance framework, there is no distinction between core and non-core, current or capital or temporary or exceptional expenditure. So we have to consider now very carefully the preparation of our medium-term fiscal path," McGrath said.

In other words, the game is up, and either we have to set an annual spending rule which is accurate and therefore a multiple of the 5 per cent we have all heard so much about in recent years, or else so called "temporary" spending, much of which may prove recurring in nature, will have to be slashed on everything from Ukraine to cost of living supports to capital investments.

"I think it is it is almost certainly the case that some of the non-core expenditure, particularly in relation to immigration, will be here for a while and is not going to end this year," McGrath said.

"That's a challenge. I think that will be with us into the future. So there will be an element of some of the non-core being recognised as being likely to recur over the period ahead, and we have to then reflect that in the base that we set, on top of which the net expenditure path is based.

"In recent years we had the added complexity of once-offs and exceptional payments, energy credits and social welfare payments and we have to consider now how best to our best to reflect the decisions that have already been made in the net expenditure path that we arrive at."

Asked if all of this meant further once off cost of living measures were no longer sustainable at the next budget, McGrath said a more normal approach to the budget had to be restored.

> I think it is it is almost certainly the case that some of the non-core expenditure, particularly in relation to immigration, will be here for a while and is not going to end this year

"We'll make an assessment closer to the time when it comes to any non-recurring payments. But I have made the broad point that as we move to a more normal inflationary environment, budgetary policy also has to be normalised. That's the first principle. But that's not to categorically rule out any individual measure."

McGrath did confirm that an income tax package would be a priority in the next budget, but that he also wanted to build on the recently launched business supports package.

Making clear that a split-lower VAT rate for parts of the hospitality sector was not something he considered to be a suitable measure, McGrath said his department wanted to prioritise proposals that would help all SME's and startups instead.

"I would like to make more progress on the enterprise agenda, in particular for startups, but also established SMEs. I have spoken to my team on that and they are developing some proposals," he said.

One of those proposals involves further changes to the entrepreneur relief scheme, which allows for a reduction in capital gains tax (CGT) from 33 per cent to 10 per cent on qualifying business assets. The aim of the scheme has been to incentivise entrepreneurial activity in Ireland, and the popularity of the scheme has boomed in recent years, increasing the cost to the state from €20 million in 2016 to €143 million in 2021.

"We published on Budget Day the review into the entrepreneur relief, so that's an area I have been examining in recent weeks as well, but no final decisions have been made yet," McGrath said.

McGrath also highlighted the angel investor relief that had been approved at the last budget, which he expected to "have up and running shortly".

"There's a certification process involving Revenue and Enterprise Ireland that is being finalised. So I anticipate I'll be in a position to sign the commencement order for that (shortly). It involves new attractive rate of CGT of 16 per cent, which is with a view to encourage the provision of capital and funding into early stage innovative businesses," he said.

He also highlighted changes that had been made to the film tax credit, the employment investment and incentive scheme, and VAT thresholds, and that his team were now examining "what more we can do".

McGrath also pointed to the SME test which the government has committed to, where the impact on businesses will be weighed up "when new ideas or new policies are being brought forward by the government". He said this was crucial, because SMEs were the "backbone of the Irish economy".

As well as supporting SMEs, McGrath is aware of international trends that may impact strategic industries here. In particular, growing subsidies for the semiconductors industry in other countries have been highlighted by big tech companies, who want Ireland to ensure incentives are in place from the government to build fabrication plants here.

Asked if the government would consider subsidies for the semiconductor sector, McGrath said he would.

"It's a very important sector in the Irish economy. We have a number of companies who have very substantial operations here. So we're very anxious to support the continued growth and development of that sector," he said.

"Ireland will avail of the relaxation that has taken place in terms of EU state aid rules across a number of different areas. We will avail of it where we can and where we deem it appropriate. But at the same time, we don't want a subsidies race within Europe, because in that context, smaller member states will inevitably lose out to a much larger member states who have clearly considerably deeper pockets.

"At the European level, I think the consideration has to be given to the protecting and upholding the rights of smaller member states and looking after their economic interests too."

One of the most significant pieces of work facing the Department of Finance is the overhaul of the transport tax system.

This is because the expected electrification of the car fleet is going to leave close to a €5 billion annual hole in the public finances, due to losses in fossil fuel related transport taxes. But also, changes to the tax system may be used to encourage new more sustainable transport behaviours.

