

DÁIL ÉIREANN

AN COISTE UM CHUNTAIS PHOIBLÍ

COMMITTEE OF PUBLIC ACCOUNTS

Déardaoin, 3 Nollaig 2015

Thursday, 3 December 2015

The Committee met at 10 a.m.

MEMBERS PRESENT:

Deputy Paul J. Connaughton,	Deputy Mary Lou McDonald,
Deputy Joe Costello,	Deputy Patrick O'Donovan,
Deputy John Deasy,	Deputy John Perry,
Deputy Robert Dowds,	Deputy Shane Ross.

DEPUTY JOHN MCGUINNESS IN THE CHAIR.

BUSINESS OF COMMITTEE

Mr. Seamus McCarthy (*An tArd Reachtaire Cuntas agus Ciste*) called and examined.

Business of Committee

Chairman: Are the minutes of our meeting of 26 November 2015 agreed? Agreed. Are there any matters arising from the minutes?

The next item is correspondence received since our meeting on Thursday, 26 November 2015. Correspondence, dated 25 November 2015, received from the HSE is a follow-up from our meeting on 2 October 2015 and Nos. 1, 2, 3 and 9 are to be noted and published. Correspondence, dated 20 November 2015, received from Mr. Owen Keegan, chief executive of Dublin City Council, on the PAC and the Dublin Docklands Development Authority report is to be noted and published. The position of the council can be dealt with in reply by the Minister to the committee's report. The DDDA, which is to be subsumed into the city council, is involved in a process seeking to find a solution to the structural deficits at Longboat Quay.

Deputy Joe Costello: Could we ask for an update from the city manager on the resolution of the Longboat Quay issue?

Chairman: The city manager has said he is not responsible.

Deputy Joe Costello: Sorry, that is correct. The Dublin Docklands Development Authority, DDDA, would be the responsible body. Will this have implications for the legislation on the transfer of liabilities from the DDDA to Dublin City Council when it is dissolved, which is before the Dáil and due to be completed this evening?

Chairman: I am sure there are implications.

Deputy Joe Costello: We need some understanding about this. Two hours have been devoted to Report Stage for this Bill in the Dáil this evening.

Chairman: While the legislation will be passed today, it will have to wait for the commencement order to be signed by the Minister. Between now and then, this issue could be flagged for the Minister.

Deputy Joe Costello: Can the committee request a final report when this issue is resolved?

Chairman: Yes.

No. 3A.3, correspondence, dated 26 November 2015, received from Mr. Robert Watt, Secretary General, Department of Public Expenditure and Reform, regarding commissions of investigation. This is to be noted and published. This matter is relevant to today's meeting when the Cregan inquiry into Irish Bank Resolution Corporation, IBRC, can be raised.

No. 3A.4, correspondence, dated 27 November 2015, received from the National Asset Management Agency, NAMA, regarding submission to the Northern Ireland Assembly Committee for Finance personnel. This is to be noted and published.

No. 3A.5, correspondence, dated 30 November 2015, received from Mr. Noel Waters, acting Secretary General, Department of Justice and Equality, regarding follow-up from committee meeting 5 November 2015. This is to be noted and published.

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Deputy Joe Costello: There are major areas of procurement involved in this correspondence. Chubb comes to €1 million. I presume there are problems in regard to alternative tenders in that matter. The other two personnel items, Noonan Services Group comes to €2 million and Aramark Workplace Solutions, €91,000. There are questions in regard to the wage payments by Aramark. Can we request the Department or the Prison Service to provide the committee with the wage levels of these two services groups?

Chairman: Yes, we can.

No. 3B.1, correspondence, dated 27 November 2015, received from Ms Mary Farrell, regarding wards of court. This is to be noted. The reply to our report is still being finalised by the Department of Public Expenditure and Reform. We will follow up again on this matter.

No. 3B.2, correspondence, dated 30 November 2015, received from Mr. Brendan Moore, former board member of Bord na gCon, regarding Irish Greyhound Board. This is to be noted. The issues raised by Mr. Moore relate to the regulation of greyhound racing and are outside the remit of this committee. I propose we bring these matters to the attention of the Minister for Agriculture, Food and the Marine. This is one of the individuals who resigned from the board. When we asked last week why this happened, we were not given full information. It might have been far more helpful to us if what was contained in this letter, if known to Bord na gCon, was explained to us. It is just a case of people being economic with the information they have. That is not good enough either.

No. 3B.3, correspondence received from Mr. Paul McQuaid, regarding allegations of irregularities in tender processes. I propose we ask the OPW for a full report on the matter and the Comptroller and Auditor General can follow up on this in the context of his audit.

No. 3C relates to documents relating to today's committee meeting. Nos. 3C.1 and 3C.2 are briefing documents and opening statements for today's meeting. These are to be noted and published.

No. 4, reports, statements and accounts received since meeting of 26 November 2015. Will Mr. McCarthy comment on these?

Mr. Seamus McCarthy: The significant point is in regard to No. 4.2, St. Angela's College Sligo Limited. Apart from the fairly standard recognition of a deferred pension funding asset by the college, which is standard for third level education bodies, the college discloses that it applies a minimum threshold of €50,000 for advertising of contracts for supplies and services, rather than the threshold of €25,000 set in Department of Public Expenditure and Reform guidelines. The committee will recall that a similar issue arose with University College Dublin, which was applying a €60,000 threshold. My recollection is that at one stage €50,000 was the former threshold level but it was reduced to €25,000 by the Department of Public Expenditure and Reform in 2010. St. Angela's has not brought down the threshold.

Chairman: Are the rest of the audits clear?

Mr. Seamus McCarthy: Yes, they are clear audit reports.

Chairman: All of these accounts are to be noted.

Deputy Patrick O'Donovan: Did we hear anything more back from University College Dublin about its procurement rules?

BUSINESS OF COMMITTEE

Chairman: We have written to the college and are waiting for a response. The Higher Education Authority will be attending the committee next week and that matter will be raised with it, along with St. Angela's.

Are there any queries about the proposed work programme?

Deputy John Deasy: The plans for 4 February 2016 are quite ambitious.

Chairman: We have pencilled in those two meetings for the new year, should we still be here.

Deputy Mary Lou McDonald is late but has asked that attention be drawn to the fact that we have not received a response from the Department of Agriculture, Food and the Marine in respect of Mr. Douglas Fannin. Members will note the State's attempted prosecution of the individual in question collapsed over two years ago. In that case, Judge Reynolds was highly critical of the actions of the State. Mr. Fannin left the courtroom with his integrity intact. At this stage, we have had an ongoing discussion with the Department of Agriculture, Food and the Marine on this matter. We have failed to get a satisfactory conclusion to some of those matters.

I will ask the clerk to remind the Department of the fact that we are still awaiting that response and bring Mr. Douglas Fannin's case to the attention of the Department again. We have no work programme for 17 December 2015. We might be able to find half an hour on that date for the Secretary General of the Department of Agriculture, Food and the Marine to come in and answer those questions.

Is the work programme agreed? Agreed. Is there any other business?

Deputy John Deasy: I was contacted this morning about the Conal Devine report into allegations of abuse of foster children. It seems that the Health Service Executive, HSE, still has not released the sections of the Conal Devine report as directed by the Office of the Information Commissioner. The eight-week appeal period expired over a week ago. I think it expired on the 24 November or 25 November. This really flies in the face of what Tony O'Brien, the head of the HSE, said at our previous meeting. He said he wanted to see the report published as quickly as possible. So a question arises. Why the delay? The report was commissioned using public funds. The Office of the Information Commissioner is funded through the Exchequer. The decision has been made. I do not know where to go with regard to actually making it happen. It is clear what the intent of the committee has always been. It is now clear what the Information Commissioner has directed. Maybe the first port of call might be the Secretary General of the Department of Health, with whom we have dealt on this matter on a couple of occasions, to ask him to expedite it and have it published by the end of the week, which is tomorrow. If the committee is agreeable, we should register that intent with the Department of Health immediately.

Chairman: Arising from that, we can ask the clerk to contact the HSE and the Department with a view to having their responses before next week's meeting.

Deputy John Deasy: The Information Commissioner should express his view on this delay as well. If he makes a direction, examines the issue and comes to a conclusion, he has a role in terms of expressing a view on withholding it as well. He should do that.

Chairman: We will write to the Department and the HSE in respect of the matter.

On the letter from Brendan Moore on the Irish Greyhound Board, in which he sets out dif-

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ferent issues, we should send that letter to the board as well and ask it for its views on the issues that have been raised by Mr. Moore. We have agreed a letter to the HSE in respect of Deputy Deasy's remarks. In terms of the wards of court, that is an issue that needs to be dealt with. Again, can we set a timeframe by asking if the office would come back to us within a week? It has the report long enough and we had the correspondence this morning from Mary Farrell, which members should note and read. It is interesting. We should try to progress it as quickly as possible.

Deputy Joe Costello: On that point, in her letter Ms Farrell indicates that this matter has been before the committee in one form or another since the year 2000. It is quite clear that there is some degree of urgency now. We should put it to bed before the end of the year as there will be very little time in the coming year. I agree entirely with the Chairman that we should now demand a response as quickly as possible from the Department of Public Expenditure and Reform initially. What about the Courts Service? There seems to be an indication that this is where the resolution would take place. Have we written to the Courts Service about this matter?

Chairman: The report would have gone to the various-----

Deputy Joe Costello: Bodies

Chairman: -----bodies. Now it is coming back through the Department of Public Expenditure and Reform to us. The issue now is to ask that the report be given to us as quickly as possible. We will write again to ask where the report lies at present and set a deadline for next Thursday so we can have it at our meeting.

There is just one other matter with the HSE. It received a letter in respect of the carers and issues that were raised at a previous meeting. I do not recall receiving the response. We had asked it to deal with it urgently and that it was to have a complete breakdown. I ask that the clerk remind it again of the fact that the information in question seems to be outstanding. If there is no other business-----

Deputy Joe Costello: One short item. If we are going back to Bord na gCon - we have a number of requests listed on which it is to come back to us and another one is being added - could we also ask it for an update or progress report on the sale of Harold's Cross? There are serious questions relating to planning applications and permission and so on.

Chairman: Yes. So our business for 10 December will be the 2014 financial statements of Cork Institute of Technology and the 2013 financial statements of Waterford Institute of Technology. We will now deal with today's business. I ask that the witnesses be brought in.

2014 Annual Report and Appropriation Accounts of the Comptroller and Auditor General

Vote 7 - Office of the Minister for Finance

Chapter 1 - Exchequer Financial Outturn for 2014

CHAPTER 2 - GOVERNMENT DEBT

Chapter 2 - Government Debt

Chapter 3 - Cost of Bank Stabilisation Measures as at the end of 2014

Finance Accounts 2014

Chairman: Today we are dealing with the 2014 Annual Report and Appropriation Accounts: Vote 7 - Office of the Minister for Finance; chapter 1 - Exchequer Financial Outturn for 2014; chapter 2 - Government Debt; chapter 3 - Cost of bank stabilisation measures as at the end of 2014; and Finance accounts 2014.

Before we begin, I ask members, witnesses and those in the public Gallery to please turn off their mobile phones as they cause difficulty in terms of the quality of the sound transmission of the meeting. I advise witnesses that they are protected by absolute privilege in respect of the evidence they are to give this committee. If they are directed by the committee to cease giving evidence in respect of a particular matter and they continue to do so, they are entitled thereafter only to a qualified privilege in respect of their evidence. They are directed that only evidence connected with the subject matter of these proceedings is to be given and they are asked to respect the parliamentary practice to the effect that, where possible, they should not criticise or make charges against a Member of either House, a person outside the House or an official by name or in such a way as to make him or her identifiable. Members are reminded of the provisions within Standing Order No. 163 that the committee should also refrain from inquiring into the merits of a policy or policies of the Government or a Minister of the Government or the merits of the objectives of such policies.

I welcome Mr. Derek Moran, Secretary General of the Department of Finance and ask him to introduce his officials.

Mr. Derek Moran (*Secretary General, Department of Finance*), called and examined.

Mr. Derek Moran: I am joined by Ms Cep Carty of the finance unit, Second Secretary General Ann Nolan and Mr. John McCarthy, chief economist.

Mr. Terry Walsh: I am Mr. Terry Walsh from the Department of Public Expenditure and Reform.

Chairman: Our guests are all very welcome.

Deputy Shane Ross: If I could, Chairman, who is sitting behind?

Mr. Derek Moran: Mr. Fiachra Quinlan.

Deputy Shane Ross: Why is he sitting behind him?

Mr. Derek Moran: He works in the finance unit. He is supporting me. If the Deputy wants, he can take the chair at the end.

Deputy Shane Ross: I just wanted to know why he was there.

Chairman: He wants to promote him.

I call Mr. McCarthy to make his opening statement.

Mr. Seamus McCarthy: The 2014 appropriation account for Vote 7 - Office of the Minister for Finance, records expenditure totalling €24.1 million on five programme areas as summarised in figure 1. At the end of 2014, a total of €9.3 million was liable for surrender from the Vote back to the Exchequer. There were two elements to this. The Department underspent by €8.6 million relative to its budget. The main components of the underspend were a €2.5 million saving on budgeted administration costs across all programmes, mainly due to the delayed delivery of planned training programmes and delays in the progress of certain IT and accommodation projects, and a €6 million saving on a budgeted spend of around €9 million on a broad category described as consultancy and other services. The Department also received approximately €750,000 more in appropriations-in-aid than budgeted for, mainly due to recoupment of consultancy costs previously incurred on banking stabilisation activities, which had not been anticipated in the framing of the Estimate.

As indicated in figure 1, the expenditure on the Department's financial services policy programme recorded in the appropriation accounts is €6.8 million. However, it should be noted that this does not include costs associated with staff seconded to the Department from the NTMA to deal with banking sector issues and certain related consultancy costs. These costs are borne by the NTMA and not recouped from the Department. The level of costs incurred in that regard is not disclosed in either the appropriation accounts or the NTMA's financial statements.

I turn now to the finance accounts for 2014. As provided for in Article 11 of the Constitution, all revenues of the State are paid into the Central Fund of the Exchequer, unless otherwise determined by law. Examples of State revenue which is not paid directly into the Central Fund include PRSI receipts which are paid into the social insurance fund and the proceeds of motor tax which are paid into the local government fund. The annual finance accounts present the receipts into and issues from the Central Fund of the Exchequer, together with a set of bespoke supporting statements that analyse the transactions. The national debt accounts which are prepared by the NTMA and audited separately by me are also presented in full as Part 2 of the finance accounts. The finance accounts are designed to provide an annual statement of Central Fund transactions on a cash basis and are not a comprehensive set of annual financial statements for the State or central government. The chapters from my report on the accounts of the public services for 2014 that are the subject of the meeting were compiled to complement the information in the finance accounts by highlighting key aggregates and trends in Central Fund transactions and State liabilities.

Figure 2 shows the trends in overall issues and receipts from 2002 to 2014. The deficit for the year has fallen each year since 2011. In 2014 the deficit was €8.2 billion, €3.3 billion lower than in 2013. Some significant developments during 2014 which the committee may wish to note were as follows: there was a 2% year-on-year increase in the cost of servicing the national debt which in 2014 amounted to a total of €7.6 billion; there was a transfer of €484 million in local property tax receipts from the Central Fund to the local government fund; there were Central Fund loans to the value of €54 million and capital funding of €407 million provided for Irish Water, on which I report in further detail in chapter 11 of my report; and there was the receipt of €405 million in respect of a 20-year national lottery operator's licence which is dealt with in further detail in chapter 7. That matter was discussed two weeks ago when the Secretary General of the Department of Public Expenditure and Reform was before the committee.

The aggregate values of Central Fund receipts and issues increased significantly in 2014 due to the stepping up of repayable cash flow funding provided for the social insurance fund. In total, €4 billion was advanced to the fund in 2014 from the Central Fund and these advances were fully repaid by the end of the year. Because of the absence of a balance sheet in the finance accounts, we have included a new “loans and advances” analysis in annex A of the chapter.

Revenues from taxation and other charges represent the primary source of State funding, but, as Deputies will know, the State also borrows substantially to supplement annual funding and cover deficits. Chapter 2 of my report outlines the trends and composition of Government debt and the cost of debt servicing. It also provides an update on Ireland’s activity in the sovereign debt market. The most comprehensive measure of Government debt is general Government debt. This is an internationally-standardised measure of the total gross debt owed by all Government bodies to third parties outside government. The ratio of general Government debt to GDP declined to 108% at the end of 2014 from its peak level of 120% at the end of 2013. This reduction was due to a combination of strong GDP growth and a reduction in the liabilities of IBRC in the course of its liquidation. The main component of Ireland’s general Government debt at the end of 2014 was cumulative borrowing undertaken by the NTMA on behalf of the State, referred to as gross national debt. Because the deficit for the year was met by a reduction in the Exchequer’s cash balances, this decreased by a net €500 million during 2014. The gross national debt rose marginally in the first six months of 2015, standing at around €201 billion at the end of June.

