Public Accounts Committee  
Thursday, 19 April 2018  

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 Mr John McCarthy, Chief Economist, Mr Gary Tobin, Head of the Banking Division, Ms Mary McSharry, Head of Corporate Affairs and Mr Fiachra Quinlan from our Finance Unit.  

Our colleague, Mr William Beausang, is also here from the Department of Public Expenditure and Reform.  

Today’s agenda covers Chapters 1, 2, 5 and 24 from the C&AG Report 2016, the Appropriation Accounts 2016 (Vote 7) and the Finance Accounts 2016.
2016 Appropriation Account – Vote 7

The 2016 Gross Budget was €40.994m (€39.6m net of Appropriations in Aid) including a capital carry over from 2015 of €0.115m. There were three key categories of operational budget: paybill (€18.5m), administration (€5.9m) and programme consultancies (€6.1m). Gross spend of €31.2m at end of year 2016 was €9.8m (23.8%), under the Budget Estimate of €40.994m. With higher Appropriations in Aid, this left a €10.4m surrender at the end of the year.

This surplus of €10.4m arose for a number of reasons:

- There was an underspend of approx. €4.6 million on programme related costs arising from:
  - The completion of some consultancy work using in-house resources
  - Lower costs in relation to the defence of certain legal cases and the timing of these in the courts.

- There were also savings of €2.1m in relation to the Fuel Grant Scheme.
• Recruitment did not progress at the pace anticipated during 2016, resulting in a pay-bill underspend of approx. €1.9 million. This situation was addressed in 2017 which saw a pay-bill underspend reduced to just €0.6m.

• There were further savings of €1.1 million on non-pay administration expenses, certain IT and Capital projects did not take place during the year, accounting for most of this saving.

• The Department also recouped an additional €0.9 million in respect of costs associated with the stabilization of the banking sector.

The fuel grant constitutes a new service in the context of the Finance Vote in 2016. A sum of €10 million was provided for the new fuel grant under the Disabled Drivers and Passengers (Tax Concessions) Scheme to replace the excise repayment on the fuel element of the Disabled Drivers and Disabled Passengers (Tax Concessions) Scheme. Spending on the scheme in 2017 amount to €9.6 million which was more in line with projections.
As regards the **Exchequer Financial Outturn** for 2016, I would draw the Committee’s attention to the following key points:

- Tax revenues for 2016, at €47.8 billion, were up €2.3 billion (5%) year-on-year and €0.6 billion (1.4%) on profile.

- In relation to income tax, which is the largest tax-head, the performance in 2016 was solid with receipts finishing the year 0.9 per cent or €174 million above profile. This represented an annual increase of 4.4 per cent or €810 million.

- Corporation Tax receipts in 2016 of €7.4bn were €0.7bn above the Budget 2016 forecast.

- The major consumption tax heading, VAT was up 4%, some €476 million in annual terms in 2016 at €12.4 billion, albeit some 3.4% (€439m) below expectations. This underperformance can be partially attributed to stronger-than expected repayments and muted price pressures.

- On the expenditure side, total exchequer expenditure, at €68.065 billion, was down €2.393 billion (3.4%). This was due to a reduction year on year in short term loans to the Social Insurance
Fund for cash flow purposes. When the impact of loans to the Social Insurance Fund are removed, gross Exchequer expenditure for 2016 amounts to €66.695 billion. This is a year on year increase of €602 million (0.9%), driven by an increase in gross voted expenditure of €1.311 billion (2.4%) – partially offset by a reduction in debt servicing costs of €269 million and non-voted expenditure of €503 million.

The **General Government Debt** for 2016 was €200.6bn. General Government Debt, as a percentage of GDP, fell to 73% in 2016 from a peak of 120% in 2012. The decline in the General Government Debt to GDP ratio since 2013 has been influenced by the growth in GDP rather than by the reduction in nominal debt. This downward trend is projected to continue with a debt to GDP ratio of the 60% target set by the Stability and Growth Pack, forecast early into the next decade.

As you are aware the **Irish Fiscal Advisory Council** was established under the Fiscal Responsibility Act 2012 to provide independent assessments of the Government’s budgetary plans and projections and
to inform public discussion of economic and fiscal matters. A joint memorandum of understanding exists between the Council and the Department underpinning the endorsement process of the macroeconomic forecasts prepared by the Department upon which the Budget and Stability Programme Updates are based.

**Economy and Public Finances**

The robust pace of the recovery in the Irish economy continued in 2017 with GDP increasing by 7.8%. The increase in economic activity is broadly-based and economic fundamentals are strong. Ireland has been one of the fastest growing economies in the EU over the last four years. Recovery was most clearly evident in 2017 in the labour market with approximately 2.2 million people in employment. This reflects the creation of 318,000 additional jobs since the low-point in 2011. Strong employment gains have driven a substantial turnaround in unemployment which has fallen from a peak of over 16 per cent in 2012 to just over 6 per cent in March 2018. As set out in the SPU yesterday,
it is anticipated that employment levels will get back to pre-crisis levels in the first half of this year.

Both domestic demand and exports are making positive contributions to growth.

Key economic indicators point to continued solid growth this year. The Department is forecasting growth of 5.6 per cent this year and 4 per cent next year. However, the UK’s decision to leave the EU will have a substantial impact on the Irish economy; at this stage the most likely scenario involves a transition period in 2019-2020.

In December 2017, Ireland repaid its remaining Programme related loans to the IMF, together with the bilateral loans from Sweden and Denmark, early and in full.

Ireland has maintained its ‘A’ grade rating with each of the three major credit rating agencies.

A key focus for the Department in the last year has been the part disposal of the State’s investment in AIB. The successful IPO of AIB in June 2017 was the second biggest in the world last year. It raised
€3.4bn for the taxpayer. This has created a strong platform for the State to recover all of the money it has invested in AIB over time.

NAMA is also making continued progress with 100% of Senior Debt now repaid while the Department is working towards the introduction of the new Home Building Finance Ireland (HBFI) which will help increase the supply of funding for residential developments.

Brexit is a serious challenge for the Irish economy.

As you are aware the Government has increased its strategic oversight of Brexit by assigning the Minister for Foreign Affairs and Trade as having special responsibility for coordinating the whole of Government response. Brexit issues are mainstreamed into the Department’s work in all areas including economic analysis, financial services and taxation.

Intensive negotiations between the UK and the EU on the Phase One issues culminated on 8th December 2017 when an agreement was reached on all three exit issues, reflected in an EU-UK Joint Progress Report. Based on this Report, the European Council on 15th December 2017, concluded that ‘sufficient progresses’ on all Phase One issues
had been achieved and that negotiations could move to the second phase. This work is now progressing.

Conclusion

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 through their continuing commitment and dedication that we can deliver on our objectives. We, in turn, support our staff by providing the training and skills necessary for the job. Our efforts in this regard were acknowledged when the Department received a National Training Award in 2017 (and the Department has been shortlisted again in 2018) as Best learning and Development Organisation by the Irish Institute of Training and Development (IITD).

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

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