Public Accounts Committee

Thursday, 14th May 2015

Opening Statement by Mr Derek Moran, Secretary General, Department of Finance

Introduction

Thank you Mr Chairman,

With me today are Ms Ann Nolan (Second Secretary), Mr. John McCarthy, Mr. Declan Reid and Ms Cep Carty. Thank you for affording me the opportunity to address the committee this morning.

As you know, I was appointed Secretary General to the Department in July 2014. In addition to addressing the items on the agenda today, I propose to briefly set out some of the key outputs from the Department in that time.

Items on the agenda today

Vote 7 – Office of the Minister for Finance

The first item on the agenda today is the 2013 Appropriation Accounts for the Department.

The Estimate for 2013 was set at €33.187 million. Spend for 2013 was €24.6m leaving a surplus to be surrendered of approximately €8.6million. This saving arose primarily on:

- Banking-related consultancies, where a saving of €3m was returned because of cost-sharing with the industry and the later than anticipated timing of National Payments Plan projects;
- Non-pay administrative budget costs – where some €2m of savings were returned because of economies achieved on our EU Presidency work, and because work on improved IT infrastructure was completed in-house (ePQ and eSubmissions systems, etc); and
- Budgets provided for enhanced external and international engagement – where work was completed using internal and cross-departmental resources, or was funded by the receiving organization.

Since 2013, the Department has operated within reduced budgets of €31.2m and €30.6m for 2014 and 2015 respectively. This reflects a number of key changes, including a transfer of some staff to the Payroll Shared Services Centre in the Department of Public Expenditure and Reform. It also reflects an ongoing focus on cost control, having regard to appropriate resource allocation in the context of a wide range of deliverables.

Finance Accounts 2013, Chapter 1 - Financial Outturn and Chapter 2 – General Government Debt

With regard to the other three items on the agenda – which are Exchequer focussed, I would draw the Committee's attention to the following key statistics:

- Tax revenues have increased from €37.8bn in 2013 to €41.2bn in 2014. This trend is set to continue in 2015, with tax revenues to end April at €12.864bn, an increase of 4.2% on profile;
- The Exchequer Deficit fell to €8.2bn in 2014 and is forecast to reduce to €3.5bn in 2015, moving towards balanced budget by 2018; and
- General Government debt levels as a percentage of GDP are projected to drop to 105% in 2015 from a peak of 123.7% in 2013. This downward trend is projected to continue towards a forecast 84.7% in 2020.

All of these trends are positive and encouraging.

The Economy & Budget

After a very difficult number of years, the Irish economy is now recovering and the short to medium term outlook is bright. Budgetary policies continue to focus on the need to reduce public debt, generate sufficient funding for public services, and boost the growth capacity of the economy.

A modest recovery in economic activity has been underway since 2011 and this has gained momentum over the past 18 months. We are now seeing improvements in domestic consumption, which, for the first time since the crisis, made a positive contribution to economic growth in 2014. This positive contribution is expected to continue.

Much of the competitiveness lost during the boom years has now been recovered. Unemployment, while still too high, has fallen by 5 percentage points and is set to fall below 10 per cent in the coming months. Employment has grown by 95,000 (or 5 per cent) from its low-point. The Department forecasts that all of the employment lost during the downturn will be recovered by 2018.

The improvement in the public finances in recent years has been considerable.

The general government deficit has fallen from a peak of 11.5% of GDP, in 2009, to an estimated 2.3% in 2015. Gross government debt has peaked, and is now on a firm downward path. Indeed, gross debt is expected to be around 100% of GDP by end-2016. Appropriate fiscal policies will continue to be necessary to ensure that deficit and debt levels maintain a downward trajectory, and the recently published Spring Economic Statement clearly signals that this can be achieved within the fiscal rules - a modest growth in public expenditure, balanced by focused taxation measures, while still complying with our SGP obligations. The SES is an important development and reform in how we Budget.

Tax Policy

The development of tax policy is a core function of the Department.