The NTMA estimates that the weighted average cost of servicing the gross national debt was 3.5% at the end of June 2015, down from 3.8% at the end of 2014. Around 92% of the gross national debt at the end of June 2015 was at fixed rates. A significant factor in the reduction in the average servicing cost was the early repayment of the most expensive portion of the EU-IMF lending. The first tranche of early repayment was concluded in the first quarter of 2015 and, in total, just over €18 billion, or 81% of the original IMF loan facility, was repaid early. The repayment was funded by other NTMA borrowing.

In response to the financial crisis in 2008, the State undertook a succession of interrelated measures to stabilise the banking system. The economic impacts of the measures are both complex and long-term. Chapter 3 was compiled to provide an estimate, as at the end of 2014, of the net financial cost of these measures. The sums involved in recapitalising banks, including covering their losses, are relatively straightforward to identify. Income accruing from the investments and capital repayments or disposals of investments are also generally clear. Less easy to identify are the costs incurred by the State in funding the investments. Estimation procedures are required to identify these costs, which are substantial, and in arriving at a valuation of the State’s residual interest in banking assets.

The results of the examination analysis are summarised in figure 3.1 in the chapter. The overall investment in the banks, including the value of shares accepted in lieu of dividends, totalled €66.8 billion. Directly or indirectly, this resulted in equivalent State borrowing which cost an estimated €8.7 billion in interest costs up to the end of 2014. After receipts from disposals, dividend and other payments, fees charged for guarantee protections and the estimated share of Central Bank profits that relate to banking stabilisation measures, the State’s net outlay associated with the stabilisation measures, up to the end of 2014, was just under €60 billion. Against this, the State held an interest in the rescued banks, worth an estimated €16.7 billion at 31 December 2014. Netting the two amounts results in an estimated net cost to the taxpayer for the State’s banking stabilisation measures of around €43 billion.

Members are, of course, well aware that the scale of the State support provided was different for each bank. Therefore, using the same estimation approach, we calculated the outturn for each of the banks. We estimated that, as at 31 December 2014, support for IBRC had cost the State a net €36.1 billion, that support for AIB had cost a net €8.8 billion, that permanent tsb was almost at break-even and that there was a net surplus of €2 billion in respect of the State's support for Bank of Ireland. I emphasise that these estimates are at a point in time and that the final cost of the measures will not be identifiable for some time to come. The cost of servicing residual banking-related State debt will be an ongoing economic one. We estimate it to be between €850 million and €1.7 billion annually, if the State's average cost of borrowing is in the range 2% to 4% a year. The NTMA's average cost of borrowing was around 3.5% at the end of last June, so that cost is likely to be at the higher end of the range.

Of course, other factors will also be at play in determining the final overall cost of the stabilisation measures. These will include the amount the State ultimately realises from the disposal of its remaining bank investments and the period for which the Central Bank continues to hold Government bonds relating to redemption of the IBRC promissory notes.

Chairman: I thank Mr. McCarthy. We will now have Mr. Moran's opening statement.

Mr. Derek Moran: With me are Ms Ann Nolan, Second Secretary General, Mr. John McCarthy, chief economist, and Ms Cep Carty of our finance unit. Sitting behind me is Fiachra Quinn.

I would like to focus on the four specific items of today's agenda and provide an overview of performance. The first item on today's agenda is Vote 7 - Office of the Minister for Finance and the 2014 Appropriation Accounts for the Department. The Estimate for 2014 was €31.2 million. Spending in 2014 was €21.9 million, leaving a surrender of approximately €9.3 million. This surplus arose for a number of reasons. Recruitment did not progress at the pace anticipated, resulting in pay bill savings of circa €1.7 million and a further €1 million underspend on non-pay administration expenses. There was also an underspend of approximately €5.3 million on programme-related costs arising from the completion of some work in-house on third-party funding of certain international assignee replacements, there were later timelines than originally anticipated in certain national payment plan projects and lower costs in regard to the shareholding unit. There were lower than anticipated costs on the medium term economic strategy and the economic planning initiative, because much of the work in these areas was completed in-house and in conjunction with our colleagues across the system, with a saving of €700,000. The Department also recouped an additional €600,000 in respect of costs associated with the stabilisation of the banking sector.

We remain committed to seeking to minimise costs where possible, subject to achieving the best out-turn for the State. In terms of the financial out-turn, I draw the committee's attention to the following key points. Tax revenues, at €41.28 billion, were up €3.48 billion, or 9.2%, year on year and €1.24 billion up against profile, or 3.1%. Within the 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. Total expenditure, at €58.59 billion, was up €2.3 billion, or 4.3%, year on year. This was driven by increased non-voted expenditure, which showed an increase of €3.23 billion. 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.

The investment by the Irish taxpayer in the banks has been unprecedented, totalling over €64 billion. This investment comprised €34.7 billion for IBRC and €29.4 billion for the three viable banks, AIB, Bank of Ireland and Permanent TSB. 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 recovered.

I would like to turn briefly to performance and outputs in recent years. The Department is working towards two broad goals: a sustainable economic environment and sound public finances; and a balanced and equitable economy enabled by a restructured, vibrant, secure and well-regulated financial sector. After a 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 under way 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 most recent 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.

Putting the public finances on a sound and sustainable footing is a key priority. Stable public finances are a prerequisite 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 October 2015. Based on the Exchequer returns published yesterday, I anticipate this will be closer to 1.7% at the end of the year. Gross government debt peaked and is now on a firm downward path. Gross debt is expected to be around 97% of GDP at the end of 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 Stability and Growth Pact, 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 allowed 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 partnership with the Department of Public Expenditure and Reform, has begun to scope out that option.

A sustainable tax system is also central to ensuring stable public finances and supporting economic growth. 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 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 third annual tax policy conference, at which over 150 stakeholders, academics and policy makers discussed topical tax policy issues.

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 also published its capital markets 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 European Union. 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 Permanent TSB, which is worth €1.4 billion. During the past year, Permanent TSB 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 members know, the State owns 99.8% of AIB and it announced last month that it had reached agreement with the regulator and the Minister to reorganise its capital structure. AIB remains an extremely valuable asset for the State. As part of the capital reorganisation, an updated valuation for the bank of some €15 billion was estimated.

Since its launch in 2014, some 3,200 Irish SMEs have benefited from Strategic Banking Corporation of Ireland, SBCI, loans, with almost €110 million of 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. 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 the 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. Members 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 also 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 recently announced that 31 March 2016 is the final date for acceptance of any further restructuring proposals. This will enable ReBo to continue to engage with the sector and complete the performance of its functions within its time-bound mandate.

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 the Department's two 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 an awards ceremony on 6 March 2015.

I would like to take this opportunity to express my appreciation to the staff at the Department for their ongoing 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 it can be.

Chairman: Thank you, Mr. Moran. May we publish your statement?

Mr. Derek Moran: Yes.

Deputy Shane Ross: I welcome Mr. Moran and congratulate him on all those awards which he listed out to us. Could we just address the public finances and would Mr. Moran answer one question before I forget it? He talked about the increase in employment and fall in unemployment. How much of that is due to employment in the multinational sector?

Mr. Derek Moran: Would Mr. John McCarthy have that information?

Mr. John McCarthy: I do not have the exact figure to hand. We can certainly get it. The IDA tends to publish the figures early in the new year in respect of the previous year. We will be able to get it at that stage. What we know, however, is that the increase in employment is very broad based. The Central Statistics Office reports on 14 sectors in the quarterly national household survey. In the latest quarter, Q3, 12 of those sectors recorded employment increases, many of them related to domestic demand type sectors. I would say a fairly substantial portion of the increase is in the domestic economy as opposed to the multinational sector.

Deputy Shane Ross: Have the officials got any historic figures?

Mr. John McCarthy: We know that total employment in IDA-supported firms is of the order of 150,000. A rough rule of thumb is that each job supports one further job through spill-over effects, downstream effects and so forth. Total employment, direct and indirect, due to the multinationals is therefore probably about 300,000. Overall employment is just shy of 2 million so I think 15% would be a reasonable estimate.

Deputy Shane Ross: Would that have risen in line with the staggering figures we have gotten from the multinationals' tax returns in recent weeks?

Mr. John McCarthy: I think the share may have risen but maybe not as much as the corporation tax, CT, figures might suggest. The reason I say that is that on a sectoral basis, a large part of the CT receipts are due to the IT and pharmaceutical sectors. The pharmaceutical sector is certainly not a labour intensive one, it is more capital intensive. I do not think we will see a massive increase in employment in that sector. We know the domestic sectors, consumption and so on, tend to be more labour intensive. I suspect the share may not have changed all that much over the last year. We will be able to evaluate it early in the new year.

Deputy Shane Ross: The spike in profits which we are seeing is not reflected in a parallel

or equivalent spike in employment. Is that what Mr. McCarthy is saying?

Mr. John McCarthy: I think there has been an increase in employment in the multinational sector, broadly based. However, it is probably fair to say that the profit share within that sector has probably risen faster than the wage share.

Deputy Shane Ross: The 73% above target figure is not going to be reflected in any way in the jobs figure.

Mr. John McCarthy: No. To give the Deputy the figures, we know that in the first three quarters of the year, the total level of employment is up by 2.7% relative to the same period last year. People are moving from part-time into full-time employment but in full-time equivalent terms, it is up by about 3.25%. There is nothing similar to what we are seeing in terms of the increase in profitability.

The wage share is affected not just by numbers, that is, increased employment but also by movements in wages *per capita*. We have seen wages pick up a little bit. Private sector wages in the first three quarters have averaged an increase of about 2% or 2.5% when we control for the number of hours worked. The wage bill is increasing but not at the same rate as the profit share.

Deputy Shane Ross: That is because these sectors are not really job intensive.

Mr. John McCarthy: Exactly. Some of them are. The multinational sector is obviously not homogenous. The ICT sector is quite labour intensive but the pharmaceutical sector is very capital intensive.

Mr. Derek Moran: Deputy Ross got me on the employment numbers. I refer to corporate tax. As Mr. McCarthy said, they are capital intensive in their nature. There is a concentration in that the very large multinationals - the top ten groups - pay us about a third of the total corporation tax. This year is no different from last year in that regard. The things that are changing are that there is across the board performance improvement; 20% more smaller companies are paying tax this year than were last year; and those which were paying tax last year are paying more this year. This is with the multinational sector - the big taxpayers - still retaining the same share of what they pay.

There are other issues that complicate the matter. Anybody who prices in dollars has improved their profitability because of the appreciation of the currency. I am not sure if that explains a huge amount of it but it accounts for some of it. In addition, during the worst economic times, companies were perhaps not making profits and were carrying losses. As they move from a loss-making situation into profitability, they burn off those losses and go from zero to paying a substantial amount of tax. The performance is exceptional by any measure.

We have been talking to the Revenue Commissioners throughout the year. With the exception of relatively small one-offs, the consistent message is that this is not going to necessarily disappear. The overall trading position has been strong and we are still surprised that the momentum has continued as it has. I think it was running at about 45% year on year in October and has gone much higher than that over the past two months.

Deputy Shane Ross: I am a bit staggered by what the officials are saying. First of all they are saying that the only jobs figures we have are historic, going back to 2014. Is that right?

Mr. John McCarthy: For IDA-supported firms, yes. It does a survey once a year.

Deputy Shane Ross: Does the Department not keep a monthly survey of this? Can it not produce figures to show that the profits are absolutely rocketing and the response in the jobs market is the following? Can the officials tell us that?

Mr. John McCarthy: We keep an eye on it-----

Deputy Shane Ross: Does the Department have figures?

Mr. John McCarthy: We have the quarterly figures that are published by the Central Statistics Office, the quarterly national household survey, QNHS. We have figures for up to the end of September.

Deputy Shane Ross: Okay.

Mr. John McCarthy: For IDA-supported firms, we only get information from the IDA looking back. It does a survey every year and publishes it early in the new year.

Deputy Shane Ross: The Department has no up-to-date knowledge about this at all.

Mr. John McCarthy: We have up-to-date knowledge about overall employment trends in the economy. We do not have a breakdown between the multinational sector and the rest of the economy.

Deputy Shane Ross: Surely the Department should have one because there is a stunning rise in profits. It should at least be able to tell us what is the relationship between that and the jobs in the sector. If it does not know what the job rise is, it cannot do it.

Mr. John McCarthy: There is a trade-off in terms of the burden on the multinational sector in terms of reporting to the IDA and so forth and having the real-time data. In most circumstances, it is appropriate that the survey is undertaken on a yearly basis. This year on the corporation tax side, this gap between what we expected and where the outturn is likely to be is pretty much a one-off.

Deputy Shane Ross: So it is a one-off?

Mr. John McCarthy: Sorry?

Deputy Shane Ross: It is a one-off.

Mr. John McCarthy: Certainly the size of the gap between projection and outturn is very unusual. The question of whether we could access more data is something we can follow up with the IDA but its focus is on producing figures for the year as a whole so I strongly suspect it would wait until the end of December returns from the multinational sector.

Deputy Shane Ross: Would it not be better if the Department had up-to-date figures?

Mr. John McCarthy: In an ideal world, I would love to have more data.

Deputy Shane Ross: The Department is surprised by such an extraordinary spike and cannot explain it as far as I can see.

Mr. John McCarthy: It is difficult to explain but in an ideal world, I would very much like to have-----

Deputy Shane Ross: Could Mr. McCarthy explain the figure being 74% above target in detail? This is something the Department must have a handle on.

Mr. Derek Moran: These are the preliminary tax returns being made by corporates. They pay 90% on account and then one gets the details at the end of their accounting year, so that will not be available to the Revenue Commissioners in terms of in-depth analysis for some time. We are blind in respect of that. The Revenue Commissioners through what they call their large case division survey the big taxpayers once a year to get an indication of performance but it is a voluntary arrangement that involves them telling Revenue how things are going. We did not get anything from that survey that would suggest this type of surge.

The key thing throughout the year has been the fact that as this performance has continued, it is a confirmation that this is not once-off. This is a lift in the overall level. There is a range of explanations such as improved trading conditions, continued recovery in the US and UK economies and the fact that more companies are paying tax as they come out of the recession with those at the smaller end that paid tax last year paying more again this year. It will take us some time to drill down into this. Mr. McCarthy and his team work with the Revenue Commissioners to drill down into this in greater detail because we must understand what has happened and what lies behind it. Some of that will only come with the detailed tax returns being made by the companies because this involves them paying preliminary tax on their assessment up-front of what they owe. The accounts come after that.

Mr. John McCarthy: The increase in corporation tax receipts is very broad-based. While some of the multinationals may skew the figure, it is important to remember that actual receipts from the smaller firms - the SME sector - are growing at a faster pace than receipts from the large cases division. We have this concentration issue in Ireland. Some would see it as a risk. The Secretary General mentioned that the top ten groups pay one third of tax while the top 50 firms pay one half of corporation tax. By its nature, corporation tax is susceptible to firm-specific and sector-specific developments. We saw it back in 2012 and 2013 when the patent cliff occurred in the pharmaceutical sector so it does make it very difficult to forecast.

I emphasise the role of the exchange rate in overall profitability. I say this because our profiles for tax revenue were published last February when the assumption was that the economy would grow by about 4.25%. That was based on the assumption, and we are required to take the European Commission's assumptions under the new European semester, that the euro-dollar exchange rate will average about 1.29-1.30. Following quantitative easing, we now have an exchange rate that averaged about 1.05 for the year as a whole. We know that about 80% of firms in Ireland price in dollars so that depreciation of the euro has brought about a massive increase and improvement in terms of corporate profitability. That is a very important factor in trying to explain the increase in profitability this year so I would not underplay that. As the Secretary General said, we will need the detailed tax returns over the course of next year to be able to conduct a more in-depth analysis.

What we are doing at the moment is looking at some econometric work in this area to see if additional variables might improve the modelling we use. I know our colleagues in the Revenue Commissioners have set up an internal working group to look at this. We will probably work jointly. I will leave it at that.

Deputy Shane Ross: I am concerned about this because these are basically self-assessments by the multinationals. Mr. Moran says the Department is working blind on them. Did he use the word "blind" in respect of the reasons?

