Introductory Statement by Mr Paschal Donohoe TD, Minister for Finance

at the meeting of the Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach
21st February, 2019

Finance Group of Estimates 2019

I am pleased to have the opportunity to appear before the Finance Committee today in connection with the 2019 Estimates for my Department (Vote 7) and for the other Votes within the Finance Group: the Office of the Comptroller and Auditor General (Vote 8), the Office of the Revenue Commissioners (Vote 9), and the Tax Appeals Commission (Vote 10).

If I may, I will focus on my own Department first.

As you know, the Department is structured around two Directorates – **the Economic & Fiscal Directorate and the Finance & Banking Directorate**. This structure remains unchanged in 2019. For 2019 the Programme structure of Vote 7 has been amended to reflect the corporate structure of the Department of Finance. There are a number of Divisions in each directorate and I will briefly set out the key areas of responsibility for each of those divisions.

The **Economic and Fiscal Directorate** is made up of the Economics Division, Tax Division, and the EU/International Division.

The Economics Division is responsible for macroeconomic analysis, forecasting and budgetary policy. It is also responsible for developing strategies for the Irish economy and inputting to the development of sectoral and other policies, including taxation that affects the economy.

The Tax Division is responsible for all aspects of tax policy, domestic and international. It works closely with the Office of the Revenue Commissioners, OECD and the EU on tax matters. It analyses policy proposals and drafts and prepares legislation, including the Finance Bill.

The EU and International Division of my Department is tasked with the development and implementation of strategies at European Union/Euro area level and internationally in relation to economic, fiscal and financial policy formulation. Brexit is an integral part of business planning in the Department and issues relating to Brexit are mainstreamed across all Divisions of the Department.

A dedicated Brexit Unit was established in July 2016 as part of the EU and International Division, to oversee and coordinate Brexit work across the entire Department and to act as a key liaison point, in particular with the Departments of the Taoiseach and of Foreign Affairs and Trade.

We have appointed lead Brexit coordinators at Principal Officer level across all divisions of the Department. Developments on and preparations for Brexit are a standing item for discussion at through key departmental structures at the Executive Board and EU Strategy Committee. I will come back to Brexit preparedness later in my speech.

The **Finance and Banking Directorate** is made up of the Banking, Shareholding, Financial Advisory and Funds, Insurance, Markets and Pensions Divisions and the International Finance Division.

The Banking Division deals with strategies for the banking and payment sectors in Ireland, policies relating to the provision of credit in the economy, credit and payments regulation, consumer protection, addressing distressed mortgages and difficulties with personal and small/medium business debt. It is responsible for policies on Central Bank powers and functions and NTMA managed funding and investment strategies.

The Shareholding and Financial Advisory Division (SFAD) is responsible for the management of the State's investments in the banking sector (Allied Irish Banks, Bank of Ireland and Permanent TSB). It is also responsible for the management of our shareholding in the National Asset Management Agency (NAMA) and represents our interests in relation to the oversight of NAMA in line with the NAMA Act. SFAD is also responsible for representing our interests in relation to the liquidation of IBRC. This Division also advises in relation to the Credit Union sector. Finally, using the expertise within the Division, it provides financial advisory services to the wider Department as required.

The Funds, Insurance, Markets and Pensions (FIMP) Division is responsible for the development of national and EU/International policy and legislation in relation to the financial services sector, with the exception of the banking sector and manages the transposition of EU directives. Within this Division the primary functions relate to insurance and pensions, funds, financial markets and anti-money laundering policy.

The International Finance Division manages Ireland's relationship with a number of international financial institutions, where I, as Minister act as Ireland's Governor.

These include the International Monetary Fund, the World Bank Group, the European Investment Bank, the European Bank for Reconstruction and Development, the Asian Development Bank and the Council of Europe Development Bank. Our membership of these institutions provides Ireland with a voice at important fora on global economic and international development issues.

There are also a number of support Divisions in operation within the Department, spread across the two Directorates, namely HR, Facilities Management, Risk/Compliance and Corporate Affairs. These Divisions play a vital role in ensuring the smooth operation of my Department. In order to provide an accurate cost of the two Programmes A and B from a management reporting and oversight basis, the costs of these support Divisions are allocated on a 50:50 basis to each Programme.

Before I move to presenting the Finance Group of Estimates for 2019, I think it is appropriate to comment on Brexit preparedness. As Minister for Finance, my objective is to protect the economic and financial interests of the State and to support the work of the Revenue Commissioners so as to minimise the Brexit disruption to trade, to the greatest extent possible.

My Department is working within the whole-of-Government approach and coordinating closely with its agencies who are developing and implementing plans and measures to protect our economy. The Government has already taken significant action to get Ireland Brexit ready. Since the UK Referendum, all our national Budgets have been framed to prepare for the challenge of Brexit with dedicated measures announced in Budget 2017, 2018 and 2019. This is supported by long-term planning through the National Development Plan and the National Planning Framework which will provide significant investment in Ireland's public capital infrastructure.