We have been reforming and modernising the way we develop tax policy advice for several years. Central to this is a much greater emphasis on open public consultation processes, which lead to better evidence based policy making. Contributions of all stakeholders, interest groups and individual members of the public are welcome as part of this process, and are carefully assessed.

Last year, seven separate public consultations were held on tax policy issues (ranging from the OECD BEPS project to agri-taxation expenditures). So far this year, three additional public consultations on tax issues have been launched (relating to the proposed Knowledge Development Box, the Local Property Tax and the taxation of zoned but undeveloped land).

To ensure policy proposals are robust, we introduced in 2015 new tax expenditure guidelines to assist with ex-ante and ex-post evaluations of tax expenditures going forward. A workshop was held for Government Departments and State Agencies to detail the requirements of the new guidelines, which will have to be followed when tax expenditures are proposed.

The Department has also initiated and annual Tax Policy Conference, now in its third year, at which over 150 stakeholders, academics and policy makers discuss topical tax policy issues.

Papers on topical issues, which are examined by the Tax Strategy group in advance of the Budget, have always been published and provide a very good source of data and narrative across all tax heads.

Banking and Financial Services

Work continues across a wide range of challenging issues within the banking and financial services sector.

The investment by the Irish taxpayer in the banks has been unprecedented, totalling over €64 billion. This investment comprised €34.7 billion in Anglo Irish Bank/INBS and €29.4 billion in the three viable banks of AIB, Bank of Ireland and PTSB. Our objective in the Department is to help recover as much of, and preferably all of, the taxpayer investment in the living banks.

Over the course of the past two years major steps have been taken to reduce the overall cost of this recapitalisation. The liquidation of the IBRC and the replacement of the promissory notes by floating-rate bonds in February 2013 reduced the gross borrowing requirement of the State over the next decade by some €20 billion.

The sale of the debt investments in Bank of Ireland, the sale of Irish Life and the repurchase of the Contingent Capital Notes by PTSB, have led to the return of circa €5.5 billion to the State in the form of capital receipts. In addition, some €5.9 billion has been received from interest and fees (including ELG and CIFS fees) across all the banks.

The preliminary independent valuation of the State's equity and preference share holding in AIB, recently completed by the NTMA, stands at €11.7 billion. The State also holds €1.6 billion of convertible capital notes (CoCos) in that bank. Our equity investment in Bank of Ireland, based on current market prices, is approximately €1.6 billion. This brings the total current value of the State's investments to over €16.1 billion, including the State's equity investment in PTSB.

We are confident that, over time, the aggregate funds that the State has invested in these three banks will be recovered.

PTSB

PTSB has recently announced that it has raised €525 million, which is a significant milestone in its recovery. As part of this capital raise, the State will recoup €509m in capital receipts from the sale of shares and the repurchase by the bank of the Contingent Capital Notes invested in by the State as part of the 2011 recapitalisation of the bank.

IBRC

The success of the liquidation of the IBRC to date has far exceeded expectations at the time of the Promissory Note transaction in 2013. In October 2014 the debt acquired by NAMA, as part of the Promissory Note transaction, was fully repaid. The success of the loan sales processes removes any residual risk of further calls on the Exchequer. To 6 February 2015 (the 2 year anniversary of the IBRC liquidation), €16.5bn of cash inflows had been generated. This has allowed for the payment of €14.7bn to IBRC's creditors and costs to date. This has resulted in a cash balance of c. €1.85bn which ultimately will be available for distribution to creditors, including the State.

Financial Services

The International Financial Services Strategy commits us to protecting and enhancing the competitiveness of the funds industry, and the Irish Collective Asset-management Vehicles Act 2015 is an important step towards that goal. There is a strong linkage between a number of existing workstreams within Department and the IFS 2020 Strategy launched last March. We are fusing these together to ensure that we can fully support this important Government initiative and deliver on our commitments in the Strategy's actions.

Mortgage Arrears

There has been a suite of interventions designed to address mortgage arrears including specific Central Bank targets, the Code of Conduct on Mortgage Arrears, recasting of the personal insolvency legislation, the provision of advice through Department of Social Protection-led initiatives and the mortgage to rent scheme.