Possible solutions amount to a radical change in the road taxation system, such as new charges or tolls on a wider network of roads, the introduction of congestion charges in urban areas, new low-emission driving zones, mileage related taxes, and weight based vehicle taxes.

" That work is complex, and I anticipate that will extend beyond Budget 2025," McGrath said. "But I would make the point that we already have an emissions based taxation system when it comes to motor tax and also VRT. So that is already changing behaviour and is having a positive impact."

Aaron Rogan's Post Script

Johnny Ronan's favourite film

Jim Sheridan's appearance in Fossa, Co Kerry, even in the spectacular luxury of the Europe Hotel, this week was always going to bring to mind his adaptation of *The Field.*

Speaking at the Global Economic Summit, Sheridan reminisced about his own personal dealings with local legend **John B Keane** when a young director, but it was a reference to another titan of Irish life that caught my ear.

Sheridan was opining on the Irish national psychology around land ownership portrayed in Keane's most famous work and how it is hard for other nationalities to understand the attachment.

"It's hard for anybody in the world to understand, but I just thought *The Field.* was about Irish nationalism as well, on another level. All the developers who shall remain nameless, like **Johnny Ronan**..." Sheridan said to a laugh, adding that Ronan is a friend of his.

"He used to come and say," Sheridan continued, before adopting a gruff impression of Ronan, "'I love The Field, I love The Field I do ... The Bull ... When I'm going around there now I give that DVD to fellas and say: that's the way we deal with land in Ireland.'"

Sheridan said *The Field.* was "like a premonition".

OpenAI's Dublin team takes shape

There has been a clamour and a buzz among Irish techies since **Sam Altman**'s OpenAI announced it was launch in a Dublin office as part of its global push.

No wonder, as there has been round after round of redundancies at the like of Meta, Google and the rest, leaving a host of talented (and well paid) people looking for work.

I hear that there was some Irish interest in OpenAI's search for a "EU Member States & Partnerships Lead".

That's someone to talk to governments and regulators in layman's terms and the role was open to someone willing to work from Dublin, Brussels, Madrid or Paris.

It has gone to Julie Lavet, Apple's head of government affairs in France and Benelux.

There are also some hires building out the Dublin office. Four people who have been with Stripe for the past four or five years have come in.

Most notably Emma Redmond, who was with Stripe since 2019 and chief privacy officer since 2021.

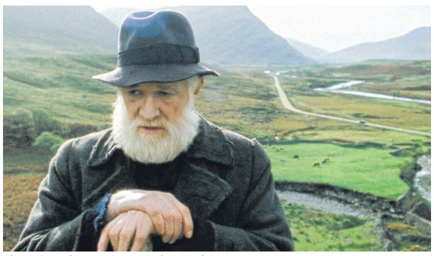
Six of the team in Dublin are in OpenAI's "GTM" unit, joining from Google, Slack and LinkedIn. For those who don't speak tech, that stands for "Go-To-Market".

The company also brought in Phil Watson, former head Of sales at Evervault until September 2023, in during February for its GTM team.

The company still has six open roles advertised on its website, including big gigs like EU Privacy Counsel and Ireland, Privacy & Consumer Protections Lead.

Candidates are asked: "Are you able to work from our Dublin HQ three days per week? Yes or No."

I have a hunch the latter is the wrong answer.



Richard Harris as Bull McCabe in The Field

Another score for Paddy Power's former Oz chief

Books, betting, cars and football sound like most executives' downtime but for **Cormac Barry** it is his career path.

Born into the Barry family that owned Dubray books, which was sold in a multi-million euro deal to Eason in 2020, he has had a hand in a number of Ireland's most interesting firms.

He led Paddy Power's super-successful expansion into the Australian market as chief executive of Sportsbet after the acquisition of the Aussie giant in 2009.

He returned to Dublin in 2016 to lead the travel software group CarTrawler, before announcing in 2022 that he was stepping down to "recharge his batteries".

In April, he pulled out the charger to became chair of Sambla, the Swedish online financial comparison platform.

I see now that he's also become executive chairman of Manchester-based Classic Football Shirt, an e-commerce firm that sells, well, classic football shirts.

Barry's appointment comes as part of a $38.5 million investment by The Charnin Group which is eyeing a rapid expansion in the US.

