

Public Accounts Committee

30th November 2022

Opening Statement by Mr John Hogan

Secretary General, Department of Finance

Introduction

Thank you Chairman and members of the Committee for affording me the opportunity to address you this morning.

With me today are John McCarthy, the Department's Chief Economist, Emma Cunningham, Head of Tax, Des Carville, Head of the Shareholding and Financial Advisory Division, Michael McGrath, Head of our Financial Services Division, Scline Scott, Head of Corporate Affairs and Lurna Cunningham from the Finance Unit.

I will focus on the specific items on today's agenda and keep my comments brief.

2022 Appropriation Account – Vote 7

At the outset I'd like to firstly thank the Comptroller and Auditor General. We are always grateful to his office for the engagement and assistance we receive in ensuring that the Department produces accounts that meet the highest standards in public accounting.

The Estimate for the Department of Finance for 2022 was set at €43.98 million, or €42.9 million net of appropriations-in-aid.

The gross outturn spend for the year was just under €40.4 million, 8 per cent under the available allocation. The Department carried €100,000 of its capital allocation into 2023 and as a result, the Department surrendered over €3.4 million to the Exchequer.

The end-year surplus arose for a number of reasons:

- There was an underspend of over €1.046 million on consultancy & other services costs.
- There was an underspend on pay of €1.131 million
- Finally, there was an underspend on the Disabled Drivers Fuel Grant Scheme of €1.242 million. The scheme is demand-led and is difficult to predict with great certainty.

Exchequer Financial Outturn for 2022 (Chapter 1)

With regard to the Exchequer Financial Outturn for 2022, I would draw the Committee's attention to the following key points:

Tax revenues held up well, rising by €14.7 billion or 21½ per cent on 2021. The key drivers of the better-than-expected performance were income tax, VAT and in particular corporation tax.

Income tax is the largest tax head, accounting for just under 37 per cent of overall tax revenues in 2022. Receipts in the year were €30.7 billion, almost €4.1 billion higher than 2021.

The strong performance in income taxes was very encouraging. The economy in general, and the labour market in particular, performed well during the year, which was reflected in the tax returns.

Corporation tax receipts once again over-performed, mainly due to high levels of profitability in a number of key sectors. Committee members will be aware that the Department of Finance has consistently warned about the windfall nature of a significant proportion of this revenue. In Budget 2024, we estimated that the level of corporation tax revenue at-risk in 2023 could be in the region of €11 billion.

CT performance in recent Exchequer returns are notable in this regard. As the Deputies will know, this month, in particular, is a key month for corporation tax returns and we will have a clearer picture in the coming days.

Due to the risks involved, the fiscal metrics published with the Budget reflect the underlying vulnerability. The general government balance for this year adjusted for ‘excess CT’, or GGB*, is forecast to be a deficit of €2 billion.

The robust economy was also reflected in VAT receipts, which saw an increase of over 20 per cent on the previous year.

On the expenditure side, total net voted expenditure was €72.8 billion, an increase of some €1.3 billion, or 1.8 per cent on 2021.

Reporting Ireland’s EU transactions (Chapter 2)

Turning now to the chapter on reporting European Union transactions.

Ireland’s net contribution to the European Union in 2021 was just under €1 billion, with receipts of €2 ½ billion and a contribution to the EU budget of €3 ½ billion. Information and data for the year 2022 will be published in the coming weeks.

The timing of receipts of EU monies is contingent on a number of factors, such as project timelines. Accordingly, the Department of Finance does not forecast EU Budget receipts on an annual basis. However, we anticipate that Ireland's receipts for the remainder of the Multiannual Financial Framework (2021-2027) will be in the range of €2 – 2 ½ billion each year.

The success of the Irish economy over recent years has meant an increase in our contribution to the EU budget. Overall, our net contribution is likely to grow to around €2 billion by 2027.

The Department will continue to report on EU receipts and contributions as soon as all relevant data becomes available.

Ireland Apple Escrow Fund (Chapter 24)

Turning to the Ireland Apple Escrow Fund, the Apple Escrow Fund was established under the terms of a formal agreement between the Minister for Finance and Apple, pending the final outcome of legal challenges to the findings of a State aid investigation undertaken by the European Commission.

The investment and management of the fund is jointly overseen by the Minister and Apple, with the Minister's functions delegated to the NTMA. The financial statements for 2022 published on 5 July 2023, set out that the net assets of the Fund as at 31 December 2022, and totalled €13.37 billion.

The €259m reduction in the Fund in 2022 consists of €253m resulting from changes in the fair value of the assets and €6m in operating expenses for investment management and custodian fees.

Irish Fiscal Advisory Council (Chapter 25)

Chairperson, the Fiscal Advisory Council is a key pillar of the fiscal architecture of the State. In particular, their work is critical to the budgetary process ensuring independent oversight of the macroeconomic forecast.

The Fiscal Council was established under Fiscal Responsibility Act 2012 and work is currently underway on the preparation of draft Heads of a Bill to amend it. The draft Bill's objective will be to provide for a number of administrative arrangements relating to the Council's budgetary ceiling and other organisational arrangements.

The proposed amendments to the Act will ensure that the Council can continue to play its part in the budgetary cycle, as well as contribute to broader economic and fiscal debate into the future. The Department would hope that a draft Bill will be progressed early next year.

Economic and fiscal challenges

I would like to now briefly discuss current economic conditions as well as future challenges.

As Committee members will know, 2022 began with a lot of optimism. The worst of the pandemic was receding and although some post-pandemic inflationary pressures were evident, there was a generalised belief in a global economic rebound.

Russia's war of aggression against Ukraine tempered those expectations and added significantly to inflation, particularly via the energy markets.

Central banks responded by rapidly raising interest rates and since July 2022 the European Central Bank has increased its main refinancing rate by 450 basis points.

Notwithstanding the economic shock of such a rapid change in monetary policy conditions, the Irish economy has fared well. The number of people in work reached a record of 2.7 million in the third quarter this year, while unemployment has been at, or near, full employment for around 18 months.

However, monetary policy acts on economic conditions with a lag. The cumulative effects of the increase in rates has likely not been fully felt yet, either in Ireland or globally.

In fact, data suggest that growth in Europe has slowed and — while the overall level of employment is still very high — the most recent Irish data suggests a softening in labour market conditions.

The country also faces more structural challenges. At the most recent National Economic Dialogue attendees discussed these challenges within the framework of the “4D’s” — demographics, decarbonisation, digitisation and de-globalisation.

Each of these phenomena poses an economic, fiscal or societal challenge. Taken together, they represent a complete transformation for both domestic and global economies.

The senior management team and I will continue to work with Government to help address those challenges and ensure that the economic progress that has been achieved over recent decades is sustained into the future.

Conclusion

To conclude, I would like to thank the staff of the Department for the contribution they have made over the year under review, to thank the Chairman and the Committee for your invitation to address you here today, as well as for your attention.

I welcome any follow-on questions.

ENDS////