Public Accounts Committee
Thursday, 3rd December 2015

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

Introduction

Thank you Mr Chairman for affording me the opportunity to address the Committee this morning.

With me today are Ms Ann Nolan, Second Secretary General, Mr. John McCarthy, Chief Economist and Ms Cep Carty of our Finance Unit.

I would like to, firstly, focus on the four specific items on today's agenda and give some overview of performance.

The first item on today's agenda is Vote 7 and the 2014 Appropriation Accounts for the Department.

The Estimate for 2014 was set at €31.2 million Spend for 2014 was €21.9 million, leaving a surplus to be surrendered of approximately €9.3 million. This surplus arose for a number of reasons:

- Recruitment did not progress at the pace anticipated, resulting in a paybill underspend of circa. €1.7 million and a further €1 million underspend on non-pay administration expenses

- There was also underspend (c. €5.3 million) on programme related costs arising from :

- The completion of some work in-house and third party funding of certain international assignee placements
- Later timelines than originally anticipated for certain National Payment Plan projects
- lower costs in relation to the shareholding unit

- Lower than anticipated costs on the Medium Term Economic Strategy and the Economic Planning Initiative because much of the work in these areas was also completed in-house and in conjunction with our colleagues from across the system (a saving of €0.7 million).
- The Department also recouped an additional €0.6 million in respect of costs associated with the stabilization of the banking sector.

We remain committed to seeking to minimise costs where possible, subject to achieving the best outturn for the State.

Chapter 1 – Financial Outturn

I would draw the Committee's attention to the following key points:

- Tax revenues, at €41.28 billion, were up €3.48 billion (9.2%) year-on-year and €1.24 billion (3.1%) on profile

- Within that figure for tax revenues, the increase was distributed across the three key tax heads - Income Tax grew by 8.9%, Corporation Tax by 8.1% and VAT by 7.9% year-on-year

On the expenditure side, total expenditure, at €58.59 billion, was up €2.39 billion (4.3%) year-on-year. This was driven by increased non-voted expenditure which showed an increase of €3.23 billion.

Chapter 2 - General Government Debt

General Government Debt as a percentage of GDP is projected to drop to 97% in 2015 from a peak of 120% in 2012. This downward trend is projected to continue next year when a debt to GDP ratio of some 93% is forecast – in line with the Euro Area average.

Chapter 3 – Banking Stabilisation Measures

The investment by the Irish taxpayer in the banks has been unprecedented, totalling over €64 billion. This investment comprised €34.7 billion in IBRC (in special liquidation) and €29.4 billion in the three viable banks of AIB, Bank of Ireland and PTSB.

Our objective is to ensure the best return to the taxpayer and we are well on the way to recovering almost all our investment in the three viable banks

The total current value of the State's investments, based on the latest valuations, in the three remaining banks is €18 billion. A further €11.2 billion has been generated from disposals, fees (including guarantee

fees) and other income. This totals some €29.2 billion against the €29.4 billion invested. We remain confident that, over time, the aggregate funds the State has invested in the three viable banks will be fully recovered.

Department's Strategic objectives

I would like to briefly turn to performance and outputs in recent years.

The Department is working towards achieving two broad goals:

- a sustainable macroeconomic environment and sound public finances ; and
- a balanced and equitable economy enabled by a restructured, vibrant, secure and well-regulated financial sector.

A Sustainable Macroeconomic Environment

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 underway since 2011 has gained momentum over the past 18 months with GDP expanding by over 5% in 2014, and by close to 7% in the first half of 2015. GDP per capita is now above the pre-crisis peak recorded in 2007.

The expansion in economic activity, initially led by the exporting sectors, has become more sustained with domestic demand now making a strong positive contribution to growth.

We now have broad-based employment growth across the economy, with increases recorded throughout the country and in virtually every economic sector. The latest figures show that 140,000 net jobs have been created since the low point of the crisis. As a result, the unemployment rate fell to 8.9% in October - representing a decline of almost 6% from its peak in 2012.

Sound Public Finances

Putting public finances on a sound and sustainable footing is a key priority. Stable public finances are a pre-requisite for economic growth.

The general government deficit has fallen from a peak of 11.5% of GDP in 2009 to an estimated 2.1% in 2015. Gross government debt peaked and is now on a firm downward path. Gross debt is expected to be around 97% of GDP by end-2015. Appropriate fiscal policies will continue to be necessary to ensure that deficit and debt levels maintain a downward trajectory.

The new economic governance rules agreed in recent years now operate within the framework of the European Semester. Ireland has been a consistent supporter of the new economic governance and fiscal regime.