Mr. Derek Moran: Let me put it another way. The detail becomes available at a later stage. One of the things-----

Deputy Shane Ross: Did the Department make a call to any multinationals when it received these figures and ask them what was going on?

Mr. John McCarthy: There are case managers in the Revenue Commissioners who deal directly with the large cases and the large firms on a daily basis. We use that interaction - the information they supply to the case managers - to inform our forecast at the beginning of the year. However, it is important to stress that no multinational is compelled to provide the information. Multinationals are probably conservative in terms of the information they will supply but we can only take what we are given. It is a purely voluntary exercise. We use an econometric model but we also supplement it with judgment based on that interaction. The Irish Fiscal Advisory Council has assessed our approach to forecasting the various tax heads and has concluded that using that judgment actually improves the accuracy of the forecasting.

Deputy Shane Ross: We can take it then that the Department does not know where this extra spike has come from because it is only working on historic information and this is the multinationals themselves telling the Department that this is what they accept as their tax liability in effect. Is this true?

Mr. John McCarthy: We know that it is broad-based and not just the multinationals-----

Deputy Shane Ross: That does not tell the Department very much. That is a pretty wide expression. Of course, the Department knows it is broad-based but it knows that it is based to a great extent on multinationals and is self-assessed.

Mr. John McCarthy: Yes, but we also know that the SME sector is paying more with a growth rate that may be in advance of the growth rate applicable to the multinational sector. We know that new firms that had no corporate tax liability in previous years because they were carrying losses and so forth are now entering into having a tax liability. That signals the recovery in the economy.

Deputy Shane Ross: If the Department does not know where it is coming from, how does it know that it is permanent and will continue?

Mr. Derek Moran: It is not appropriate for us to talk directly to taxpayers. The feedback is that this is a base effect. It is not one-off.

Deputy Shane Ross: Where is the feedback coming from?

Mr. Derek Moran: It is coming from multinationals themselves.

Deputy Shane Ross: Does the Department believe them?

Mr. Derek Moran: Like much of the tax system, the corporation tax system is self-assessed. That is a fact.

Deputy Shane Ross: Have they assured the Department that it will be all right for 2016 and 2017?

Mr. Derek Moran: It is very expensive to give us money up-front and overpay.

Deputy Shane Ross: Has Mr. Moran asked them whether it will be the same in 2016, 2017

and 2018?

Mr. Derek Moran: It feeds into the base. This is not a one-off initiative that then falls away. We have identified some one-off payments worth approximately €300 million. These fall out.

Deputy Shane Ross: Is that Revenue?

Mr. Derek Moran: Those engagements between the large cases division and the companies tend to identify those sorts of negatives much more easily than the positives. They know there is an event coming up and can identify that but there are the one-offs.

All taxes are, to a greater or lesser extent, cyclical. They move with the economy. Corporation tax has the additional problem of accounting peculiarities, the carrying of losses, exhausting those losses and going from paying no tax to paying a sizeable amount of tax fairly quickly. If one considered the contribution of corporation tax to total taxes over a prolonged period, one would expect it to leap outside that boundary. Generally speaking, corporation tax has been contributing between 11% and 16% of total taxes since the start of this century. We estimate this year it will contribute 15.5%. It is within those bounds which give an aggregate level assurance.

Deputy Shane Ross: It is at the higher end.

Mr. Derek Moran: It is at the higher end. In 2001 it was 14.9%, in 2002 it was 16.4% but in recent years it fell to 10% and 11%. Perhaps that is recovering but it has not gone beyond the bounds of that movement, which goes with the cycle. I agree with the Deputy it is a very aggregate level comfort. There are always risks. Mr. McCarthy spoke about the concentration risk. We did some work on that in 2015 and published it with a budget around that, but that has not changed. It is within the bounds of the payments we have seen over a 15 or 20-year period.

Mr. John McCarthy: I assure the Deputy that we are concerned whether this would be a windfall or cyclical. That was the origin of our query to Revenue. We have put the letter from the Chairman of the Revenue Commissioners on our website. It states:

based on information derived from engagement of Revenue case managers with the companies, we expect that much of this surplus will reoccur next year. We have informed your Department that it is likely that approximately €300 million of the 2015 surplus from these large groups should not be included in the forecast for 2016.

We have not included it. That gives us some reassurance because we do not deal with the firms.

While I do not want to go down the policy route, the reforms to the Stability and Growth Pact in 2011 introduced the concept of the so-called expenditure benchmark. The rationale for this is that cyclical or one-off receipts cannot be spent. That is prevented by law. There is no question of repeating the mistakes of the past by using these receipts, windfall or not, for permanent increases in expenditure.

Deputy Shane Ross: There is a big debate going on as to whether these are windfall or not. The Department has one position but the Irish Fiscal Advisory Council does not agree with it. There are warnings coming thick and fast from other sources, including the European Commission, *The Economist* and other sources. How did the Department get it so wrong for corporation tax?

Mr. John McCarthy: All the other tax heads are pretty much there or thereabouts where we thought they would be. One of the main factors underpinning the overshoot on the corporation tax side relates to the stronger than assumed economic growth we are experiencing. At the time of the 2015 budget-----

Deputy Shane Ross: That includes the Department's assumption of economic growth. It did not come out of the blue. The Department had economic growth completely wrong.

Mr. John McCarthy: Indeed, but it was endorsed by the Irish Fiscal Advisory Council at the time and there were many changes in the external environment. We had not included in our forecast the easing in the monetary policy stance, quantitative easing, QE, which took effect from January. We had included an assumption that the euro-dollar exchange rate would be approximately \$1.30, and I think euro-sterling was approximately £0.78. QE and the massive reduction in oil prices which fell by 50% between the time we did our forecast and the beginning of this year had a major impact on where the economy was going. The exchange rate is particularly important because it has a big impact on nominal gross domestic product, GDP. This year we will have nominal output growth of approximately 11% or 11.5%. Approximately half of that is due to the deflator and that in turn is due to exchange rate movements. We have to take assumptions that are supplied to all euro area member states as part of the so-called two-pack because we have to produce the common budgetary timeline and assumptions and so forth. We had to use these exogenous variables. There was a massive change in some of those variables because of something that was unforeseen in September-October 2014, the stance on monetary policy. With that, we revised our April forecast for economic growth. In September of this year we revised it upwards substantially again because the data flow has surprised everybody. The outturn has been exceptionally strong in real and nominal terms in quarters one and two. The high frequency data in quarter three are very strong.

Deputy Shane Ross: Is Mr. McCarthy talking about the growth rate?

Mr. John McCarthy: I am talking about the growth rate.

Deputy Shane Ross: I am not talking about the growth rate. I am talking about the corporation tax rate.

Mr. John McCarthy: The growth rate – what we do is-----

Deputy Shane Ross: The Department got the growth rate wrong. Let us get to the corporation tax rate. How did the Department get that wrong?

Mr. John McCarthy: The growth rate is relevant because within the growth rate we forecast the wage bill and the profit bill. Profitability in national accounting terms is so-called gross operating surplus. With the change in the growth rate we changed our forecasts for the gross operating surplus, for profitability, which at the time of budget 2015 was a forecast of just north of 5% whereas we now think it will probably be approximately 15%, 16% or maybe 17%. That does not explain the problem because profitability and corporation tax revenue typically move one for one over time. The fact that corporation tax is now between 50% or 52% above for the year as a whole means there is a massive gap between those two variables. We are looking at the econometric models and so is Revenue. It is important to bear in mind that because of the concentration in Ireland, not just of GDP or of gross value added and so forth but of the tax system, firm-specific developments can have a major impact that cannot be captured in any econometric model. Nobody can.

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Deputy Shane Ross: Was there a firm-specific event here in Ireland that affected corporation tax? Was Apple paying a huge amount?

Mr. John McCarthy: We are prevented under the legislation, and rightly so, from having access to firm-specific information.

Deputy Shane Ross: Very well but the witnesses can tell us what they think. They can have a pretty educated guess. I do not want them to name a company or a multinational but were there specific multinationals suddenly paying a lot more than they did last year?

Mr. Derek Moran: I will point out that in the analysis that has been provided last year, the top ten companies paid approximately one third of the corporation tax and they are doing the same again. Within that we do not know. The risk in terms of that concentration has not shifted hugely. It is a bit like my point about the total contribution to tax take operating within a band but it is not outside that band.

Deputy Shane Ross: Mr. McCarthy did refer to firm-specific events.

Mr. Derek Moran: They can do.

Deputy Shane Ross: They can distort the figures or have a-----

Mr. Derek Moran: They can do.

Deputy Shane Ross: Did that happen this time? I do not want Mr. Moran to name anyone.

Mr. John McCarthy: A significant part of the overshoot is down to a very small number of firms.

Deputy Shane Ross: Are there particular ones that cause-----

Mr. John McCarthy: I do not know. I do not have access nor should I.

Deputy Shane Ross: I do not seek the identity but can Mr. McCarthy discern whether there might be one or two or three?

Mr. John McCarthy: I simply do not have that information.

Deputy Shane Ross: Has Mr. McCarthy asked the question?

Mr. John McCarthy: I am not allowed have access to that information because I cannot have access to firm-specific information or information that could lead me to deduce which firm it might be.

Deputy Shane Ross: Consequently, the Department is flying blind on that one as well.

Mr. Derek Moran: That was an unfortunate use of words on my part. Ultimately, just to reiterate, for a range of reasons this has significantly overperformed. We will do the econometric analysis as the data come through to try to understand where this came from and we may have far better answers in due course. It would have pushed the bounds of credibility in October 2014, in preparing for 2015, to have put in this type of forecast for corporation tax. There would not have been any basis for it. We tend to operate off the basis of national accounts estimation of profitability and for next year, I think on budget day we had approximately 8% growth. To a certain extent, this becomes de-risked, as the performance has been so strong this

year that we are close to achieving the target for next year. Consequently, to achieve that and to keep the budget on target for next year, one does not need any growth and so that removes a bit of the risk. The interesting thing over the course of the year has been that we planned the budget for 2015 in October 2014, and that budget had a deficit target of 2.7%. By April, we were saying 2.4%, by October, 2.1% and it now looks as though it will be 1.7%. All of this essentially is feeding through into the deficit coming down more rapidly, which must be regarded as a positive. In itself, that removes some of the risk but the performance this year is up very close to the total target for next year. We know we have a large amount of work to do to try to understand this and we will be doing that.

Deputy Shane Ross: I am quite concerned about this because it is quite important. The Department of Finance is in the dark about an incredibly significant figure and an extraordinary thing that is happening in the economy. It does not know why it happened and it has a lot of work to do, which is very worrying. This means one cannot for a moment believe any assessment as to whether this is or is not permanent income because the Department itself does not know where it is coming from or why it is coming. If one compares this with the construction industry boom in 2007, for example, which ended there, what percentage of the taxes at that time came from the construction industry and which have now collapsed and gone away?

Mr. John McCarthy: I do not have the figures off the top of my head but approximately 15% would be a best guess without having the actual figures in front of me.

Deputy Shane Ross: Does Mr. McCarthy see the danger?

Mr. John McCarthy: I do not think there is any question of corporation tax going from such a high level to practically zero, which is what happened on the construction side. That sector practically went to zero overnight. There may be a fall; we do not know. However, we do have information and I do not accept that we do not know. We have information from Revenue telling us these figures will be repeated next year in all likelihood, with the exception of a small amount. However, even if it is not, it will not be a case of going from 15% to 1%, as happened in the construction sector.

Deputy Shane Ross: I presume that last year, Revenue agreed with the Department's projections for this year. In other words-----

Mr. John McCarthy: It is an iterative process.

Deputy Shane Ross: Revenue is just as likely to be wrong as the Department.

Mr. John McCarthy: Revenue can-----

Deputy Shane Ross: Revenue is not a great crutch on which to lean, when so many external people are stating this is dangerous.

Mr. John McCarthy: Revenue can only deal with the information it gets to hand, that is, the information supplied to it via its large cases division, which interacts, as I say, quite regularly with the multinationals. Consequently, it is subject to the data quality that may come. However, as I stated earlier, there is no obligation on the companies within that division to supply the data and there is no obligation to supply absolutely accurate data. They may simply not know because they may start the year thinking they will have a good year and then, suddenly, the exchange rate goes from \$1.30 to parity. Things suddenly get very much better; the world changes.

Deputy Shane Ross: Ireland now is as dependent, percentage wise, on the multinationals as we were on the construction industry at that time.

Mr. John McCarthy: Yes, I mean, the average-----

Deputy Shane Ross: Moreover, at that time we had two pillars of support and now we only have one.

Mr. John McCarthy: The revenue from the construction sector clearly was windfall revenue. I do not accept that revenue from these corporations is windfall and that is backed up by what the Revenue Commissioners are saying. If the Deputy looks at it over time, the average corporation tax as a percentage of overall receipts, and I believe the Secretary General referred to this earlier, is approximately 14% or 15%. We are not that far from the historical average. I have figures here somewhere going back to 1995. Consequently, just because the 15% coincides with the 15% in construction is coincidental.

Mr. Derek Moran: If I may, I will come in on this point. The Revenue Commissioners are closest to the companies where this information is coming from. The chairman's letter of last week or the week before is fairly detailed in indicating this is across the board and is substantially, other than a small amount, not a one-off. I must revert to my point that if one looks at stamp duties and capital gains tax in the early part of the previous decade, they went from 2% or 3% of total taxes to 15% and then collapsed back to that again. My point is the share of total taxation coming from the corporate sector has been in this band consistently over time. Even at the worst of times, it fell but it did not collapse in that way. I acknowledge to the Deputy there always are risks but this is a much less risky revenue flow than those that derived from the construction sector.

Chairman: I ask Deputy Ross to conclude.

Deputy Shane Ross: Yes. I am very worried about the dependence. May I ask one question about the Apple case, against which Ireland apparently is defending? Europe claims there is an issue of state aid whereby two nations already have been hauled over the coals and have been found to have breached it. Is it true the Department already has employed a barrister to defend Ireland? Do the witnesses think the case will be going to the European Court of Justice?

Mr. Derek Moran: We have a legal team in place on that already, yes.

Deputy Shane Ross: Is that in anticipation of losing the case?

Mr. Derek Moran: It is not in anticipation of losing it. When one gets the case stated, one legally must respond to it, which we have done, and one assembles one's team for that purpose. I do not have the dates quite straight but the Commission stated a case in May 2014 to which we would have been obliged to respond. We had the legal team available to do that. It published it then later that year and we intervened at that stage. Consequently, while we have a legal team for it, it is not in anticipation of losing. As has been stated, if there is a finding - this has been going on for between two years and two and a half years - there is no sense-----

Deputy Shane Ross: I believe the Minister has stated that in the event of Ireland losing it, it will be appealed. That is the suggestion being made.

Mr. Derek Moran: Yes, and in respect of one of the cases, the Netherlands already has announced it is going to the European Court as well.

Deputy Shane Ross: In that case, the Department will be stating it does not want to pursue Apple for the billions or whatever amount it is that apparently is owed if the judgment goes against Ireland.

Mr. Derek Moran: No, what we are saying, if it comes to that and we have no ruling, is it is our strong view that nothing was done wrongly in the Irish tax administration and we will seek to defend that.

Deputy Shane Ross: And to turn away the money.

Deputy Patrick O'Donovan: I welcome Mr. Moran and his officials. Mr. Moran must be in an invidious position in that he must be the first Secretary General of the Department of Finance in a generation to be reprimanded for bringing in €2 billion more than the Department anticipated. That is a tough one for the Secretary General today and my sympathy is with him. Obviously, it is a bad day all round for some people that the tax receipts are far in excess of what was anticipated, which obviously is a good thing.

I refer to the demonisation by some people of the multinational companies that employ in excess of 135,000 people. I worked for one for a good number of years. There is a political demonisation of that sector, and we have heard an instalment of it over the past half hour.

In the Department's experience in dealing with IDA Ireland, with the Revenue Commissioners and with people who are trying to attract people here and keep them, how beneficial is it to Ireland to have constant withering attacks on our corporation tax rate?

Mr. Derek Moran: The important thing about the multinational sector is, as the Deputy says, its very positive contribution to taxes, which allows us provide services, but also direct employment, indirect employment and so on. It is hugely positive. In my experience, these are highly professional operations that are happy to be here. They are dispersed around the country.

I will not comment on the demonisation piece; I am not sure what that is.

Deputy Patrick O'Donovan: No, but Mr. Moran will-----

Mr. Derek Moran: Let me put it this way. I find them in general to be good corporate citizens, with widespread employment. There has been the Apple case. These European-level investigations are very complex. They are venturing into territory that, at one level, is quite surprising. We just have to see how it pans out. As I said, the Netherlands has already said it is appealing the adjudication against it, although I understand the Directorate-General for Competition is starting a new case concerning McDonalds in Luxembourg, so it goes on. We are two years in since they started gathering this information. It is part of a general trawl around Europe, and the particular case has not gone forward.