It is a positive development to be able to report that the number of mortgages in arrears is declining year-on-year, although, the issue of longer terms arrears remains a big challenge. For example, according to Central Bank data the number of principal dwelling house accounts classified as restructured at end 2014 stood at 114,674, an improvement of 29% over the number of restructured accounts for the same period in 2013. The Department of Justice and Equality are actively drawing up amendments to the insolvency legislation to ensure better access to the insolvency processes. The Taoiseach has signalled that an announcement is imminent which will provide greater detail in this area.

NAMA

Turning to the National Asset Management Agency, at the end of 2014 NAMA had redeemed a total of €16.6 billion in Senior Bonds, which represents (55%) of Senior Bonds issued. NAMA is confident, assuming current market performance is sustained, that it will be in a position to fully repay its borrowings and hopes to achieve a surplus over its life, thus eliminating the State’s contingent liability.

The Department

Turning back to the Department, we have placed a high emphasis on resources over the past number of years, including the upskilling of staff through a continuous training programme, and an improvement in information systems that are integral to our day to day business. This is, and will be, a continuing process.

In the last year I have, with the executive board, concentrated on three things - Learning and Development, Structure, and Governance.

The Department of Finance is a knowledge-based organisation and our people are our most important asset. As an organisation we must always seek to ensure that staff have the requisite skills for the job, complimented by our investment and focus on Performance Management, enhancement of our IT systems, Employee Engagement, Workforce Planning and Learning & Development. These developments are being managed and led by our senior management team (the Executive Board) and actively contributed to and supported by our staff.

A Learning and Development Strategy 2014-2016 was published in October 2014. This Strategy is aligned to our business needs and plays a crucial role in supporting the organisation. It is a living document that will be changed, amended and added to as the Department continues to deliver improvements in this area. Strategies for learning include

- Building skills capability through effective training and the development of a learning culture
- Developing talented staff through training
- Continuously acquiring new knowledge and skills
- Learning from experience and improving

For example, consistent with our overall emphasis on Learning and Development in the Department, a comprehensive technical tax training initiative has been put in place for Departmental staff through a strategic training partnership with the Irish Tax Institute, as has a training initiative on project management leading to the award of both a Diploma and international accreditation.

The Department is very proud to have been shortlisted, in the top three, for 'Best Learning & Development Organisation – Medium Enterprises' in the Irish Institute of Training & Development Awards 2015. The Department intends to build further on this initiative in benchmarking our learning with industry standards.

Our organisational structure derives from our core job of providing policy advice for decision to the Minister, and the implementation of Government decisions. For the purposes of day-to-day management we have significantly simplified the structure of the Department by creating two Directorates; an Economics and Fiscal Directorate and a Finance and Banking Directorate.

Within each Directorate there are a number of Divisions. The Economic & Fiscal Directorate reports directly to me and is focussed on Economic, Budget, Tax and International engagement. (Corporate Affairs, HR and Departmental Finances also fall under this Directorate). The second Directorate focusses on Finance & Banking, including credit, lending, EU and domestic financial legislation, shareholding management, risk, legal & compliance and engagement with International Financial Institutions. This Directorate reports to Ms. Nolan in her role as Second Secretary General. This change meets one of the key recommendations of the Wright report.

My other objective has been to enhance and promote good corporate governance and compliance in the Department. Work is just completed on a Governance Framework (GF) for the Department, the purpose of which is to provide a clear and comprehensive summary for all staff of how we work within the Department. It ensures that a framework of structures, policies and processes are in place to deliver on our obligations. It is envisaged that the GF will be further developed over time and will have regard to implementation of the Civil Service Renewal Plan which will inform any updates in the future.

The codification of the GF for the Department, its roll-out to all staff, and the embedding of its principles in how we do our work, is an important development.

To conclude, I would like to acknowledge the work and contribution of the staff of the Department. The very visible progress made would not have been possible without their commitment.

Thank you.

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