Secretary General's appearance before the Committee of Public Accounts

Thursday 7th March, 2013

Opening Address

Thank you, Chairman.

I am pleased to meet with the committee today. With me this morning are Ms. Ann Nolan, Second Secretary Financial Services Division, Mr. Jim O'Brien Second Secretary EU & International Division, Mr. Derek Moran, Assistant Secretary Fiscal Division, Mr. Garrett O'Neill, Chief Financial Officer and Ms. Cep Carty, Assistant Principal Finance Office.

Yesterday was the first anniversary of my appointment as Secretary General. It has most certainly been as busy a first year as I expected.

One of our early initiatives was to revise our strategic objectives for the period 2011-2014. The revised Statement of Strategy placed a much greater focus on the objectives of economic stability, growth and job creation. The revised five goals dealt with (i) the economy, (ii) sound public finances, (iii) improved living standards, (iv) return to market funding and (v) a more secure and effective banking system. We also set out many ways in which we were going to change the way in which we operate.

2012 Developments

Looking back at 2012, let's start with the economy. Economic growth and a recovery in employment are crucial preconditions for a sustained improvement in living standards.

With domestic demand constrained, as households and firms work off imbalances built up during the boom, the job is far from complete. Our unemployment rate – at 14.1% in February - is still unacceptably high. While the household debt to income ratio fell to it lowest level since early 2007 in the third quarter of 2012, the rate is still high, at 204%

Our 2013 programme reflects our continued focus on steps necessary to work through these problems along with our focus on ways to facilitate the recovery of the SME sector. This sector is key for us to see real reductions in this unemployment rate.

The challenges are significant but in facing these challenges, it is very important to remember how Ireland is in a very different place than even only 12 months ago.

- We have now completed over 190 of the programme tasks, drawn down 83% of the funding and are working towards being the first euro area country to exit from the Programme of Financial Support.
- Anglo, INBS, the promissory notes, the bank guarantee are now all historical parts of the banking sector rescue.
- We have sold Irish Life back into private hands and traded €1 billion of the contingent capital we put into Bank of Ireland, all at a profit to the state.

- Central bank support for our government supported banking sector is down 28% year on year to €48.1 billion in Jan 2013.
- Following on from a return to growth in 2011, the Irish economy looks to have recorded a second successive year of growth (0.9%) in 2012 contrasting to a contraction of 0.5 per cent in the euro area at large.
- The composite purchasing managers index (the Markit Eurozone PMI) remains in expansionary territory, with Germany the only other country in the euro area showing growth,
- Recent Commission forecasts estimate that unit labour costs are forecast to have improved by close to 23% relative to the euro area between 2008 and 2014 – underlining the flexibility of the Irish workforce.
- Having increased in Q3 for the first time since early 2008, the fall in domestic demand is showing signs of having bottomed-out, with core retail sales having increased in each of the last six months and VAT receipts positive in the first two months of the year.
- The level of exports is now well above that of the pre-crisis period, having increased by 3.2% over the first three quarters of 2012 to stand at 106% of GDP.
- The services export sector is particularly strong, having grown by 9.4% over the first three quarters in 2012,
- The current account of balance of payments has shown surpluses of over €3 billion in each of the last two recorded quarters.
- 2012 taxes on a headline basis were up 7.7% year on year.

- With all of this, our expected deficit of less than 8% for 2012 continues its downward trajectory, once more significantly beating the troika target of 8.6%.

I understand that the fiscal adjustments are in many cases painful. They are however essential to

- the restoration of growth in our economy,
- our ability to go it alone after the end of the programme in December,
- the restoration of international confidence in our economy, which will be reflected in further investment and jobs.

I must also recognise that as an open economy we are very dependent on the continued recovery in the performance of other large trading blocs.

Validation of the Strategy

In the last 12 months, we are however seeing strong external validation of the strategy.

- The IDA had a record year in 2012 and most encouragingly, signs of stabilisation in the labour market finally emerged. Employment expanded in the second half of last year, and unemployment has maintained the downward trajectory evident in recent months, having fallen to 14.1 per cent in February, from 15.0 per cent a year earlier.
- In 2012, Ireland came back to the markets, issuing conventional bonds in an amount of €4.2 billion, a further €1 billion of amortising bonds, short term treasury bonds of €1 billion and bond switches of €4.5 billion. This has been with a dramatic fall in interest costs as

confidence in Ireland improved over the twelve months. T bill costs have dropped dramatically to 20-25bps from 1.8% in August 2012. Our two and eight year spreads are now at 1.07% and 3.74%. Remember not more than 20 months ago, these were at 22.4% and 15%. It is worth noting that with a stock of debt approaching €200 bn, even a 1% movement can very dramatically improve the interest costs of our budgetary numbers.

- We are seeing growing levels of investment in many sectors of economy, including commercial property, and all told €10 billion has been investment or committed in the past six months, mainly by international investors in transaction managed by the State or entities controlled/owned by the State.

Changes within the Department

Along with playing our part in the events above, we have also in parallel embarked on a very significant change of agenda in the operation of the Department. More detail is contained in our review of 2012 which has been published this week. In brief, though, we have:

- implemented a complete restructuring of the Department into four key policy divisions, and a Finance/Corporate support office;
- restructured our Management Advisory Committee – it now focuses more on business planning and objective delivery and on challenge sessions;
- an enhanced risk and control environment including the appointment of a Chief Risk Officer position reporting directly to me, the creation

of a risk committee and a radically different approach to Audit Committee and Internal Audit support;

- significant costs savings (c€0.750m), through a reorganization of accommodation resulting in a reduced premises footprint, and through initiatives being delivered by the Tullamore shared-services office in the elimination of payable orders and the reduction in frequency of issuing payslips. Indeed, we delivered our programme for 2012, with approximately €7 million savings against budget, especially by deferring costs where possible.

One of the other hallmarks of 2012 was a much greater openness. More frequent public speaking and media engagements, greater interaction with the wider public sector and the private sector, as well as the secondment of a number of specialised resources into the Department to assist with various tasks. We have also deepened our links with other Government Departments and State Agencies in 2012 and have availed of resources from a number of these.

A word of thanks

While we are very proud of our achievements, as I have noted earlier there is still much to do. We are committed to that task.

I have noticed especially of late a welcome growing appreciation of the effectiveness of the public sector and its contribution to the higher profile deliveries I have outlined above.

I would like to put on record, my gratitude to the staff in the Department for their continuing help and support. I would particularly like to record the efforts of the unsung heroes who behind the scenes somehow make it all possible. Whether it is managing the legislative process, answering your own parliamentary questions, dealing with scheduling of stakeholder visits, implementing foreign trips, preparing strategic briefings, ensuring the preparation of financial accounts or payments across the system, printing material often at the last minute and late into the night or just keeping the offices and IT systems open and working well, all of those and other things are essential to the function of the department. In this difficult time for all citizens, I think it is only fair that I recognise publicly their contribution and willingness to be flexible and adaptable in dealing with the many conflicting time demands on our department.

I look forward to your questions and thank you for your attention.