An interesting aspect is that testimony was given to the finance committee of the US Senate by Bob Stack, who is the deputy assistant secretary for international taxes, raising a lot of issues. The US is not at all a disinterested party in this. So it goes beyond Ireland. It goes beyond Europe and it reaches out to the US. Some of the points he was making were, first, that the US is somewhat worried about the over-concentration on US companies by the Directorate General for Competition; second, that it interferes with its bilateral tax treaties with individual countries, because it does not have a tax treaty with Brussels *per se*; and also, the risk at the end of the day that retrospective imposition will be regarded as a credit by US companies and ultimately will become a bill on the US taxpayer, among other things. So that was very interesting testimony

in that regard. It goes way beyond Europe.

In terms of the overall - I do not like the term “demonisation”-----

Deputy Patrick O'Donovan: Let us call it ill informed or ignorant commentary, so.

Mr. Derek Moran: I will not be drawn into that either. It is okay for me to be the target.

We put in a huge amount of work in last year in examining corporation tax, both as an instrument of domestic policy and with regard to how it fits into the international side, and setting out a roadmap. Some of the things over which we received criticism have been unwound.

Deputy Patrick O'Donovan: One of the criticisms that has been levelled against the Department and the Revenue Commissioners by some people in this House, and even people with dual roles, is that Ireland is a soft touch. It is suggested that companies can come into Ireland and create employment but avoid paying tax, albeit through legitimate methods of negotiation or whatnot with the Revenue Commissioners. From the point of view of the Department of Finance, how damaging is that constant drip-drip of commentary from Ireland and America over the attractiveness or otherwise of Ireland as a place in which to do business?

Mr. Derek Moran: I am venturing into territory that is not really mine. The volume of those issues tends to rise and fall around elections in different jurisdictions.

Deputy Patrick O'Donovan: It is cyclical.

Mr. Derek Moran: It is cyclical in that regard. That is probably the last comment I will make. Do I have multinationals beating my door down to say they are concerned? Yes, they are obviously concerned about the commentary, but it is not sufficient. The Apple case has been mentioned already. Since that happened, Apple has announced 1,000 additional jobs in Cork and the opening of a data centre in Galway, which is a vote of confidence in Ireland as a future base.

The chairman of the Revenue Commissioners is more than capable of speaking about this on his own. The Revenue Commissioners apply the law and do not do sweetheart deals with people. That is the core of the accusation - that some advantage was afforded to a specific company. They do not make those sorts of rulings. They apply the law and apply tax to the profits that are attributable to Ireland.

Deputy Patrick O'Donovan: So the suggestion that there is some sort of a wink and a nod and that the Revenue Commissioners are flying blind and when they get this kind of money it is kind of wink and nudge - that is really just a puff of smoke, is it not?

Mr. Derek Moran: The law is applied without fear or favour. That is-----

Deputy Patrick O'Donovan: I wish to come back to something Mr. Moran said about the multinational sector. He said it was capital-intensive. As someone who has worked in a pharmaceutical company, I agree with that. When it is as intensively based in capital as it is, is it not fair to say there is room for further employment to be created there? Just because we have not seen massive growth in jobs in the pharmaceutical sector, in particular, over the past 12 months, there is no reason to suggest we will not see it as profits improve and as there is a need for capital investment in those plants.

Mr. Derek Moran: No, of course not. Our colleagues in IDA Ireland are always targeting

increased employment levels, increased investment and so on. So there is. However, it is the nature of pharmaceuticals, as Mr. McCarthy has said. It is a capital-intensive business with high investment levels and often high profits. At the end of the day there is a huge amount of spillover into the general economy in terms of local employment that is supported by the existence of a multinational in any community. One sees that around the country. So capital intensity and employment go hand in hand. Does Mr. McCarthy want to-----

Mr. John McCarthy: I hope the Deputy did not mishear me. The multinational sector as a whole is obviously not homogenous. Sectors such as the ICT sector are very labour-intensive, while the pharmaceutical sector would be more capital-intensive. That is not to say one is not going to get jobs as expansion takes place; that is not the case. The Deputy is quite right; there is room for employment growth.

Deputy Patrick O'Donovan: Given that the multinational sector is not homogenous, is it not fair to say that any comparison between the multinational sector and the construction of houses is just ridiculous?

Mr. John McCarthy: They are completely separate industries. The construction of a house is very labour-intensive, yes.

Deputy Patrick O'Donovan: While the figure of approximately 15% of the tax take happens to coincide with a similar figure for stamp duty and capital gains tax at the height of the boom, is drawing a comparison between the two of them not just ridiculous?

Mr. John McCarthy: They are apples and oranges. It is not the same. As my Secretary General said, the problem with the construction sector was that it went from 2% to 15% and back to 2%, whereas corporation tax tends to fluctuate between 10% and 15%.

Deputy Patrick O'Donovan: On the forecast that was done, Mr. McCarthy referred to the letter he received from the chairman of the Revenue Commissioners, Mr. Cody. I return to his previous point about the patent cliff a few years ago. Is there anything similar to the patent cliff on the horizon? Is there anything of that nature out there that the Revenue Commissioners, the Department of Finance or IDA Ireland are concerned about that might have an impact on this?

Mr. John McCarthy: Not in the short term. I am not aware of anything in the short term. Over the medium term drugs will come off patent but new drugs will be developed over time as well, but I do not think there is any risk, in the very short term that there is an issue in that regard. It had been flagged from 2011, and even in early 2012, that this patent was beginning to expire so that was known in advance for some time. I am not aware of anything at the moment that will arise in the next 18 months, not to the same extent because the previous one was a very large drug.

Deputy Patrick O'Donovan: On the flip side, is Mr. McCarthy aware of anything for the next 12 months or so that might result in those receipts growing even further in the future or does he believe they have plateaued?

Mr. John McCarthy: We do not believe that corporation tax, CT, receipts have plateaued. Our projection, again based on the macroeconomic, independent variables that feed into our model is that we will see CT growth of about 8% for next year. That is based on the growth in profitability, but there are risks to economic growth and if growth is hit then profitability is hit. We have seen that this year, where growth was hit positively, so to speak, because of the various tail-winds that we have seen in the exchange rate, oil prices and so forth. Things could move

in the opposite direction but my view is that our macro forecast and as a result our forecast for profitability, which is for growth of 8%, is a reasonable central scenario at this stage. We expect growth in corporation tax receipts of about 8% for next year. I would point out, that comes off the 50% odd that we have seen for this year.

Deputy Patrick O'Donovan: I wish to go back to a previous point Mr. McCarthy made about the growth rate in the SME sector. How does the multinational sector compare to the SME sector?

Mr. John McCarthy: We only have the breakdown to the end of October. We know that total receipts from companies in what Revenue calls its large cases division, essentially the multinational sector, were growing at 61%, whereas growth in everything else was growing at 67%. The latter percentage includes domestic firms and the SME sector.

Deputy Patrick O'Donovan: Does that tie in to the growth in VAT receipts, which is up by about €1 billion? Is there a correlation with VAT?

Mr. John McCarthy: There is not really. The variables that feed into the consumption taxes - VAT, excise and so forth - are pretty much personal consumer expenditure, retail sales and so forth. They are pretty much moving in line with what people are spending. It is very much in line with the historical norm. I would point to what was said earlier, practically every other tax head is there or thereabouts.

Deputy Patrick O'Donovan: Is there anything in particular driving those VAT receipts?

Mr. John McCarthy: Yes.

Deputy Patrick O'Donovan: Does any one aspect jump out?

Mr. John McCarthy: There is nothing one off. It is the fact that consumption in terms of household spending is so strong this year relative to last year. I do not have the nominal number, but in real terms we expect real growth of 3.5% in personal consumer spending for this year, which is very strong. That is feeding directly through into the VAT number. It is also feeding through into the excise numbers, and both of those are pretty much there or thereabouts. One is marginally ahead and one is marginally below.

Mr. Derek Moran: I might add to that. VAT is one of those taxes that generally speaking is a good indicator of what is going on in the economy at large, rather than specifically relating to any area. It reflects the recovery in consumption and confidence. It grew well and steadily in 2014 as we saw domestic demand coming back and we have seen it again this year.

The patent cliff was an issue that was very particular to the pharma sector. Mr. McCarthy and his colleagues did some very good work on that, in particular its impact in terms of the national accounts. It is not clear that it had a huge impact on corporate taxation paid. As the drugs came off patent the companies were doing other things and there was a long timeline and planning into that. It is fair to say-----

Deputy Patrick O'Donovan: Are the Department and Revenue kept abreast of those things? Based on economic modelling, is the Department aware from the dialogue Revenue has with each of the individual case holders of changes that are likely?

Mr. Derek Moran: We talk to Revenue on an ongoing basis. That is a daily occurrence. We also speak to the IDA and other bodies and one gets intelligence and information about the

big items coming down the line. One always has to do a bit of horizon scanning, and we look to see if there is anything particular coming up. We do that as part of the day-to-day routine. The patent cliff, as Mr. McCarthy said, was flagged a couple of years in advance. We would have been aware of that and we would have been able to put the work into analysing it and trying to understand it. Some very good work on the patent cliff issue is published on the Department's website.

Deputy Patrick O'Donovan: So there are no shocks of that nature for these figures.

Mr. Derek Moran: Not that we are aware of, but one can never say never. In terms of that horizon scanning and those engagements, we have not identified anything like the patent cliff.

Mr. John McCarthy: To be clear, Deputy O'Donovan rightly mentioned the word "shocks". These are sector-specific type shocks for a particular firm where we have a high concentration. There are many things going on in the world economy about which we are very concerned. I refer to China, emerging market economies, the stance on monetary policy in the US and so forth, all of which could potentially have negative implications. We are conscious that there are no particular sector-specific or firm-specific shocks in the immediate future but there is a lot of uncertainty about global prospects at the moment.

Deputy Patrick O'Donovan: In regard to shocks, the country suffered a huge shock when we relied entirely on the construction of houses, selling them to each other, and the stamp duty and everything else surrounding that. How are we insulated now from another property bubble or a collapse of a different kind? What have we done differently or how are we insulated to make sure that if one sector collapses, in the way the house building sector collapsed, that we can prevent that sort of thing happening again?

Mr. Derek Moran: The reality is that under the rules that now operate, these would have been cyclical revenues and the rules would not have allowed us to spend. The Deputy's comment is a fair one. From 2016 onwards, budget targets will be expressed in cyclical terms not in nominal terms, so when one strips out the bonus that is not sustainable, they are the figures one looks at. It is symmetrical. If the economy turns down and one has to spend more, it does allow one to move in both directions. We are in a much better position. I did characterise the upside during the course of this year. The deficit target fell from 2.7% at the start and it looks like we are going to come out at 1.7%. If one goes back ten or 12 years that would not have been the situation. As the moneys came through they tended to be used. Structurally, and within a legal, rules-based framework we are in a much better position than we were in the past. In addition, the level of scrutiny, whether it be domestic or at EU level, is much higher and more intrusive. Alarm bells would ring much more loudly and much earlier.

Mr. John McCarthy: The one point that I would add is that our problems which started back in 2007 were due to a concentration of activity in one sector in that about a fifth of gross value added was in the construction sector. The economy is much more diversified now. As should always be the case for an economy such as Ireland's - a small and very open economy - the exporting sectors are leading the way, and we have seen quite a diversified export performance in recent years. We have seen the IT sector, the pharmaceutical sector, tourism, the agricultural sector - partly due to the exchange rate *vis-à-vis* the UK, and the aircraft leasing sector all performing well. It is a very broad-based recovery in exports as there is diversification. We are now also seeing domestic demand pick up as well. The economy is in a much more solid position, but simply because of its nature we are a very globalised economy so if there is a global shock we simply cannot remain immune to that. It is not the baseline scenario but we do

what we can do, which is to diversify the sectors in which activity occurs.

Deputy Patrick O'Donovan: Is the Department happy that based on what we have control over within our own jurisdiction, there have been sufficient structural changes and insulation put in place so that we will not wind up again with an over-reliance on one sector?

Mr. John McCarthy: Yes, I think that is the case. We are clearly making progress in reducing the deficit and that will allow us build up buffers so that we can implement counter-cyclical policies should the need arise. We are getting the debt ratio down, but we also have, as was mentioned, enhanced scrutiny and monitoring at a European level - the so-called macroeconomic imbalance procedure, the European Semester and all of that - whereby the Commission and other member states keep an eye on every member state to make sure that imbalances are not emerging. People sometimes think of the crisis as a fiscal one, but it was not; rather, that was a symptom of the crisis. The crisis was one of economic imbalances between north and south, current account deficits and so forth. There is much greater scrutiny available now, and if one is moving out of sync on any of the indicators - these indicators were published last week, the so-called scoreboard or the alert mechanism report - one is subject to procedural consequences and, potentially, sanctions. The safeguards are in place and we have a much more diversified economy, so we are in a better place.

Mr. Derek Moran: I would like to add a further comment. Finance Ministries by their nature are conservative and try to be careful. The changes to rules and the levels of scrutiny help reinforce that. In the budget, in terms of our risk assessment, it pointed to the balance of risk being largely external and on the down side. These are issues around developments in China and so on and the risk of interest rates going back up. We build that into our risk assessment and it falls within the tolerance of our plans for, say, budget 2016, which the European Commission has said is compliant with the rules and is an appropriate fiscal stance as we move forward. There are always risks, but one has to manage in as prudent a manner as possible, avoiding excess in either direction to make sure that one does not have very high peaks followed by very low troughs and that one gets something in between. That is the orientation of the policy. I said in my opening comments that the increase in employment is almost across every sector, and that is a positive. It is not only in any one sector.

Deputy Patrick O'Donovan: I have one further question regarding stamp duty. I note the stamp duty receipts for 2015 are marginally down on 2014. What is the state of our construction industry? Obviously, much of this would be relative to the construction sector. Is there scope for much improvement in that sector and is there much improvement on the horizon?

Mr. Derek Moran: It is fair, as characterised by Mr. McCarthy, that there is improvement and recovery, but it is often incredibly low-based. Output fell from a massive historical high to a very low number. As one grows from that much lower number, one can get very high percentage income changes, but that does not convert to a huge amount of activity. There is certainly room for it to develop. We are not yet building enough houses to meet demand in the short to medium term. I believe that recovery will come, but it will take some time.

In terms of stamp duty as a lead indicator, I would not overestimate in so far as it also includes share transactions. There are a range of elements in it. When it was 9% and we were getting 9% of every transaction, it was hugely significant. The rate is now 1% on everything, generally speaking, and it is de-risked as a tax. I will ask my colleague Mr. John McCarthy to respond on the housing side.

Mr. John McCarthy: Some of the stamp duty receipts will clearly come from the housing market. We do not have good data on turnover in the housing market; we have good data on new house completions and so forth, but turnover is a bit of an issue. I may have to get back to the Deputy on this because there is an issue regarding one-offs on stamp duty, possibly due to the pension levy falling out. I am just not sure whether it is 15 or 16. It may be 16.

Mr. Derek Moran: I should have remembered that point. The pension levy in 2014 was 0.6% and this year it dropped to 0.15%. It is classified as a stamp duty, and that would have a bearing. We would need to strip that performance out and look at the underlying performance.

Deputy Patrick O'Donovan: If we strip that out, is everything else stagnant?

Mr. Derek Moran: If we strip that out, the rest is probably positive. If the Deputy would like, we might do some of the segregation for him.

Deputy Patrick O'Donovan: Thank you.

Chairman: In regard to the banks, how are they managed in terms of the interaction between the Department and, say, AIB, which is generally owned by the State?

Mr. Derek Moran: It is handled through the shareholder management unit, which works with Ms Nolan. It is an ongoing interaction on a daily or weekly basis.

Chairman: How does it work?

Ms Ann Nolan: The way it works in practice is that there would be a formal meeting once a month between the senior management of the bank and the shareholder management unit, as a shareholder getting an update on what the position is in the bank, and falling out of that there would be ongoing contact about various items that arise.

Chairman: What banks are we talking about here?

Ms Ann Nolan: Permanent TSB and AIB. There is a meeting with Bank of Ireland also, but we would not go into as much detail there because we do not have as big a shareholding. That is done through the shareholder management unit. It would typically put the same kind of questions about profitability, organisation, strategic direction and so on, as would be the case for any other shareholder, except obviously it would be for our own benefit. In addition, the banking unit in the Department has a relationship, which is quite separate, with all the banks, regardless of whether we have a shareholding in them. This would be with respect to lending to small and medium-sized enterprises, mortgages and so on, and would go across all the major banks, including Ulster Bank, KBC and so on, and that would be separate from the shareholder relationship and it is treated separately from the shareholding issue. It has to do with how banks are interacting in the economy.