Betting staffers block Boris

Speaking of Paddy Power, I see staff at the firm which once had a notorious marketing team known as the mischief department have come over a bit precious.

The Dublin-headquartered firm had signed up Brexit's **Boris Johnson** to lead its ad campaigns for the European Championships this summer. "I told you I would get us back in Europe" was to be the tagline.

But according to the *New York Times*, the stunt was kiboshed because "Paddy Power's staff members in Britain said they were uncomfortable promoting a figure as divisive as Mr Johnson, and particularly with language that poked fun at Brexit."

Heaven forbid.

To get in touch: postscript@businesspost.ie

EURONEXT PLAN IS LAST THROW OF DICE FOR IRISH EXCHANGE

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MCGRATH'S UPHILL BATTLE

Von der Leyen could punish Fianna Fáil with weak portfolio

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Industry experts and politicians react to latest threat Page 6

Marion McKeone on Trump's second coming Page 15

BANKERS BITE BACK

Finance industry questions watchdog

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TECH STOCK SELL-OFF

Kathleen Gallagher

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€13bn Budget Trick: How coalition plans to mask its spending splurge

- Quiet rule change obscures 12% hike in core spending amid Central Bank warnings

DANIEL MURRAY
POLICY EDITOR

The government is plotting a €13 billion giveaway ahead of the general election, despite claiming the Budget 2025 package will be €8.3 billion.

The significant gap between the declared figure and the actual amount is due to the government quietly changing the definition of its own spending rule to hide €4.5 billion of expenditure, as well as ensuring an as-yet unannounced cost-of-living package worth hundreds of millions of euro is paid out this year to avoid being included in Budget 2025 accounts.

The *Business Post* can reveal that a change to the spending rule obscures an actual 12 per cent increase in core spending, at a time when the coalition has faced criticism about breaching its own rule and has been warned by the Central Bank and others that it risks overheating the economy.

In the Summer Economic Statement published by Jack Chambers, the minister for finance, and Paschal Donohoe, the minister for public expenditure, both outlined how Budget 2025 would be made up of a package of €8.3 billion, consisting of €6.9 billion in spending increases and €1.4 billion in tax cuts.

Both ministers made much of the fact that the €6.9 billion expenditure package would increase spending by just 6.9 per cent, which was marginally in breach of the 5 per cent rule. However this was only achieved by the government quietly redefining its own spending rule due to new EU rules which will no longer recognise so-called "temporary" non-core spending as a separate pot of money under government accounts.

> **Both ministers made much of the fact that the €6.9 billion expenditure package would increase spending by just 6.9 per cent**

Before this year, the spending rule was defined as net increases in "core expenditure": the current and capital spending that is either recurring or pre-committed.

The spending rule therefore excluded the various forms of temporary spending which have amounted to billions in recent budgets. This non-core spending included some Covid-19 measures, Ukrainian accommodation expenditure, "windfall" capital spending, and "once-off" cost of living packages. More than half of last year's €14 billion budget day package was made up of these temporary measures.

But this year the spending rule has been changed by the government to be based on an increase in "gross voted expenditure" between 2024 and 2025 rather than "core expenditure", meaning billions that were marked as temporary in last year's budget have been absorbed into the permanent base but not counted as a spending increase.

Under the previous rule, the government's intended €4.5 billion "temporary" spending for 2025 would be recognised as core spending and have meant an actual projected increase of 12 per cent for 2025.

Government sources disputed this interpretation, insisting that because they now recognised non-core spending as recurring, it did not have to be counted as a spending increase this year.

But the building of non-core spending into the permanent base is a major policy departure for the government.

The coalition is planning a package that will be made up of €6.9 billion in permanent spending increases, €1.4 billion in tax cuts, €4.5 billion in non-core spending, which has been relabelled a contingency fund, and an unquantified cost-of-living package expected to be valued at hundreds of millions but to be paid out within 2024 after budget day. Last year Donohoe insisted to the Business Post that non-core spending was not "in some way becoming permanent" and that it would be reduced in "next year's budget and in the budget after that".

Department of Finance projections last year suggested this category of spending would reduce to €400 million in 2025 and €200 million by 2026. Instead, the department is now projecting this €4.5 billion contingency fund is required every year until 2030.