This year's budget also introduced new processes to improve transparency, dialogue and understanding in our domestic arrangements.

The Spring Economic Statement (SES) outlined the parameters that would be applied in the October Budget including provision for additional public expenditure and taxation measures, while still complying with our SGP obligations. The SES is an important development and reform in how we budget.

The National Economic Dialogue in July provided for engagement with stakeholders and created an environment in which all aspects of the public finances and budget could be explored within the parameters set out in the SES. This initiative allows for an open and public dialogue on policy choices before the formulation of the Budget set within the strict rules that must apply to the assessment of policy options.

A further potential reform identified in the SES was the possibility of establishing an Independent Budget Office after the next election. The Department, in partnerships with the Department of Public Expenditure and Reform, have begun to scope out that option.

A sustainable tax system is core to ensuring stable public finances and to supporting economic growth.

We have been reforming and modernising the way we develop tax policy advice for the past several years. Central to this is a much greater emphasis on open, public consultation processes, which lead to better

evidence-based policy making. Contributions from stakeholders, interest groups and individual members of the public are welcome as part of this process, and are carefully assessed.

To ensure policy proposals are robust, in 2015, we introduced new tax expenditure guidelines to assist with ex-ante and ex-post evaluations of tax expenditures going forward.

The Department also hosted its 3rd annual Tax Policy Conference at which over 150 stakeholders, academics and policy makers discussed topical tax policy issues.

A restructured, vibrant, secure and well-regulated financial sector

Work continues across a wide range of challenging issues within the banking and financial services sector. A viable and stable banking system is essential to the proper functioning of the economy.

A key focus of our work in 2015 has been to enable EU regulatory reform measures such as Banking Union and Solvency II in addition to a range of other transpositions. The European Commission published its Capital Markets Union proposal and action plan in September 2015. The key objective is to unlock non-bank financing so as to better connect capital to investment projects in the EU and the Department will continue work commenced on this during 2016.

As I indicated earlier our objective is to recover our investment in the viable banks.

The State owns just under 14% of Bank of Ireland which is worth approximately €1.6 billion.

The State owns just under 75% of PTSB which is worth €1.4 billion. During the past year, PTSB raised €525 million from the private sector and the State received €509 million in capital receipts from the sale of shares and the repurchase by the bank of our contingent capital notes.

As you know the State owns 99.8% of AIB and it announced last month that it had reached agreement with its regulator and the Minister to reorganise its capital structure. AIB remains an extremely valuable asset for the State. As part of the capital reorganization, an updated valuation for the bank of some €15 billion was estimated.

Since its launch in 2014, some 3,200 Irish SMEs have benefit from Strategic Banking Corporation of Ireland (SBCI) loans with almost €110m of the new lower cost loans drawn down. The loans offering longer maturities and payment flexibility have been taken up by Irish SMEs across a range of sectors in all regions of the country.

To-date, NAMA has redeemed €22.1 billion or 73% of the €30.2 billion senior bonds originally issued and is well on the way to redeeming 80% of their senior bonds by the end of 2016 rather than the previous target of 2018. NAMA expects to have fully redeemed its senior debt by 2018 and its subordinated debt by March 2020.

You will also be aware that NAMA recently announced that it would fund the delivery of 20,000 residential units on a commercial basis from its own resources by 2020.

My Department published a review of the Credit Union Restructuring Board (ReBo) in October 2015. The review found that ReBo had made significant progress in achieving its overall objectives. ReBo has assisted 74 individual credit unions in 36 completed restructuring projects. The Minister has recently announced that 31st March 2016 is the final date for acceptance of any further restructuring proposals. This will enable ReBo continue to engage with the sector and complete the performance of its functions within its time-bound mandate.

Finally, the Department continues to make steady progress in line with our goal to enhance our capacity, to continually improve and become a higher performing Department. I will mention a couple of specific examples.

The Department's Governance Framework published earlier this year has been an input into the development of the Corporate Governance standard for the Civil Service, recently approved by Government. It is also one of two of the Department shortlisted nominations for this afternoon's Civil Service Awards along with the SME online tool.

The Department was also shortlisted for Best Learning and Development Organisation as part of the Irish Institute of Training and

Development Awards. The Department achieved an "Outstanding Achievement" Award following awards ceremony on 6th March 2015.

Before concluding, I would like to take this opportunity to express my appreciation to the staff at the Department for their on-going hard work. It is only through their continuing commitment and dedication that we can deliver on our objectives. The Department will strive for continuous improvement and develop into the best organisation we can be.

I would like to thank the Chairman and Committee for your attention and welcome any follow-on questions.

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