Chairman: What about banks outside of that? Ulster Bank is not in-----

Ms Ann Nolan: Ulster Bank would deal with the banking unit. It deals with banks to the extent that the Department of Finance, as a Department, deals with the banks separately as a shareholder. We have the two aspects separated: our interaction with the banks in which we have a shareholding, which is done through our shareholder management unit, and our interaction with banks generally, including our interest in how the banks perform and how they provide the lifeblood to the economy, which is done through the banking division. This division would have the same relationship with Ulster Bank, KBC and any of the-----

Chairman: Has Ms Nolan a view on how, say, the likes of Ulster Bank sell on their loans? I will not give her a specific example but I am referring to, say, a transaction between Ulster Bank and Cerberus and the loans within that which are called in. This has a direct effect on the performance and ownership of some small and medium-sized enterprises; they are treated particularly harshly. In other words, a business may be attempting to keep up its payments, performing as it did when it was with the bank, but now that the loan has been sold on, the approach is much more aggressive. The complaint is that businesses are being threatened and, therefore, jobs are being threatened, and there is very little flexibility. As we move along in this process, which is not finished yet by a long shot, we have that type of negative activity going on in the economy, driven by the off-loading of bank debt to such companies.

Ms Ann Nolan: With regard to mortgage debt, we have now passed legislation that ensures that the code of conduct on mortgage arrears applies whether that mortgage is held by the bank with which it originated or somebody who bought it subsequently.

Chairman: What about commercial loans and SMEs?

Ms Ann Nolan: The legal position of Cerberus or any other company - I would like to make it very clear that I have no personal knowledge of how Cerberus is treating any particular loan - that purchases loans is in is exactly the same as the previous bank, although I take the Chairman's point that there could be issues about attitude and so on. Obviously we have no rights to move into that space. We do not have rights as a shareholder either, so it does not make that much difference whether such a loan originated in a bank in which we have a shareholding or in a bank in which we do not because many of them have been sold anyway. We have tried hard to ensure that the companies that bought loans in the Irish market treat the lenders fairly. If there is a particular issue that the Chairman wants me to look into, I would be perfectly happy to-----

Chairman: It is particularly aggressive in some cases. I appreciate that it is a difficult part of the market and banks have to try to get their money back but where they are not giving breathing space to SMEs when legitimate attempts are being made to sort out their financial difficulties, that is causing serious problems for them because they cannot get over this aggressive approach and they cannot reach a reasonable position. Surely there must be some way of ensuring that does not happen because they will progress anyway. There has to be an approach to this by the State and that section within the Department.

Ms Ann Nolan: That section within our Department has been in contact with many of the purchasers of loans and has explained what our policy was, which was to help develop loans, particularly SME loans, to ensure they are worked out in a way that protects jobs and the economy. We do not have powers to force people to do things. It is private property. If somebody owns the loan, he or she owns the loan, and the terms and conditions were set down between the two parties when it was set up, but if there is a particular issue that the Chairman is aware of that he wants to give me information about, I would certainly be willing to talk to the relevant parties to see if there is anything we can do. The reality is commercial loans are dealt with under commercial law and we would at best have an influence on that, and even if we were to change the law, it could be difficult to change it for contracts that have been set up at earlier dates.

Chairman: The general complaint that I and others receive is that taxpayers' money totalling in excess of €60 billion went into the banks. They were bailed out with this money and when it comes to giving breathing space to some SMEs, no one seems to stand up for them. The other issue relates to the lending by banks to them. I receive complaints from all over the country regarding the attitude of banks to the SME sector. Ms Nolan can point to performances

within banks, statistics and all the rest of it but business organisations question that and question how serious the banks are in supporting the sector. It is only right that I would draw this to the Department's attention. It is rare that I would not get a complaint from representatives of business organisations when I meet them about lending to the SME sector. It is an issue for the Department of Finance because it affects the economy. We are trying to grow our economy based on the indigenous sector and sustaining 800,000 jobs in it. That complaint is out there and as the banks get back on their feet, they are being less than sympathetic to the plight of those trying to restructure and those trying to expand their businesses. That is my experience.

Ms Ann Nolan: I do not doubt that is the Chairman's experience. We have put a huge effort into trying to ensure the banks provide SME support. I know that hundreds of thousands of SME loans have been restructured all by the banks - AIB, in particular, because it had the biggest portfolio of SME loans - over the last number of years. Not all of those restructures were necessarily done in the way the owners of the loans would have wanted but quite a lot of them were and they are performing extremely well now. My understanding is that the NPLs in the banks are falling as a result of these restructures being in place and fixed. That is not to contradict the fact that some people are unhappy with what has happened.

In terms of new lending, our biggest initiative in the last 12 months has been setting up the Strategic Banking Corporation of Ireland, SBCI, which is providing low interest loans through the banks and through non-bank financiers to SMEs across the country. We will continue to grow that over the next 12 months to ensure SMEs have an alternative not just to the main banks but to leasing companies and so on to get low interest loans to develop further.

Chairman: I have a similar question then to Deputy O'Donovan. What steps have been taken in policy and in the governance of the country to ensure there is not a construction collapse? Similarly, what steps have been taken to ensure the banks do not get out of hand again because all the indicators are that, as they get back on their feet, they are as cheeky as ever?

Ms Ann Nolan: None of the steps will stop them being cheeky but we have put in steps to ensure they do not get out of hand in the way they did before.

Chairman: Are staff getting bonuses?

Ms Ann Nolan: No, they are not getting bonuses. I cannot speak for Ulster Bank but we have not allowed bonuses in any of the banks we have shareholdings in.

Chairman: Are they getting around that in any way?

Ms Ann Nolan: Not in a broad sense, anyway. There may be one or two cases. I could not swear that nobody has ever done anything. There have not been any widespread bonuses-----

Chairman: Is there a difference between a bonus and a retention payment?

Ms Ann Nolan: A small number of special payments have been made for people where they were moving to the country, for example, from somewhere else to take on a job. There are some retention jobs in NAMA but not as far as I know in the banks. There are obviously retention payments that have been well publicised in the Central Bank.

Chairman: What retention payments have been made by NAMA?

Ms Ann Nolan: NAMA, because it was winding down, was given permission to enter into agreements with a certain number of staff whereby if they stay until whatever date the agency

needs them to stay, there will be a payment at the end. I do not have full details but I can send them to the Chairman.

Chairman: What level of payment is being made to these people?

Ms Ann Nolan: The total amount is €20 million across all of NAMA over the next five years.

Chairman: What is that going towards?

Ms Ann Nolan: To go towards retention payments.

Chairman: NAMA is spending €20 million-----

Ms Ann Nolan: The agency is not spending it yet but if the people stay, it will spend it.

Chairman: ----on retention payments.

Ms Ann Nolan: They are actually redundancy payments but they will not get them unless they stay until the date that suits NAMA. The danger for an organisation that is winding down is that when people know their jobs are ending at the end of the following year, they will start looking for jobs now, and halfway through next year, the agency might have no staff to finish the job that needs to be done.

Chairman: When was that sanction given?

Ms Ann Nolan: That sanction was given last year.

Chairman: How many staff are involved?

Ms Ann Nolan: I do not have all the details with me but I can send the Chairman a note on it. It was publicised at the time.

Mr. Derek Moran: It is in the public domain.

Chairman: That is fine.

Ms Ann Nolan: I will send the Chairman a note on it. I just do not have all the figures with me.

Chairman: Is the Department satisfied with what is happening in the Central Bank in respect of retention payments?

Ms Ann Nolan: We did not sanction them. They did not come into us. It is a matter for the board of the Central Bank or the Central Bank Commission to agree those and I understand that they communicated with my colleagues in the Department of Public Expenditure and Reform, who are responsible for pay issues.

Chairman: Are these not bonuses by another means?

Mr. Derek Moran: The Deputy Governor over the weekend highlighted some of the challenges for them, which are current and ongoing. The Single Supervisory Mechanism, which is the EU-wide supervisor, is expanding rapidly and it tends to draw staff out of existing central banks, which still have to continue domestically to exercise their supervisory functions. The Central Bank has made public a lot of detail but it is about trying to keep critical people and to

retain them in their positions to get projects completed.

Chairman: Is it not a fact that if the Department allows these bonuses under the heading of retention payments, it is effectively allowing the Central Bank to set a trend where these payments are allowed and the whole thing then gets out of control in a similar way to the bonus culture that existed? If the Department allows it to say that it is keeping an employee and must pay them retention money, it is driving up the payment for that type of qualification in any other business so the whole thing gets into a spiral again and can get out of control. Here we see the Central Bank, which is supposed to be setting a good example, now setting an example for banks to follow and very quickly we are in situation which is difficult to control.

Mr. Derek Moran: My understanding is that it involves a very small number of people in middle ranks based around projects. The Central Bank is encompassed within the remit of the financial emergency measures in the public interest, FEMPI, legislation in terms of pay. My understanding is that the Governor has been in touch with the Department of Public Expenditure and Reform to say that no payments have been made outside that context. FEMPI has been a cornerstone of our being able to correct the fiscal position of the State. Anything that is done must be done within the context of FEMPI.

Chairman: That does not take from the fact that retention money is being paid, that there is a risk that other banks will use the same excuse to do the same thing and the Department is allowing the pressure to appear at a time when the economy, regardless of its growth, is still in a fragile state. We have not worked out all our problems in this economy. I was recently asked about whether a pension levy is being paid. There was a question mark over whether some employees were escaping that and not paying it for some reason or other. These are the questions that are now being asked. Permission is being given for this payment. I think we are heading down a road that will be hard to control once that precedent is set.

Where will the €4 billion that will be repaid by AIB and the different payments coming in from the bank be paid to? Will it be paid directly off the loan or will it go into general receipts?

Mr. Derek Moran: Are these the receipts from the restructuring?

Chairman: Yes.

Mr. Derek Moran: They will be paid into the Exchequer. I think the first tranche is due before the end of the year.

Chairman: Once they are paid into the Exchequer, is there an obligation that they go against a loan and that they do not go into the general take for-----

Ms Ann Nolan: They go into the NTMA. My understanding is that rather than pay off a loan, the NTMA, in anticipation of this, cancelled some of the money raising it intended to do in December.

Chairman: It does not get spent generally.

Ms Ann Nolan: No, it does not get spent generally. It is used to reduce the debt. It is just that it is not by paying off a loan, rather through not borrowing when there should be borrowing.

Chairman: Will the Department give the committee a note on the €20 million-----

Ms Ann Nolan: I will give the committee a note but my understanding is that when we

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agreed that the cap was €20 million, it had 77 expressions of interest, 51 of which have been accepted. This probably will not come up to the full €20 million.

Chairman: How many have been accepted?

Ms Ann Nolan: A total of 51 applications have been accepted. It is a redundancy payment because it is paid when the people are leaving if they stay to the date that suits NAMA.

Chairman: And the Department has set aside the €20 million to cover that?

Ms Ann Nolan: What we have said is that it can spend up to a maximum of €20 million on it. It could be less.

Chairman: Obviously, that is what it will do.

Ms Ann Nolan: Not necessarily. It depends on whether people stay.

Chairman: Who will keep an eye on it?

Ms Ann Nolan: We will get annual reports.

Chairman: Will the Department be there?

Ms Ann Nolan: The man beside the Chairman will keep an eye on NAMA.

Mr. Seamus McCarthy: I will, of course, report to the committee.

Chairman: After the deed is done.

Mr. Seamus McCarthy: That is audit.

Deputy Joe Costello: I am sure the Chairman will keep an eye on it as well. Mr. Moran, Ms Nolan and their team are very welcome. The first thing to recognise is that they have presented us with a good news story. There have been excellent returns in virtually all categories, including corporation tax, which has been phenomenal. We should look at it initially from that point of view. A figure of 140,000 jobs is incredible over a few years. Unemployment is down from 15.3% to 8.9%. Gross Government debt is down from 120% to 97%. The general Government deficit is down from 11.5% in 2009 to 2.1% in 2015. These are phenomenal results in a very short space of time and the Department should in the first instance be complimented on them. All the indications are that there will be strong progress in a positive direction in the future.

In respect of corporation tax, which has been teased out in considerable detail and on which I will not dwell, I would speculate in terms of getting a final solution. I hope the Department does come back to us with a more detailed statement as to where all of that money has come from after all the econometric models are completed and the IDA has produced its final report. Mr. McCarthy spoke about exchange rates and the depreciation of the euro versus the dollar from \$1.29 to \$1.05 or thereabouts. That is depreciation of almost 25%. Considering that the vast majority of the multinational companies are US companies that are trading in dollars or using currency of that nature, this alone would affect a considerable amount of it.

It seems that the IDA has done a fantastic job throughout the recession and there has been an unexpected increase in attracting multinational companies to the country. It appears that even while the economy was going down domestically, through the global Irish network and

the IDA, those critical areas of foreign direct investment not only remained intact, there was a substantial increase in those years and this is now coming to fruition. Perhaps the second pillar of that was that for the first time ever, small and medium-sized Irish industries were trading abroad because there was no domestic consumer market here. They have now established bases so there is a strong trading return coming from the international exports stage. Now that the domestic market has picked up substantially, a double whammy is coming forward when the opposite was true in the past. This could account for a certain amount of the profits that are now being realised.

Despite all of that, the phenomenal increase of 2.2% or 2.3% over 2014 from €4.184 billion to €6.361 billion requires further teasing out and clarification. I would love to see the details of why and how Mr. Niall Cody, the chairman of the Revenue Commissioners, was able to say that this was sustainable going forward and that it was not a windfall but effectively cyclical and sustainable. Could the witnesses respond? I do not want to go into any further detail but could they expand on whether this scenario could exist and also expand on what they have already said?

Mr. Derek Moran: I have no doubt that as we work through the data, we will make that available because it is important for people to understand and have confidence in what is going on. The Deputy is right to say the flow of foreign direct investment continued throughout the darkest days. Our colleagues in the IDA have done a remarkable job and have ambitious targets. When a company sets up, it takes a bit of time before it starts paying tax. It does not pay tax from day one. That flows through eventually. Both Mr. McCarthy and I have said, and it features in the chairman's letter, that the small and medium enterprise, SME, sector, is characterised as the smaller payer of corporation tax, but there are now more SMEs. Those that were paying tax are paying more. In respect of the uplift in corporate taxation, the concentration in the top ten groups has not changed proportionally. It is approximately one third. It is good news. We have to be cautious. At the level we are at, in terms of corporation tax collected and assuming we get what we are expecting in December, we are there or thereabouts in the target for next year which removes some of the risk while we are doing this analysis.

Mr. John McCarthy: The Deputy makes a valid point about FDI during the very difficult years. There is always a lag.

Deputy Joe Costello: There would be a lag. Will Mr. McCarthy give us an idea of the percentage increase year on year in that period, not necessarily now? What level of trading took place? For example, I was a Minister of State with responsibility for trade and development, which was part of the Department of Foreign Affairs and Trade. All the embassies were mobilised as economic engines where Irish networks were established all over the world. Trade missions then went to an area where there were networks of Irish business people plus networks of other business people. All of a sudden there was business coming to small and medium enterprises that could not trade in Ireland or had never traded abroad before. I would love to see an analysis of the effectiveness of that because the focus was on the Global Irish Network in Dublin Castle, the ideas it came forward with and the amount of FDI it continued to mobilise for Ireland. It was able to mobilise SMEs, which could not sell anything at home because there was no consumer market, to go abroad and do that and maintain those high levels of export. That could be flowing into a particular resolution now in much the same way as the most recent figures for unemployment were down from 9.4% to 8.9%, a drop of 0.5% in one month. That came out of the blue and nobody asked how. Why could we have that amazing drop at this time? It could be a series of events coming together that are now delivering on the work that

happened in the past.

Mr. Derek Moran: That outreach and effort is very impressive. Under one roof in the consul general's office in New York there are the IDA, Enterprise Ireland and Tourism Ireland reaching out and developing networks. It is concerned not only with multinationals but also with SMEs, finding the opportunities and matching them up. The Deputy is right that when these efforts start, their work is not visible but they do deliver results. The effort of having it all consolidated in one place is a very good example.

Mr. John McCarthy: We will publish any technical work done to explain the corporation tax numbers, and we can then get the figures for the Deputy on FDI and its strength during the crisis. It happens with a lag. There is an announcement, the investment takes place, followed by the exports and the profitability. It accumulates over time and we are probably seeing some element of that now.