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Intercom drops plan to move to new Dublin headquarters

CHARLIE TAYLOR

Intercom has completely jettisoned plans to relocate to new headquarters in Earlsfort Terrace in Dublin, the *Business Post* has learned.

The company, which in 2019 agreed a deal to pre-let the entire Cadenza building on an 18-year lease, has decided instead to remain at its current offices on St Stephen's Green.

The decision is not totally unexpected as Intercom last year leased half of the Earlsfort Terrace building to US-headquartered investor KKR and recently relocated to Indeed's former offices at 124-127 St Stephen's Green.

It cited the high fit-out costs as the reason for opting against moving to the Cadenza building last year but there was still an assumption that the company would move to the premises at some point.

Intercom has now completely ruled out moving to Earlsfort Terrace, however, and has informed staff of this decision.

Pre-tax losses at Intercom jumped to $62 million last year - due largely to the company's decision to delay moving into new headquarters in Dublin.

It comes despite the firm posting a 23 per cent rise in revenues, according to newly filed accounts.

The accounts show Intercom commenced a lease for 124-127 St Stephen's Green on January 1, 2024 that runs until March 2030. The total minimum lease payments for this are estimated at nearly $14 million.

The accounts show pre-tax losses soared at Intercom last year largely due to costs incurred from the decision to delay the move to the Cadenza building.

The company reported $9.6 million in fixed asset impairment, and $11.8 million in onerous lease provision charges as it chalked up losses of $62 million.

Intercom's decision not to proceed with its planned move echoes that of several other tech companies in recent months which have revised their operations in light of lay-offs and changes to working patterns.

The company Indeed located away from Intercom's new home at 124-127 St Stephen's Green as part of a move to consolidate its Irish operations into its other office at Capital Dock in the Docklands in 2021.

Earlier this year, Workday jettisoned plans to build a new European headquarters at Grangegorman due to the wide availability of existing office space in Dublin city centre that is similar in size and scope to the planned development.

Some tech companies have taken far more radical steps elsewhere. Facebook parent Meta, for instance, surrendered the lease on one of its London office buildings last year in a move that cost it £149 million. The company had let 1 Triton Square in 2021 following a refurbishment, but never moved into the space.

Founded in 2011 by Eoghan McCabe, Des Traynor, Ciarán Lee and David Barrett in Dublin, Intercom has developed a software platform that brings together messaging products for sales, marketing and customer support. Its tools enable companies to communicate easily with customers through their own websites and apps, on social media and by email.

It achieved unicorn status in 2018 and its backers include Kleiner Perkins and Bessemer Venture Partners.

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How coalition plans a €13bn budget while gaming its own spending rules

The government's fiscal sorcery and its relabelling of funds obscures just how much money it is shelling out, allowing it to preach prudence while spending money liberally

Daniel Murray
Policy Editor

Can the government present an image of fiscal prudence while continuing to increase spending at an unprecedented pace?

That is exactly the kind of political heist the coalition is attempting to pull off ahead of its final budget before the general election, and it's fair to say they haven't been doing a bad job of it to date.

Countless column inches over recent weeks have been filled with analysis of how the government is intending to break its own 5 per cent spending increase rule for Budget 2025, but only marginally, with spending to apparently increase by 6.9 per cent next year instead.

This 6.9 per cent figure is one that was put out there by the government itself, but it is not a particularly honest one. It is a red herring that effectively obscures a pattern of extraordinary spending that has become a recurring feature of this government.

Gimmickry

What Jack Chambers, the finance minister, and Paschal Donohoe, the public expenditure minister, failed to mention in their Summer Economic Statement a few weeks ago was that they changed the definition of their own spending rule this year, as new EU budget rules were about to expose the "fiscal gimmickry" they have been accused of engaging in over recent years.

Before this year, the spending rule was defined as net increases in core expenditure: a byword for current and capital spending that is either recurring or pre-committed. The rule therefore excluded the various forms of temporary spending that this government had innovated over recent years, which amounted to billions in each budget, from non-core Covid or Ukrainian accommodation spending, to "once-off" cost of living packages. More than half of the last €14 billion budget day package was made up of these temporary measures.

Because the rule was based on increases in core spending alone, these extraordinary and recurring "temporary" pots were never factored into its much scrutinised assessments.