Presentation of the 2019 Estimates

Turning to the business of the committee today – the funding allocation sought for the Finance Group of Votes for 2019 totals €430m which compares to a 2018 Vote Group total of €407m. This represents an increase of €23m or 5.7%. The primary driver of this increase is the provision of a €21.7m increase for the Office of the Revenue Commissioners relating to increasing staff numbers and other staff Costs, which I will address later in my speech.

Vote 7 Finance

The gross allocation sought for the Department of Finance Vote in 2019 is €41.1m, of which some €10.5m is provided for a fuel grant scheme for disabled drivers and a further €0.95m is provided to fund the office of the Financial Services and Pensions Ombudsman. Leaving these aside my Department's allocation provides for the administrative and non-administrative costs of the Department. The vast majority of this, some 64%, is provided to cover salaries and allowances, with a further €5.8m (19.6%) to cover facilities and non-pay administrative costs. The remaining €4.8m (16.2%) is provided to cover the legal, advisory and committee costs necessary to support my Department in the proactive delivery of its remit.

Vote 8 – Office of C&AG

The allocation for **Vote 8, the Office of the Comptroller and Auditor General**, is applied towards a single Audit and Reporting Programme.

The Comptroller and Auditor General (C&AG) is an independent, constitutional officer. The C&AG is responsible for controlling the release of funds for public services as approved by Dáil Éireann, auditing public accounts, undertaking independent examinations on the management and use of public resources, and reporting the results of the work to Dáil Éireann.

The C&AG's financial audit role covers 290 sets of accounts produced by public bodies. Together, those bodies have financial transactions that total over €200 billion of public money each year. The allocation for this vote in 2019 is €8.657 million (€7,927 in 2018), which is an increase of approximately 9.2% from 2018.

Vote 9, Office of the Revenue Commissioners

Turning to Vote 9, the Office of the Revenue Commissioners, as the Irish tax and customs administration, plays a vital role in our economy by collecting taxes and duties due to the State. These receipts underpin Government's capacity to fund vital services and facilities for society. In 2018, Revenue collected a record €54.6 billion for the Exchequer (as well as over €12.5 billion in other receipts) and maintained high levels of compliance for the taxes and duties under its care and management.

Revenue will continue to improve their service to taxpayers in support of compliance in 2019 and will do so in a manner that recognises changing customer expectations and prioritises enhanced digital capability. This includes making information available on a 24/7 basis in easy to understand language and providing responses to complex technical queries within service standards.

Revenue will tackle non-compliance risks with determination and focus, with taxpayer behaviour determining our actions thereby mitigating risk and further improving compliance.

In 2018, the yield from Revenue's audit and compliance interventions was €573m and there were 17 criminal convictions for serious tax and duty offences and 754 cases published on the tax defaulters list.

The external environment and significant matters such as Brexit, the international tax environment and evolving business models will continue to be challenging in 2019. Revenue's input to the development of the policy framework for tax and customs administration is increasingly important. In particular in 2019, Revenue will support the Department of Finance in the implementation of Ireland's Corporation Tax Roadmap and manage and implement the agreed policy and operational approach to minimise the impact of Brexit, including trader outreach and providing IT supports.

To ensure our continued capacity and capability to deliver on our key priorities in 2019, we will build on the very strong achievements in 2018 on the realignment of our structures and on the delivery of PAYE Modernisation.

For 2019 Revenue requested a budget allocation of €378.580 million, an increase of €21.7 million or 6% on the 2018 Net Estimate. Nearly three quarters of the budget is related to payroll for an increased employment ceiling of 6,384 staff.

An additional €13.5m was allocated to Revenue in the 2019 Estimates to cover Brexit funding requirements. This allocation largely related to the costs of recruiting an additional 270 staff (€10m) and developing Revenue's ICT systems to deliver enhanced capacity to process Customs declarations.

An additional €3.5m is required to meet the increased costs associated with the collection of VRT, which have increased by over 50% since 2015 due to the corresponding increase in vehicle imports. Revenue had covered these additional costs from identified savings. These savings are no longer available. It should be noted that the return to the Exchequer is a multiple of c.40 times the VRT Collection Costs.

The balance of €5.1m is in respect of the restoration of pay under the Public Service Stability Agreement.

Vote 10 – Tax Appeals Commission

Finally, **Vote 10, the Tax Appeals Commission** (the TAC), the Commission has requested a budget allocation of €3.208 million, an increase of €1.582 million, or 97.3% on the 2018 estimate.

The 2019 Estimate is to provide for the TAC to advance its programme of modernisation and reform, to establish its independence from the Office of the Revenue Commissioners and to address its caseload in an efficient and effective manner, whilst also meeting its obligations and accountability as an independent, Civil Service body. Specifically, during 2019, the TAC hopes to recruit more staff (up to 33 in total), which will include tax-qualified Case Managers.

Conclusion

I will conclude now by thanking members for their attention and I commend the 2019 Estimates for the Finance Group of Votes to the Committee.