Deputy Joe Costello: Mr. Moran mentioned the Asian Development Fund and a payment of €1.8 million. What is that fund?

Mr. Derek Moran: I will have to come back to the Deputy with some detail on that.

Deputy Joe Costello: We contribute to and are a member of the Asian Development Bank, so presumably it is related to that but we are not a member of the African Development Bank. Africa is the second fastest growing part of the globe and there are huge investment and trade opportunities coming up there. Why are we not a member of the African Development Bank? Our overseas development is concentrated in Africa yet it sticks out like a sore thumb that we are not a member of that bank while we are a member of the Asian Development Bank and I do not know why we are putting money into it.

Ms Ann Nolan: We do quite a lot of trade with Asia, although I accept what the Deputy says about Africa. We are having some initial discussions with the African Development Bank. There has been no decision about whether we would join but we are examining what it does and what would be the advantages in terms of our overseas development aid, ODA, and trade with Africa. We do significant trade with various parts of Asia and are a part of the Asian Development Bank and make occasional contributions to that. The Government is also considering the question of the development bank being set up by China but we will not be a founding member of that.

Deputy Joe Costello: The development bank would deal largely with development projects but we are not engaged in that work in Asia. We are engaged in trade with Asia. I do not see the importance of it *vis-à-vis* what we do in Africa. The budget for ODA is €640 million. The lion's share of that - excuse the pun - is spent in Africa, yet we are not able to engage with the various projects the African Development Bank wants us to engage in and in which it has asked us to engage. I raised this when I was Minister of State. That we are having initial discussions now seems like lip service and there is no real, serious intent, yet we could be doing business there, acquiring projects and developing a base we do not have now. We would be developing it in an area where there is much goodwill towards Ireland and which wants Ireland to get the contracts.

Ms Ann Nolan: We will certainly take the Deputy's views into account.

Deputy Joe Costello: Could we get a push on it?

Ms Ann Nolan: I will see what I can do. It is certainly an area in which I would have a personal interest. We are involved in the World Bank through our overseas aid work. In the end it will be a Government decision and that is a policy question.

Deputy Joe Costello: The Department of Finance has been the problem in the past. Could it be part of the solution on this occasion?

Ms Ann Nolan: We have had initial discussions with the African Development Bank but I cannot go any further than that today.

Deputy Joe Costello: When does Ms Nolan expect to complete them?

Ms Ann Nolan: It will be a Government decision and it will probably not be taken in the lifetime of the current Government.

Deputy Joe Costello: I presume the Department will make a recommendation to the Government.

Ms Ann Nolan: Yes, we will make a recommendation. To be honest, that recommendation is not imminent.

Deputy Joe Costello: Is there no chance of making it to the current Government?

Ms Ann Nolan: My understanding is these are initial discussions and these discussions generally take a considerable time.

Deputy Paul J. Connaughton: Does Ms Nolan know the date of the election?

Ms Ann Nolan: Even if the Deputy took the last possible date for the election, this is likely to take longer.

Deputy Joe Costello: That does not sound terribly hopeful.

Ms Ann Nolan: I am not saying it will not happen; I am just saying these things take a long time.

Deputy Joe Costello: May I raise one further point in respect of NAMA? What is the expected return from NAMA? Does the Department expect NAMA to deliver entirely on its debts? While I believe it was indicated that NAMA would produce a surplus of approximately €1 billion, the Department expects NAMA to complete its business in 2018.

Ms Ann Nolan: As for NAMA, it depends on which business. We are expecting NAMA-

Deputy Joe Costello: I refer to the debts it has drawn down-----

Ms Ann Nolan: The Government-guaranteed debt-----

Deputy Joe Costello: -----at the cut-off price for which it has got those debts. I believe the figure was 45% or 55% of the par value.

Ms Ann Nolan: NAMA will continue to process the debts it purchased either to develop or to sell. We expect it will have paid back the Government-guaranteed bonds by the end of 2018. The agency is obliged to have 80% of them paid back by the end of next year and to date, it has paid back 73%. Consequently, NAMA is well on target to make good on 100% of the primary

debt. It also has subordinated debt, which is owed to the banks, and it expects to pay that back by 2020 because that is when it is due and I cannot think of any particular reason NAMA would pay it back early. In the meantime, one provision in the NAMA Act is that the agency is to consider dysfunctions in the market and at present - a Deputy made reference to it earlier - there is a clear dysfunction in the housing market. Within that mandate, NAMA has decided it will, through its debtors and others, build 20,000 houses between now and 2020, primarily in the Dublin area but also in other urban centres where they are needed and that work is continuing. NAMA also has some long-term development work in the strategic development zone, SDZ, area, particularly in the Dublin docklands, where the agency has a lot of property or property interests and that project is ongoing. There will be a decision whenever we do the review, obviously we will review the agency after it has paid back all the Government-guaranteed debt, as to what it intends to do in the long term with those long-term investments.

Deputy Joe Costello: At this point in time, we are 50% of the way through NAMA's remit. It was set up in 2010 and is due to go out of existence in 2020. It has paid off or is on the way to paying off 80% of its debt by next year. That was €32 billion, of which twenty-something billion euro has been paid off. At this point, NAMA has accumulated a considerable profit and is it not time to review the direction of NAMA? Is there any advantage at this point, with property prices rising, for NAMA to concentrate on the disposal of property? Members have been discussing, in this committee room, some of the large portfolios that recently have been disposed of by NAMA. Is it not time to have a review of NAMA's remit and to focus NAMA as an investment vehicle for precisely those activities, namely, the 20,000 new housing units and the SDZ in the docklands? The latter is to create 23,000 jobs and NAMA is investing money in it. Should this not now be the sole focus of NAMA, rather than its disposal of property?

Chairman: That is a policy matter.

Deputy Joe Costello: While it is a policy matter, the Department of Finance is responsible for advising on this policy matter. Ms Nolan indicated there would be a review. I do not believe there is provision in the legislation for a review.

Ms Ann Nolan: I think I can say to the Deputy that we carried out a section 227 review, which was required after three years, if I remember exactly, and there will be a further review after a further three years. The first review we undertook suggested NAMA should speed up its property sales, which is what it has done subsequently. I should point out NAMA owes €8 billion that is guaranteed by the Government and which Moody's finally has agreed is no longer a serious threat to the Government. However, were we to change the strategy and state the agency no longer was obliged to pay back the aforementioned €8 billion, it would not take long for the rating agencies to start saying the Government was responsible for this debt. What we must get and what we have asked of NAMA under the section 227 review we have completed is that balance between long-term investment where it is needed because there is a disruption in the market, as provided for in the NAMA Act, and the payback of debt at a point to stop this debt being a millstone around the country's neck and damaging growth in the country. This is the current position but obviously, there will be another section 227 review in, I think, another year. Can the Comptroller and Auditor General remember in what year it is due?

Mr. Seamus McCarthy: On a point of clarification, I am obliged to draw up a report every three years-----

Ms Ann Nolan: I do it every five.

Mr. Seamus McCarthy: No, the first one was on the three-year cycle and then it is five. Consequently, I expect to have a report next year, a section 226 report, but the Department will not be required to do a report under section 227 until 2017-8.

Ms Ann Nolan: The reality is that by the time we get the report of the Comptroller and Auditor General, which will feed into our one because he will have done the factual review of what NAMA has done, which we then can take as facts-----

Deputy Joe Costello: That is another one for the new Government.

Ms Ann Nolan: I am afraid so.

Deputy Joe Costello: While I believe NAMA has done a good job, it is time for a redirection into a more dynamic area of operation.

Finally, if I read it correctly, the Department's borrowing rate is approximately 3.5%. What is the current mixture between short-term and long-term borrowing? The rate still seems very high, considering what is the international rate and that Ireland has a pretty solid rating with the agencies at present.

Mr. Derek Moran: I am not sure we have that information to hand.

Mr. John McCarthy: I do not have the amortisation profile to hand. There is quite a bit that must be redeemed in the next five or six years but I do not have the profile to hand.

Ms Ann Nolan: I also should state the rate of 3.5% is the average for this year, is it not?

Mr. Seamus McCarthy: It is the average at the end of June 2015.

Ms Ann Nolan: It would include some of the high-interest loans that have been since repaid.

Mr. Seamus McCarthy: Yes, it is across-----

Ms Ann Nolan: We would expect the average to have fallen, given the repayment of the International Monetary Fund, IMF, loans over the year of 2015. The average at the end of June would include some of those IMF loans.

Deputy Joe Costello: Most of it is in the form of long-term maturities but there still are some expensive short-term debts.

Mr. John McCarthy: We actually have a profile in the budget documentation as to what the average interest rate will be between now and the remainder of the decade. As has been mentioned, it is approximately 3.5% at present but it will fall to 3% by the end of the decade. If I recall correctly, within this document, which I can make available to the Deputy, we also have the funding profile, the debt maturity profile over the next couple of years, so that is available.

Mr. Seamus McCarthy: We actually have it in the debt chapter. In the first instance, members might turn to figure 2.3 on page 21.

Deputy Joe Costello: I do not have it here.

Mr. Seamus McCarthy: I apologise; the page numbering is different. It is page 3 on the committee's numbering system. That diagram actually is the composition of the gross national debt each year, showing the breakdown between medium and long-term debt, short-term debt

and other debt. There is relatively little short-term debt at present. Were one to look back to 2008 or 2009, short-term debt was a higher proportion of the overall debt at that stage.

Deputy Joe Costello: That then would suggest that the vast majority is medium to long-term debt.

Mr. Seamus McCarthy: It is and were the Deputy to-----

Deputy Joe Costello: At 3.5%, which is the overall average, in the current market, this would appear to be very high or is it?

Mr. Seamus McCarthy: The debt obviously has built up over time and consequently, for debt which was taken on at an earlier stage at a higher interest rate, particularly when taken on at a fixed rate, as is most of the debt, while there may be short-term movements it will not necessarily feed in unless the National Treasury Management Agency, NTMA, was to refinance the debt. If members were to go down a couple of pages to figure 2.4, it actually gives the profile of repayment as at the end of June. Members can see here the tranches of debt that fall to be paid back over the next four or five years. There is obviously a big payback around 2020, but the debt stretches out for 40, 45 years.

Deputy Joe Costello: Will there be rollover-----

Mr. Seamus McCarthy: There will be refinancing of that. There is quite a bit of activity in terms of refinancing.

Deputy Joe Costello: Would now not be the time to do it, when interest rates are so low?

Mr. John McCarthy: The NTMA has certainly been active in the market in terms of refinancing, including refinancing the IMF debt which, I think, carried an interest rate of about 5% with much lower debt.

I think it is important to bear in mind when we talk about the debt figure - the 97%, for instance, that we are talking about for 2015 - that includes cash and semi-liquid assets that the NTMA holds. If one excludes that - it amounts to about 17% of GDP - our net debt is much lower; it is at 80% of GDP. We would see that as the more relevant metric. Certainly when the credit rating agencies come in to talk to us, we would try to highlight that and that is the one they would be interested in. So there is a big buffer there, so to speak, for prudent reasons.

Mr. Derek Moran: There would also be a question of how much liquidity - how much demand - there would be at any point in time. They have to manage that. There is also a huge bond-buying programme ongoing in the secondary market as part of quantitative easing. So all of those things play one against the other, but the interest profile is falling, bit by bit.

Deputy Joe Costello: Moody's is still giving us a rating below A. Will that change in the right direction?

Mr. Derek Moran: We do our best.

Deputy Joe Costello: That is for the next Government.

Chairman: I want to go back to back to the Central Bank question I asked. I just read in reports here that 29 or 30 people benefit from the bonuses of roughly €20,000 each. Who sets the criteria for qualifying for that bonus?

Mr. Derek Moran: Sorry, Chairman, I would have to go to get some detail. My understanding is that it would have gone through the Governor's committee, which is the senior management committee and be approved by the budget and remuneration committee of the commission. How they identified the jobs, I am not quite-----

Chairman: Has the board of the Central Bank done so?

Mr. Derek Moran: These payments would have gone to the audit and remuneration committee and the audit and remuneration committee would have reported to the board of the commission.

Chairman: Is Mr. Moran a member of that board?

Mr. Derek Moran: I am a member of that board, yes.

Chairman: Mr. Moran cannot confirm that number or who sets down the criteria to qualify.

Mr. Derek Moran: I am a member of the board. My first board meeting was September of 2014 and this would have been done in the July period. Technically, I took over but I did not attend my first board meeting until then. Can I get the Chairman more information on it in terms of modalities of how that is done?

Chairman: I think it is a serious development that this is happening. I am interested to know who sets the criteria to qualify for these bonuses. I note in the report from the media that Unite is the union and it is concerned about this. Again it goes back to giving example to the banking sector and setting the precedent that they can follow this in other banks and indeed across the economy and then that drives the pay scale to an uncontrollable level.

I ask Ms Nolan to confirm that it was €20 million that the Department had set aside.

Ms Ann Nolan: I did not say €20 million was set aside, I said €20 million was the maximum it could spend.

Chairman: It was the maximum it could spend and there were 77 expressions of interest.

Ms Ann Nolan: Yes.

Chairman: Some 51 have been approved to date.

Ms Ann Nolan: Yes. Those are the figures I have.

Chairman: If the €20 million was set aside and there were 77, it would give-----

Ms Ann Nolan: No. There was a maximum for each person as well.

Chairman: What was the maximum?

Ms Ann Nolan: I do not have the figure with me and I cannot remember, but it was nowhere near €200,000. There was a maximum per person. There is a whole range. I can get the Chairman a note on it because it was public at the time.

Chairman: If she would-----

Ms Ann Nolan: There is no problem.

Chairman: To me that is a staggering amount of money.

Ms Ann Nolan: It certainly is not €200,000, as I understand it.

Chairman: It is still an extraordinary amount of money, the more I think about it and the reasons for it, given what people went through in terms of their employment and the FEMPI legislation and all of that. This is beginning to creep in at a level within the banks and NAMA that gives it the look of a cosy set of people being looked after. When people object to it or talk about it, very little detail is being given to them. Indeed, in the Central Bank it is almost being done as a secret arrangement with staff. The Department of Finance has a role to play in this. If we allow all this to happen and to slip, we are simply going backwards. That is my honest view on it. I do not think we are at the stage that the Department can allow something like this to happen, particularly in the banks. It is allowing the wrong message to be sent out. Caution has to be urged in this regard in spite of the challenges that exist to keep key personnel. I would like to see who is writing the criteria by which a person qualifies for all of these bonuses. We are back into the game again.

Ms Ann Nolan: On the NAMA ones, I would like to say that this is being paid when people leave. It is not a bonus payment that is paid while people are staying.

Chairman: It does not make-----

Ms Ann Nolan: It is paid over time for people if they stay.

Chairman: It is a retention payment.

Ms Ann Nolan: It is a retention payment.

Chairman: Therefore it is under a different name. This argument will go on now. For example, a reward model for the Central Bank is being considered. A consultant has been or will be brought on board to define what this reward model might look like. Other people in the Central Bank are bemoaning the public pay restrictions and so on. Who is paying the consultant to do this? Why is the restructuring taking place against this backdrop of disquiet about the amounts of money being paid? It is moving in the one direction, as it did before, where the consultant will make the argument stand up because he who pays the piper calls the tune. Lo and behold he or she says they are all entitled to a bonus while everyone else in the economy is finding it hard to get their entitlement in terms of a salary or wage.

The Department needs to take this on board. It is a serious development that will have consequences across the economy. If the Department allows the retention description to creep in, further descriptions will creep in that will allow further exceptional payments to be made. That is not where we are at. That is not what I see in the economy. Mr. Moran is not accountable to us in his position as a member of the board of the bank, but certainly it is a way to send a direct message back to the bank that it has a little distance to go and it should be leading by example.

Mr. Derek Moran: Just on that, the people and the structure within the bank are being looked at in a very generic way, but it has to fit within the restrictions of FEMPI and the bank will look at that. One of the responsibilities is to make sure that everything fits, kind of complies with the law and the bank is within the FEMPI restrictions like everybody else. That has to be brought to bear.

Chairman: So part of the consultant's brief will be to ensure that whatever reward model

is finally decided upon, will be shoehorned somewhere into the FEMPI legislation, but it will achieve its end because it has done already in the context of the Central Bank where people have benefited. It is a retention description being used in NAMA. I reiterate that we need to urge caution here.

Deputy Paul J. Connaughton: The witnesses are very welcome. I have a few very brief questions. Deputy Costello referred to the credit rating organisations. Does the Department meet with their representatives regularly?