Then this year, without any debate in the Dail or any disclosure to the general public, the spending rule was quietly changed to be based on an increase in "gross voted expenditure" between 2024 and 2025. So what difference does that make?

In short, under new EU fiscal rules that require the Irish government to set out a medium-term expenditure growth pathway, the European Commission would not have recognised any difference between core and so called "temporary" spending.

Why? Because these are definitions that were made up by this government and have no purchase in the real world.

Had the old "core" spending rule been stuck to, and the government's intended €4.5 billion of "temporary" spending for 2025 absorbed into the core base as per EU rules, that would have meant an actual projected spending increase of 12 per cent for Budget 2025: nearly double the publicised figure. The tone of many columns of recent weeks assessing the government's spending plans would have been quite different had that been the case.

Instead, the government has "rebased" its spending rule in total gross voted expenditure, pretending that last year's €4.5 billion of temporary non-core spending was always intended as permanent, and thereby disappearing it into base from which next year's spending increase is to be measured. This spending has also now been confusingly relabelled as a "contingency fund".

Government sources disputed this interpretation, insisting that because non-core spending was recurring, it did not have to be counted as a spending increase this year. But this negates to recognise that last year's non-core package was not recognised as recurring, and thereby escaped the spending rule then as well.

While just last year Donohoe insisted to the *Business Post* that non-core spending was not "in some way becoming permanent" and that it would be reduced in "next year's budget and in the budget after that", the government has in fact changed its mind on that too.

In a dramatic change to last year's projections that non-core spending would reduce to €200 million by 2026, finance officials are now projecting a €4.5 billion contingency fund to be required every year out to 2030, baking this non-core spending into the base.

To date, this non-core funding has been used to fund much of the recurring spending such as Covid-19 needs and Ukrainian accommodation. Speaking to the Business Post, a spokesman for the Department of Public Expenditure confirmed that next year it would be expanded to apply to international protection accommodation needs as well, allowing the government to keep this central spending pressure effectively off books as far as its own spending rules are concerned this year, and thereby allowing it to spend more liberally on new initiatives ahead of a general election.

Unclear

"This reflects one of the problems that results from the national spending rule not being clearly written down and legislated for," Michael MacMahon, chair of the Irish Fiscal Advisory Council, said.

"Were it more formally written down, the reporting requirements would be clearer, helping the transparency of the budget process.

"We welcome the €4.5 billion being allocated for spending on these items in future years. We think it is much more realistic for this spending to remain at its current level rather than falling to zero very suddenly. However, as this spending is likely to be long-lasting, we think that it should be treated as core spending with sustainable revenue funding it."

A spokesman for the department of public expenditure confirmed that it had changed the basis of the spending rule this year, and it had done so because new EU fiscal rules required Ireland to submit a plan for net expenditure growth over the next five year " regardless of classification as core or non-core".

Asked why this wasn't recognised as part of the spending rule under core costs for maintaining "existing levels of service", the department simply said it would be reviewed annually.

In effect, the government has given itself a €4.5 billion buffer for this year and many years to come, allowing it to pitch budgets that are both spendthrift and prudent at the same time, depending on which parameters you assess them by.

The final piece to this fiscal sorcery will be revealed on budget day, when the government is also expected to announce another "once off" cost of living package, though much reduced compare to several once-off packages of previous years.

Will this be included in the spending rule? Of course not.

The Business Post understands the cost of living measures will all be deployed within 2024, meaning they will come out of this year's government balance rather than next year's.

As in previous years, this will likely mean supplementary budgets (bailouts) for departments beyond their 2024 allocation. Last year's spending alone was a whopping €4.3 billion ahead of profile.

While the government is saying that next year's budget package will be €8.3 billion, made up of €6.9 billion of new spending and €1.4 billion in tax cuts, it is in fact planning a budget day package of at least €12.5 billion when contingency spending is included, but likely even more if you are to include the as of yet unquantified cost of living package.

Windfall

While all of this is somewhat confusing, all you really need to know is that government spending has surged 47 per cent in the five years of this government, from €71.3 billion in Budget 2020 to €105.4 billion in Budget 2025.

Much of this spending increase has been possible because of increases in corporate taxes that could well prove windfall in nature. And while the government is currently running budget surpluses off the back of those receipts and also beginning to park some of them in new long-term investment funds, the Irish Fiscal Advisory Council has warned that when windfall corporation tax receipts are excluded, the government will actually run a deficit of €5.5 billion next year.