Mr. Derek Moran: At least once a year.

Mr. John McCarthy: At least once a year is the requirement but in the past couple of years it has been closer to twice a year.

Deputy Paul J. Connaughton: When the recession occurred the rating agencies got it just as wrong as anyone else. Why do we put so much meat in the ratings?

Mr. Derek Moran: The Deputy's comment is correct. That said, an external validation and rating is hugely important in terms of market access and the rate at which one can raise money. They became extraordinarily conservative after the bubble and we have come back bit by bit. There is only one rating agency now which does not put us at the highest rating level. They are important in terms of an external and independent assessment of where the State as a sovereign stands. That is notwithstanding the mistakes they made in the past.

Deputy Paul J. Connaughton: Is there not an issue with the fact that there are so many different ratings agencies? Someone is calling it wrong somewhere. Standard & Poor's give us an A+ and Moody's give us Baa1.

Mr. Derek Moran: Their ratings are not standardised. They all have their own systems. The important part is where one stands on a particular list and we stand at the top in-----

Deputy Paul J. Connaughton: It is good that we are going in the right direction but if the ratings are going the other way, is there not a point at which we say they do not know what they are talking about?

Mr. Derek Moran: Yes.

Mr. John McCarthy: The Deputy is absolutely correct. The behaviour of the credit rating agencies, CRAs, was completely pro-cyclical. When everything was going great everything was triple A and when things changed, not just in Ireland but globally, it was *vice versa* once the difficulties kicked in. It is important to remember that there have been a number of regulations adopted at European level aimed at reducing the dependence of sovereigns and others on credit rating agencies. That pro-cyclicality will hopefully be improved somewhat because that is in all our interests.

Deputy Paul J. Connaughton: The fiscal advisory council is a welcome development. It is good to have someone outside looking in. What is the Department's engagement with it on a regular basis or is there any?

Mr. Derek Moran: There is. It is a welcome development. If we had an independent voice like the Irish Fiscal Advisory Council ten or 15 years ago, it would have been a help. From my point of view, one of the things that is hugely important is for us to respect its independence in terms of its assessments and so on. Most of the day-to-day dealings are between Mr. McCar-

thy's area - the economic and the budget areas - and that is governed under a memorandum of understanding. There are frequent meetings. At critical points in the year when we are getting the endorsement, for example, of the economic forecast it is a very good thing that somebody external looks at the figures and says they fall within endorsement range and that there is no inherent statistical bias in what the Department of Finance is doing. That is very detailed, right down to an extraordinarily granular level.

Mr. John McCarthy: I will give a little bit more flavour and detail. My team on the macro forecasting side would engage with the council on two occasions a year, in advance of the budget in September, and in advance of the stability programme update, which the Government normally submits to Europe in April. We then tend to engage with the Oireachtas because we attend the finance committee and make the exact same presentation we give to the Irish Fiscal Advisory Council in terms of the budget. That has been done for the past three years. The Minister tends to accompany us then, again to the finance committee, to discuss the stability programme. That is the engagement with the council on the macro forecasts. We would then engage with it because every year it does two fiscal assessment reports in terms of the stance of fiscal policy and whether it is compliant with the rules. That is what we had last week or the previous week. Then the Minister formally replies, as he is legally required to do, to the council's opinion in the fiscal assessment reports. Then there is some informal engagement as well during the year in terms of how the rules are applied and how things are going and so forth. That is much more informal. We have both formal and informal meetings.

Deputy Paul J. Connaughton: At what point does the Department tell the Irish Fiscal Advisory Council what we are going to do and does it have an input into the decisions taken?

Mr. John McCarthy: The council has three roles. First, it has a role in assessing whether the macroeconomic forecasts are appropriate or realistic. On the last three occasions it has said "Yes". It has a role in assessing compliance with the fiscal rules relating to the Stability and Growth Pact and our own domestic rules. Then it has a role in assessing whether the stance of fiscal policy is appropriate. It has a role, but it is on the outside looking in, so to speak. It cannot tell the Government what to do. It can simply advise the Government on the appropriate path. It can advise the Government that the forecasts are appropriate or not. It can advise the Government that it is breaching the EU rules. However, this is a democracy, and the Government ultimately decides what it will do.

Deputy Paul J. Connaughton: I think it raised issues to do with the sustainability of the gain from corporation tax. It was said earlier that when large volumes of money come in, the new rules mean that one does not spend it straightaway. Is it just used to pay down debt?

Mr. John McCarthy: Yes.

Mr. Derek Moran: The net effect is that we are required to borrow smaller and smaller amounts to fund the State so it has the effect of allowing one to borrow less to fund the deficit so that one's debt does not go up by as much. The interaction between Mr. McCarthy's people and the Irish Fiscal Advisory Council is at a very professional level. Comprehensive information is provided for the forecasts and as Mr. McCarthy said, outside of the formal engagements there are other meetings. The assessment of the council is that the budget for 2016 is compliant with the rules on the basis of the numbers. It is the council's job to highlight risk. The level of debate around fiscal policy and budgetary policy is much higher now than it was eight or ten years ago. That is incredibly positive.

Deputy Paul J. Connaughton: Yes.

Mr. Derek Moran: It is hugely important that we have such a system rather than have a consensus with no external narrative and nobody voicing dissent. In addition to the Irish Fiscal Advisory Council, we go through processes with the European Commission as well, which involves very detailed scrutiny of what we do within the context of pretty arduous albeit economically sensible rules.

Mr. John McCarthy: It needs to be borne in mind as well that there is a symmetry in this. The Deputy mentioned that in certain circumstances tax receipts are high but one cannot spend the money. The same applies on the way down. In other words, if there is a sharp cyclical fall in tax revenue, that does not mean one has to react because it is now considered in structural terms, so one is looking at the underlying position. In other words, one does not have to adopt pro-cyclical policies on the way down. That is why the rules are designed to lead to a better type of policy over the full economic cycle. One is not pro-cyclical on the way up in the sense of when we have it we spend it and when we do not, we do not. It is about sustainable fiscal policies and budgetary policies supporting aggregate demand through the cycle.

Deputy Paul J. Connaughton: One other area to which reference was made is to the credit union sector. Reference was made in the opening statement to the Credit Union Restructuring Board, ReBo. A total of €250 million was put up in this regard. Has the sector used approximately €64 million to date?

Ms Ann Nolan: It is around that between the two funds - the ReBo and the restructuring fund.

Deputy Paul J. Connaughton: Was it the belief in the Department of Finance that the hole that existed was of the order of €250 million? How was the figure arrived at and how come there is such a difference between it and what has been drawn down?

Ms Ann Nolan: There were two funds, the fund for the resolution, which was €250 million, and a second fund of €250 million for ReBo. There were estimates, which I considered to be over-estimates, made of the likely losses within the credit union sector a number of years ago. At the time, because we were still in the programme, our programme partners were anxious that enough money would be put aside to ensure that even if the worst case scenario materialised in the credit union sector there would be enough money available. The eventual agreement was that we would have two €250 million funds. In the event, a number of things happened. First, I do not think the problems, although they were significant, and very significant in some individual credit unions, throughout the movement were quite as bad as had been estimated. Second, there is the capacity of the movement to look after itself, both through its own savings protection scheme, SPS, and by not paying out dividends as much as they had been through retention of profits, and being able to repair the balance sheets. I believe they were underestimated.

Also, regarding ReBo, the state aid rules are such that it is very difficult. If credit unions take aid, they have to pay it back, and many of them feel it is easier, if they are amalgamating, to keep that to a minimum and so they can, within their own resources, see the benefits of amalgamation. ReBo has done a very good job in providing the credit union movement with the capacity and incentive but not necessarily, and it has not turned out to be as necessary, to provide money to allow credit unions to amalgamate.

Deputy Paul J. Connaughton: I know the regulator is based in the Central Bank, but

would there be any concerns within the Department that there is over-regulation of the credit union movement at present?

Ms Ann Nolan: I know there is much talk about the new regulations and so on. Given that we are supposed to be looking at the history here, I do not want to go into what is current policy and what the current Minister might or might not do. I believe the regulation of credit unions was very necessary. People talk to me about what restrictions should or should not be put on credit unions. The fact is that many credit unions have put restrictions on the deposits they can take themselves and on the loans they make themselves. It is not just the regulator. The credit union movement is renewing itself and has a huge contribution to make. I would be delighted to see it well regulated but in business.

Deputy Paul J. Connaughton: There is no fear of over-regulation at the moment?

Ms Ann Nolan: Everyone is always afraid of over-regulation but in my experience that has not been the case that much.

Deputy Paul J. Connaughton: My final question is that in terms of the figures announced yesterday, it is good news.

Mr. Derek Moran: Notwithstanding-----

Ms Ann Nolan: It is good news. Go on, say it.

Mr. Derek Moran: Sorry, I am starting to sound like Mr. McCarthy, who was very pessimistic. "Yes" is the answer.

Mr. Seamus McCarthy: I was going to say that is our good problem.

Mr. Derek Moran: We are rapidly going back to getting the public finances into some semblance of balance. The reality is that if this holds over until next year, all other things being equal, and classic economists' qualification and so on, we are looking at a deficit at the end of this year of around 1.7%. We started off with a deficit target for next year of 1.2%. If this carries through, we are down to a figure of zero point something. We would be down to getting very close to a balanced budget and getting ourselves out of what is known as the state of the pact that we are in-----

Mr. John McCarthy: We move from the corrective arm this year to the preventive arm.

Mr. Derek Moran: The preventive arm and then out of it once we reach a balanced budget in cyclical terms so "Yes", it is good news. Sorry, for the long answer; "Yes" probably would have sufficed.

Chairman: On what Deputy Connaughton said about the credit unions and regulation, everyone understands the need for regulation. They are rebuilding their organisation and different branch structures and so on but the regulation that is beginning to have an impact on them is having a negative effect on those who borrow, particularly those on the edge between the mon-eylender and the credit union. The amount of red tape people have to jump through to get a loan from a credit union is so significant now that it is almost creating an inflexibility within credit unions to deal with loan applications that come before them that can be paid back but, for some reason or other, regulation is preventing that from happening. The credit unions that I have met have a case. We can over-regulate and over-complicate a sector that has done so much good for the country and for those members it represents. Given the fact that the credit unions have €7

billion to €9 billion in the banks and are ready to activate it in terms of house construction or loans to small and medium businesses, and I am talking about those single employers or family employers at that level within the small and medium enterprise sector, the Department should be proactive in ensuring that money is released into the economy to a sector that is finding it difficult to borrow.

Ms Ann Nolan: We would certainly encourage the credit union movement to develop appropriate extra loans, whether it is in the microfinance area or whatever. I know a pilot scheme is being run at the moment with the Department of Social Protection and that 25 or 30 credit unions are looking at microfinance for those people to whom the Chairman referred as being close to the moneylending area. If that works out it would be great, and we would also be encouraging the development of products in social housing and other areas. I have spoken to the regulator about the importance of developing products in those areas.

Chairman: Has Ms Nolan had discussions with the public banking forum using the model from Germany with her section in the Department?

Ms Ann Nolan: There have been some discussions, and I know a submission on it went to the Minister recently. As it is a matter of policy for the Minister, I cannot really speak for him.

Chairman: Ms Nolan has met the group-----

Ms Ann Nolan: We have met the group.

Chairman: -----and it is now at the level of being on the Minister's desk.

Ms Ann Nolan: I am just not certain whether the Minister has made a decision on it.

Chairman: On the letter from Revenue that was mentioned, which Ms Nolan referred to in her replies, is it possible to have a copy of that letter?

Mr. Derek Moran: Of course. We have put it on the website as it is important.

Chairman: Okay. In terms of IBRC and the cost of that inquiry, we expressed concern to officials from the Department of Public Expenditure and Reform regarding the fact that it is open ended. Where stands that now?

Mr. Derek Moran: I understand Mr. Watt supplied information to the committee subsequent to him being here. The responsible Minister on that inquiry is the Taoiseach rather than the Minister for Finance because we are not just a witness to it but subject to it. We do not have a role in it.

Chairman: Does the Department not write the cheque?

Mr. Derek Moran: No.

Chairman: It comes out of the-----

Mr. Derek Moran: It comes out of the Taoiseach's Vote.

Chairman: In regard to that, the Department is responsible for Revenue. Revenue collects the taxes. When it collects that tax and it goes to, say, the Taoiseach's Department, relative to the payment of the inquiry, does the Department express a view on it?

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Ms Ann Nolan: That is a matter for the Department of Public Expenditure and Reform. Under the rules, we just give a gross amount, effectively. We do not get to express a view on individual items. That was divided between the two-----

Mr. Derek Moran: The Minister for Finance approves the overall aggregate-----

Chairman: Let me put it a different way. The Department is responsible for collecting the taxes. Is that right?

Mr. Derek Moran: The chairman of the Revenue Commissioners is responsible-----

Chairman: He collects taxes. The Department sets the policy-----

Mr. Derek Moran: Yes.

Chairman: -----so it gets the taxes. Is the Department concerned about what has been revealed in the past ten or 15 years by the Comptroller and Auditor General regarding the poor value for money achieved by some Departments in terms of inefficiencies? Is it satisfied, for example, with regard to the €2.6 billion, which is taxpayers' money regardless of where it comes from, that will go to Irish Water up to 2016 which is not audited by the Comptroller and Auditor General? The PAC has no input into it. Is Mr. Moran satisfied that there is no public scrutiny of the local government audit, which is outside the remit of the committee and the Comptroller and Auditor General, or allocations such as €6 million for Limerick's bid to become European City of Culture? It is difficult to know who will audit that. As legislation is prepared for the spending of such money, whether it is by local government or Irish Water, why is an effort not made by the Department, in particular, to ensure the money collected is spent correctly and that structures are in place to oversee that spend by having the Comptroller and Auditor General audit these large figures and provide for public scrutiny of those figures and a debate on them? Surely Mr. Moran must have a concern-----

Mr. Derek Moran: Like any public servant, one has to be concerned to ensure value for money is being achieved. In 2011, the expenditure allocation functions and virtually every function described by the Chairman were reallocated to the Minister for Public Expenditure and Reform. We retain responsibility for tax policy, the collection of taxes, the budget and banking issues but that element of what we used to do has been separated from us. Of course, we should always endeavour to get the best value for money. Where money is allocated, one ensures that happens. However, the questions are probably better addressed to my colleague on the far side of the room.

Chairman: They are not. They are questions that should occupy minds in the Department of Finance as well as Mr. Watt's Department because if the mistakes were minimised and everything was counted properly, the Department might not have as much tax to collect from those who are hard pressed to pay it in the first instance. If the money collected within a business was being spent incorrectly, the head of the department responsible would soon be brought in. It would be pointed out to him or her that he or she was given X and he or she had spent part of it unwisely and must account for that. For example, €13.5 billion is allocated to the HSE and it does not have a single financial system going back to the dissolution of the health boards and the foundation of the executive, which is incredible. I would have thought the Department might have a concern on behalf of those it collects taxes from to speak to those who are spending them. The Department is collecting from the hard boiled and the money is being spent by the soft centred, if Mr. Moran knows his sweets. There should be a concern about what is going

on.

Another example concerns Mr. Moran's Department and relates to the seven contracts totalling €405,000 where procurement rules were not applied in full. The committee finds that across every Department - and, in particular, the Department of Education and Skills - procurement rules are being broken. They have to go to procurement for contracts worth in excess of €25,000. This morning, we had an example of a college applying a threshold of €50,000 to contracts and completely ignoring the departmental guidelines. If the Department of Finance is giving money to the Department of Education and Skills and it is ignoring guidelines - I am not picking on that Department because it happens in other Departments as well - and the Department itself has a question to answer in respect of €405,000 worth of contracts, surely it has an obligation to say to the Department of Education and Skills that it had better shake itself out of old habits and apply the new rules.

Mr. Derek Moran: Coming back to basics, our role is to return us to a position where we have a balanced budget. We have discussed the fiscal rules several times. We squeeze resources and raise taxes ultimately on that basis. The Minister for Finance determines and sets the aggregate level of spending. The Department of Public Expenditure and Reform could be described as the finance Ministry for expenditure. It allocates that and does the things with other Departments that the Chairman is speaking of. Everybody should be concerned about getting the best value and, therefore, minimising the tax burden on the public or ensuring that it should not be excessive. There is no question of having proper financial systems within the health service in order that one would know what is going on-----

Chairman: They are not there.

Mr. Derek Moran: They should be. One of the things that falls out of the phase that we have been through is the concept of throwing windfalls at a problem. We have discussed this on and off during the meeting. That has gone away. We squeeze efficiency because the capacity to throw money at a problem has gone. We have to operate within strict rules.

On the wider question of the allocation and the efficiency with which money is used, the Department sets out the overall level and the operation a level below that crops up in the context of the Department of Public Expenditure and Reform.

Chairman: What about the procurement issue in Mr. Moran's Department relating to seven contracts totalling €405,000?

Mr. Derek Moran: I will ask Ms Carty to respond.

Ms Cep Carty: With regard to our own procurement, we had a number of contracts that were legacy issues from when the Department was split. We have been working our way through re-tendering for those contracts. We have appointed a procurement officer and as far as possible, the Department tries to comply with the rules. There are some cases where we cannot, for example, where we might have to use a specific adviser who might have expertise in a particular area, but that will always be signed off at the most senior level. Going back to the point on the Department of Public Expenditure and Reform, it is the case that when our Department was split in 2011, the focus for the Department of Finance was on the revenue side and the Department of Public Expenditure and Reform became the finance Ministry for expenditure.

We are all focused on value for money but the focus for the Department of Finance has had to be, as the Secretary General said, on getting back to a balanced budget whereas Secretary

General Watt has the focus on the expenditure side.

Chairman: What were the seven contracts for?

Ms Cep Carty: I will have to come back to the committee with the detail on it. Some of them were facilities management contracts.

Mr. Derek Moran: They were invariably around that. The contracts were rolled over but we have gone to re-tender for all of them. Some of this is a legacy of the split into two Departments, as Ms Carty said. We can get the detailed information for the committee.

Chairman: I do not have it in front of me but page 21 of the briefing document relates to legal fees and it refers to €600,000 compensation being paid out. What was that for?

Ms Cep Carty: It related to bank stabilisation. We would have to come back to the committee with details on it but we can give more detail if the Chairman wishes to have it.

Chairman: What was the compensation for?

Ms Cep Carty: It was for a settlement in a case. I do not have the exact details. I would have to come back on that.

Chairman: Is it one case?

Ms Cep Carty: I am not sure. I would have to come back on that.

Ms Ann Nolan: There was a case taken against the Insurance Compensation Fund.

Ms Cep Carty: I do not know if that was it.

Mr. Seamus McCarthy: I think it was one case from memory.

Ms Ann Nolan: There was a case where an individual had fallen between our compensation fund and the UK compensation fund. The individual took a case against us and we made a settlement.

Chairman: What was the compensation for?

Ms Ann Nolan: The person had been insured under an insurance contract and the company had gone bust. There was a disagreement. My understanding of the case as I remember it - I can send the Deputy a note on the exact details - is that if current rules applied at the time the person died, the family would have received compensation, but the rules at the time of the death, technically our advice was that we could resist it. However, rightfully, we came to an agreement with the woman who was widowed because she was still left with a young family.

Chairman: I will finish with the point about collecting the money. We all pay our taxes. There is always a risk of errors being made when spending tax revenue. The view of the Department should be that it should raise the issue either with Mr. Walsh or with the spending Department. Significant sums are involved. If some of these things happened in business, the business would be bust.

To take the point made by Mr. Moran, that it is about getting on, seeing the bigger picture and raising the taxes, as the Minister would do on budget day, I would be deeply concerned at the idea that one would turn to the taxpayer all of the time. What I am trying to do as Chairman

of the Committee of Public Accounts is get the State through the Secretaries General to focus on expenditure of taxpayers' money, which in some cases is a total mess.

Mr. Derek Moran: May I make a final comment? During the very difficult times the emphasis was heavily weighted towards reductions in expenditure. That does not go to the heart of efficiencies but I think the ratio between the heavy lifting on correcting the budget was about 2:1 in terms of expenditure over revenue. There is a consciousness about putting an economic imposition on the taxpayer that it stifles one's capacity to grow. That was the way it was over time. It does not get to the heart of efficiencies, but it is reducing expenditure. That was the way it was done.

In fairness to all spending Departments, and my colleagues in the Department of Public Expenditure and Reform, proportionately, they did more of the lifting than the revenue side.

Chairman: Does Mr. Moran read Mr. McCarthy's book that he publishes every year?

Mr. Derek Moran: I do not understand the question.

Chairman: Does Mr. Moran study the Comptroller and Auditor General's reports every year? Is that not enough signposting for the Department?

Deputy John Deasy: I will come back to IBRC in a moment.

The officials are all very welcome. May I ask about the general issue of tax inversions and where we stand as a jurisdiction? As the officials are aware, Pfizer and Allergan have effectively created the largest pharmaceutical company in the world which will now have its headquarters in Dublin. The estimates with regard to tax windfall vary but it is a significant figure for this county. During the week the main item on the agenda of the United States House Ways and Means Tax Policy Subcommittee was the Pfizer acquisition. I do not think Ireland was mentioned specifically but it has been raised in the presidential nomination races as well as within Congress.

The issue of corporation tax arose earlier. Has the Department done an analysis of those companies? This is a trend that has been accelerating in the past few years. The companies that come to mind are not just Pfizer and Allergan but Eaton Corporation and so on. It is not just happening in Ireland but more frequently around the world. How much of the corporate tax increase we have seen is attributable to tax inversions?

Mr. Derek Moran: On the general issue of inversions, this is not something the Department goes looking for or wants to attract. The reality is that it does not necessarily mean any major improvement in tax revenue.

Deputy John Deasy: We are talking about Pfizer, a \$160 billion company that was paying tax at 35% in America, which is the highest corporation tax rate in the world. The reason that it comes to Ireland is because of the 12.5% tax rate. The estimates I have seen of the tax payable by the company to the Irish Exchequer range from €400 million to €600 million per year.

Mr. Derek Moran: I would be interested in those estimates. I am not aware of them. What we tax in corporation tax is the activity and the profit that is generated in Ireland. Again if this were to happen, we would have to see if it brings any additional substance into Ireland in terms of additional employment and additional output, etc., as that is what we would charge the tax on.

The reality is that Pfizer sought to invert into the United Kingdom with a merger with Astra-Zeneca 12 or 15 months earlier but that did not work out. It is now looking at Allergan. This is at a very early stage and we will have to wait and see if it happens. The US response has been to issue some regulatory restrictions to raise the bar and make it more difficult. The interesting part of that statement was the US Treasury Secretary saying that until the United States fixes on a legislative basis in respect of US tax this will continue to happen. It is push factors out of the US rather than pull factors into Ireland.

Deputy John Deasy: I agree with Mr. Moran. The United States tax rate is 35% and this is more to do with its repressive corporation tax regime than with our low corporation tax rate at 12.5%. That is their problem. If companies make these decisions they have to be a bit more inward looking with regard to how they treat the taxation of those companies and why they are leaving. If there is a choice between succumbing to left wing opinions in this House on multinationals, or taking the hundreds of million of additional euro I would go for the loot any day of the week. It is a crude way of putting it but the country needs the revenue.

We are coming under a great deal of pressure with regard to BEPS, the European Commission and the other issues that surround Apple. Is the Department of Finance coming under any pressure from the European Commission with regard to tax inversions?

Mr. Derek Moran: No.

Deputy John Deasy: Has the Department been contacted by the United States Treasury?

Mr. Derek Moran: I visited the United States Treasury the week before last. The issue of inversions was not even raised. That was the day after they had just issued their regulatory instruction. The important point was not the three things they did but the statement from the Secretary of the Treasury saying that in order to fix this more legislative reform would be needed and that in this regard the problem with corporation tax was in the United States. That is not exactly what he said - I can get the statement for the Deputy - but that was the sentiment.

Deputy John Deasy: Besides what the Minister has said, that there are negative connotations around this issue with companies leaving jurisdictions like the US and coming to Ireland, I have no great difficulty with this if it is as Mr. Morgan said in respect of factors such as push versus pull. We have become too sensitive about the Irish corporation tax regime, as the issue has more to do with the regimes in other jurisdictions. We should not be overly concerned about it. If it means that we gain greatly more revenue from the multinationals that is fine. Has the Department of Finance carried out any analysis on these tax inversions?

Mr. Derek Moran: In terms of potential revenue gains, no.

Deputy John Deasy: Has Mr. John McCarthy any information on the matter?

Mr. John McCarthy: No.

Deputy John Deasy: Does it account for the bump in the-----

Mr. Derek Moran: No.

Mr. John McCarthy: No. I sincerely doubt it, Deputy. I am not a corporation tax expert but I understand the situation is - I am subject to correction on this - that we have a lower tax regime than other countries but we have double taxation agreements with other countries, and I am not talking about the US here. This is about keeping funds offshore, from a US perspec-

tive. So because we have these double taxation agreements I do not think there is scope for any “loot”, to use your own phrase Deputy. Certainly, it is not significant. That is my own understanding of this but I say that without being an expert in CT law.

Deputy John Deasy: That surprises me. I have rough figures in my head on what these companies were worth, what they paid in tax and what they will pay in tax here. The reason they came here was to pay tax here. That is a very considerable amount of money. How could Mr. McCarthy say that?

Mr. John McCarthy: We tax the substantive economic activity here and the firms the Deputy has mentioned have substantive operations here. However, if the headquarters are relocated to somewhere in Ireland then the global profit flow of some of these firms is re-domiciled although they have already paid their corporation tax on the substantive economic activity in a jurisdiction that has a higher rate. Given that we have a double taxation agreement we do not get any-----

Deputy John Deasy: The answer-----

Mr. John McCarthy: It is my best understanding but I say that without being an expert.

Deputy John Deasy: They may not have figured it out properly. Is that what Mr. McCarthy is saying? It is negligible or not-----

Mr. John McCarthy: Sorry, I did not hear the Deputy’s last point.

Ms Ann Nolan: The saving is on US tax.

Mr. Derek Moran: It is on US tax, yes.

Deputy John Deasy: Yes, I get that.

Ms Ann Nolan: If they have a double tax agreement coming into the US and they pay 20% somewhere else.

Deputy John Deasy: I understand but surely there is a windfall for Revenue. Is the Department of Finance saying that there is not?

Mr. Derek Moran: I am not necessarily, no.

Mr. John McCarthy: I am not convinced it will be significant if there should be one, but I stand to be corrected.

Mr. Derek Moran: In terms of the Senate finance committee, on 1 December this issue was dealt with by the Deputy Assistant Secretary on international tax. To emphasise my point his statement reads, “Only legislation can decisively stop inversions”. That is the view from within the US, yes.

Deputy John Deasy: The point Mr. Moran has made is that the saving is-----

Mr. Derek Moran: It is on global tax liability.

Deputy John Deasy: -----made on the US side-----

Mr. Derek Moran: Yes.

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Deputy John Deasy: -----predominantly.

Mr. Derek Moran: Yes.

Deputy John Deasy: And, on our side, it is negligible with regard to the windfall from these tax inversions.

Mr. Derek Moran: Unless other activities come with or follow the inversion, or afterwards. It is only when substantive operations come in. There are push factors in the US which are clearly acknowledged but we wanted a statement trying to restrict them-----

Deputy John Deasy: Yes.

Mr. Derek Moran: While one should really not comment on the tax policies challenges in other jurisdictions, the position is clear in those statements and, indeed, in the regulatory release when this came up. It is very topical, politically, given the US electoral cycle.

Deputy John Deasy: Yes.

As far as the IBRC is concerned, under the public spending code, as Mr. Watt explained when he last appeared before the committee, when Exchequer moneys are expended there needs to be an analysis and an assessment done on any particular measure. Was the Department involved in any respect when it came to the IBRC inquiries? Was the Department involved in putting together that analysis or assessment as to the cost aspect?

Mr. Derek Moran: I think, in Mr. Watt's response, he did highlight the difficulty in making an advanced assessment of these. I suppose, Deputy, at the end of the day, on this particular example, the responsible Minister became the Taoiseach, not the Minister for Finance.

Deputy John Deasy: Does the Department have a role in analysing the cost of these commissions of inquiry at all?

Mr. Derek Moran: No.

Deputy John Deasy: Does the Department have a role?

Mr. Derek Moran: No.

Deputy John Deasy: I raise this because-----

Mr. Derek Moran: It is a bit like the earlier discussion, that value for money role fell, when the two Departments split, within the remit of the Department of Public Expenditure and Reform.

Deputy John Deasy: Is it entirely the remit of the Department of Public Expenditure and Reform?

Mr. Derek Moran: I mean-----

Ms Ann Nolan: And the Taoiseach's role-----

Mr. Derek Moran: Sorry, that is the particular-----

Mr. Terry Walsh: It is down to the Department.

Ms Ann Nolan: Yes, it is down to the Department.

Deputy John Deasy: I understand the Taoiseach's role. Does the Department of Finance play a role in the analysis of how much any of these inquiries would cost?

Mr. Derek Moran: No.

Deputy John Deasy: That is fine. That is all I am getting at. Thank you.

Chairman: I have a final question for Mr. Seamus McCarthy because in his opening remarks he highlighted a difference when he said the finance accounts are not a comprehensive set of annual financial statements for the State or for central Government. What would he like to see included or instead? What is lacking?

Mr. Seamus McCarthy: I think what I was commenting on was in regard to the finance accounts which are very particular. They are designed to give an account to the Committee of Public Accounts and to Parliament of the flows in and out of the central fund. What I was trying to do was to point out that it is not like a normal set of financial statements for an enterprise, where there would be income and expenditure, and a balance sheet. There is scope for improvement in the presentation of the finance accounts to make them more accessible. It is something that we have been discussing with the Department. There is a broader project here. The IMF, about three years ago, had a look at how the accounting and budgeting works for the central Government sector. It made recommendations that there is a need for a fundamental reform and work is ongoing. There is a working group looking at that, to present better information in probably a more accessible format reflecting the economic reality of what is going on.

Chairman: Who leads that working group?

Mr. Seamus McCarthy: It is led by the Department of Finance, I think.

Mr. Derek Moran: Is it?

Ms Cep Carty: Yes.

Mr. Seamus McCarthy: The Department of Finance is chairing it.

Mr. Derek Moran: Yes. That fiscal transparency exercise has been ongoing and is part of the discussion but I am not sure what stage it has reached.

Ms Cep Carty: The reality of it is that we are engaging with the European Public Sector Accounting Standards group. It has a working group in place that is looking at both accruals accounting and fiscal transparency. We are doing a "lessons learned" process with places like Malta, which has moved further ahead, and the Austrian treasury. We are trying to avoid pitfalls that they might have encountered along the way.

Chairman: Is there an expectation that we might have a report soon in regard to that? Is it more long term?

Ms Cep Carty: It is longer term because it needs a lot of resourcing. Anyone who has gone down that route has acknowledged that it does need extensive resourcing to get there.

Mr. Seamus McCarthy: It is something that I reported in chapter 1 about three years ago. I would expect next year to maybe revisit the issue and give an update. There was a comprehensive set of recommendations so I would envisage giving a report next year on progress in that.

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Chairman: It is a bit late now in this term.

Deputy John Deasy: The Chairman has been saying that for the past four weeks.

Chairman: It is because the end is getting nearer. The thought has just crossed my mind and I must recommend it to whoever chairs this committee in the next session, that both Departments, the Department of Public Expenditure and Reform and the Department of Finance, should be brought in together to discuss an overview of the Comptroller and Auditor General's report each year so that we can get a handle on it. I do not accept that the current situation should continue whereby the Department of Finance gives money to the Department of Public Expenditure and Reform or other Departments. I won't say that the Department of Finance is not concerned because I know that it has expressed concern about how moneys are spent. Taxpayers and struggling businesses, in particular, would like to see greater accountability and a greater sense from each Department that they clearly understand that the taxes collected by Revenue are perhaps not being spent with the same diligence and care that Revenue applies to their collection. That is my view, having been Chairman of this committee for the past number of years and from my experience of being a member of the committee some years ago. Someone has to bridge that gap.

I suggest to Mr. McCarthy that when the Comptroller and Auditor General's report is published every year there should be an effort made to hold a joint session with both Departments to bridge the collection and spending of taxes with what is found in the Comptroller and Auditor General's account. We deal with the matter here every year but it is never fully exposed or debated in Parliament. That is where it should be debated, in a general sense, so that we get a handle on transparency, accountability and having proper systems. It might have ensured that with the appropriate reporting systems within the HSE the one financial system would have been in place a lot sooner. These are the issues that should concern us because what gets counted gets done. I do not think we are doing it at present to the extent that is expected nowadays by individuals who pay the taxes and watch how the tax is being spent.

Is it agreed to dispose of Vote 7 and Chapters 1 to 3, inclusive? Agreed.

The witnesses withdrew.

The committee adjourned at 1.45 p.m. until 10 a.m. on Thursday, 10 December 2015.