"This comes while the economy is performing well. If underlying surpluses are not being run now, when would they be run?" the Irish Fiscal Advisory Council tweeted earlier this month.

That is a question that requires either a hard look at government spending or a serious debate about widening the tax base. Neither of those are likely to happen in advance of a general election.

Finance minister Jack Chambers and public expenditure minister Paschal Donohoe at the publication of the government's Summer Economic Statement : failed to mention the change in definition of spending rule
RollingNews

The numbers

€200m
non-core spending would reduce to €200 million by 2026

€4.5bn
contingency fund to be required

47%
Government spending surged in five years

Europe on back foot in the AI race as restrictive laws and skills shortages weigh on innovation

While US tech giants and Chinese interests extend their lead in the increasingly important AI space, experts explain why the EU is facing a big challenge to catch up

Liam Coates

Sitting in the audience for the Science Foundation Ireland's AI event in Trinity College Dublin last month, there was an air of palpable optimism among the techies and AI evangelists in attendance.

Dragos Tudorache, a key architect of the landmark EU AI Act, a far-reaching legal playbook on how to safely maximise the potential of the tech, was giving a rousing speech about the promise of an AI-infused future.

Big tech giants such as Amazon and Apple have recently warned that their AI products are being hampered to some degree in Europe, due to an overly restrictive regulatory environment.

Tudorache said some of the issues in Europe's AI scene – long seen as playing second fiddle to the American giants that dominate the space – are structural in nature.

"There is a huge battle for AI skills and talent, and we're not very good at retaining talent here in Europe," he said pointing to a dearth of AI "beacons" in Europe, companies that radiate and attract tech talent.

And for those firms that have made the move here or are starting out in Europe, the bloc's strained relationship with migration is proving to be major stumbling block for the tech's development too, according to Tudorache.

"Just look at the landscape of AI and generally, who populates the big tech space in the US. I don't have to tell you, they're not Americans," he said.

Europe is forgetting the benefits that can be reaped by migration, "for AI and more generally", Tudorache said. "We've been obsessed with this in the wrong way for the last 10 years and we have to get past this idea that migration is a bad thing."

"We're not going to survive in this race if we're not willing to also attract talent from outside of Europe to come and work here," he added.

For David Moloney, chief scientist at Ubotica, and founder of Intel-acquired Movidius, the gulf between Europe and the United States on AI is primarily down to the provenance of the social media giants.

"Any of these large AI projects rely on large quantities of data to train the neural networks," he said. "And for the social media platforms, people like yourself and myself create the content and the data for them, and there's an awful lot of metadata too."

This ocean of data and metadata enables US behemoths such as Meta and Google to create the most powerful and data-rich large-language models and AI platforms in the world, he explained.

"Europe doesn't have large social media platforms, and as a result, we're really losing out on that aspect," he said.

Along with gargantuan quantities of data, AI advancement is also dependent upon massive amounts of computing power – a fact driven into stark reality lately as Nvidia's market cap exploded.

The US graphics processing unit (GPU) giant has seen a surge in demand for its gaming chips, which are ideal for powering AI use cases, pushing its share price to record levels over the past few weeks.

Only well-resourced US big tech firms and China have the funding and strategy to access significant levels of that AI compute power, Moloney said, while Europe trails behind.

Moloney also pointed the finger at Europe's relatively stringent privacy laws, comprehensively updated with 2018's landmark General Data Protection Regulation (GDPR), as another blockage for AI firms.

> **We're not going to survive in this race if we're not willing to also attract talent from outside of Europe to come and work here**

"This is an area where [Europe] on the one hand leads the world, but it can affect business negatively in some ways. China would be much, much more relaxed in terms of [privacy] rules, with the US kind of halfway in the middle."

With a significantly higher bar to clear for companies looking to train their models on Europeans' data, Moloney said this was also part of the difficulty in securing that quantum of data necessary to compete with the big players.

Ronan Geraghty, Microsoft Ireland's chief operating officer, said recently that the role of tech giants in the sector was to provide the 'platforms' upon which smaller firms can build their AI products and more niche models.

A highly successful partner ecosystem of this kind was evident in Ireland, he added.

That may well be the case but it's clear that Europe has much work to do to catch up with its international peers in the US and elsewhere in the global AI race.