DÁIL ÉIREANN

AN COISTE UM CHUNTAIS PHOIBLÍ

COMMITTEE OF PUBLIC ACCOUNTS

Déardaoin, 6 Iúil 2017

Thursday, 6 July 2017

The Committee met at 9 a.m.

MEMBERS PRESENT:

Deputy Bobby Aylward,	Deputy Alan Kelly,
Deputy Peter Burke,	Deputy Marc MacSharry,
Deputy Catherine Connolly,	Deputy Josepha Madigan,
Deputy David Cullinane,	Deputy Catherine Murphy.

DEPUTY SEAN FLEMING IN THE CHAIR.

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

Business of Committee

Chairman: The committee is now in public session. We are joined today by the Comptroller and Auditor General, Mr. Seamus McCarthy, as a permanent witness to the committee. He is accompanied by Mr. John Riordan, deputy director of audit.

Apologies have been received from Deputies Peter Burke and Alan Farrell. We note their apologies.

The first item on the agenda are the minutes of the meetings of 27 and 29 June. Are they agreed? Agreed.

The next item are matters arising from the minutes. There is nothing specific that is not on the agenda in front of us.

The next item is correspondence received of which there are a number of items. Category A refers to briefing documents that we have received from the Department of Finance and the Department of Public Expenditure and Reform. Nos. 653(i) and (ii) pertain to a cover letter from Mr. Derek Moran, Secretary General of the Department of Finance. We note and will publish that.

No. 661A is a cover letter from Mr. Robert Watt, Secretary General of the Department of Public Expenditure and Reform. It is an update on Votes 11, 12, 18 and 39, Chapter 3 and the special report by the Comptroller and Auditor General on financial reporting in the public sector.

We note the opening statement supplied by the Department of Finance. We will receive the opening statement from the Department of Public Expenditure and Reform during the course of this morning's meeting. We have not received it yet but we are not scheduled to meet the Department until this afternoon.

The next item is correspondence that was carried over from last week's meeting. Correspondence dated 16 June came from Mr. Maurice Buckley, Chairman, OPW, deals with a request by the Department of Education and Skills to provide office accommodation for Caranua with instructions from the Department that Caranua would meet the appropriate rental costs. Members have the correspondence in front of them so people can see precisely what has been said. Whether we like it, disagree with it or are happy with it is another issue. Does anyone want to make a specific comment on the matter?

Deputy Catherine Connolly: Is the Chairman referring to the correspondence dated 16 June?

Chairman: It is correspondence that we held over.

Deputy Catherine Connolly: Yes.

Chairman: It is not new correspondence.

Deputy Catherine Connolly: I am happy that I got the letter.

Chairman: Yes.

Deputy Catherine Connolly: I am happy that we finally got clarification on 16 June. I find it extraordinary that when Caranua and the Department were here before us, and please correct me if I am wrong but I think the Secretary General of the Department attended on that occasion, nobody seemed to know the rental position and least of all Caranua. Originally Caranua said it did not pay rent and the matter has since been clarified. I mention this matter because at that point, Caranua said it was not paying rent and subsequently corrected itself. The Department official who attended the meeting did not know anything about rent. We now have a letter dated 16 June informing us that from the very beginning, the Department of Education and Skills directed that Caranua had to pay.

Chairman: But had not paid in the earlier years.

Deputy Catherine Connolly: No. From the very beginning when Caranua went into the building, the Department of Education and Skills let it be known that Caranua had to pay. The fact that Caranua did not pay and allowances were made for it is to be welcomed. I have a difficulty with the fact that the official from the Department of Education and Skills sat in on the meeting on that day yet it took until 16 June and our persistence to find out the position. I still have no idea why further provision was not made for Caranua in the circumstances but that is for a different forum. I am most unhappy with the way the information has been relayed to us. I am also unhappy that rent amounting to approximately €250,000 will be taken every year, if one takes VAT into account, in a fund that was specifically set up under statutory obligations to support victims who had attended institutions. I shall leave the matter at that for today. I am most unhappy with the Department of Education and Skills and that Caranua must now pay almost €250,000 when there should be no need for it to do so. Caranua should be facilitated in appropriate buildings that are owned by the State.

Prior to Caranua being set up, a different forum existed under the direct guidance or direct-----

Chairman: The redress board.

Deputy Catherine Connolly: No. I forget what was its name. It functioned well.

Chairman: Yes.

Deputy Catherine Connolly: People had great respect for the organisation. Caranua was the new forum. I presume that the old forum did not have to pay rent. I know I have called it the wrong name.

Mr. Seamus McCarthy: Yes.

Deputy Catherine Connolly: I mean the structure that existed prior to Caranua.

Mr. Seamus McCarthy: It was the Education Finance Board.

Deputy Catherine Connolly: Yes. I thank the Comptroller and Auditor General.

Chairman: The finance board, yes.

Mr. Seamus McCarthy: I think it had a more limited remit.

Deputy Catherine Connolly: It did.

Mr. Seamus McCarthy: Some of the remit carried on into Caranua but Caranua has a broader remit.

Deputy Catherine Connolly: That is correct. Caranua had a bigger fund.

Mr. Seamus McCarthy: Yes.

Deputy Catherine Connolly: I presume the original board did not pay rent.

Mr. Seamus McCarthy: No, it did not.

Chairman: The Deputy's point has been well made. Essentially, it boils down to the position being well known by all of the public bodies involved - the OPW, the Department of Education and Skills and Caranua. There was a lack of candour and being upfront. No one told us straight up on the first day we asked the question. We should not have had to go to such an extent to extract the information that we have received. We might not like the information but it was well known to everybody who sat opposite us at all stages. We had to extract the information. It felt like we were pulling teeth.

Deputy David Cullinane: We should let the bodies involved know that in writing. There is no point in just saying it here.

Chairman: We have put our view on public record.

Deputy David Cullinane: It is a public record. We should write to them formally and let them know that we are unhappy that they were not upfront with us.

Chairman: They will refer us back to the legislation that was passed in 2012. It made provision that Caranua would pay for its-----

Deputy David Cullinane: I am not talking about the rent. I am talking about when it came before us. It took several weeks of correspondence to get the information, which is unacceptable.

Chairman: Mr. McCarthy might help us. We have a special report on financial reporting in the public sector, although it might not be relevant. It deals with accounts and the presentation of information. We could link it into our conclusions when we come to that issue separately. However, the point is well made. We should not have to waste taxpayers' time, public service time and our time to extract what is the system.

Deputy David Cullinane: Yes.

Deputy Catherine Murphy: It may well be something for year-end. I do not want to be imposing more work on the secretariat but this has come up over and over again with different organisations. We need to get almost a Committee of Public Accounts equivalent of *StubbsGazette* at the end of the year to note the people. It is beyond funny at this stage. It is administratively very heavy on this side and I expect that is also the case on the other side. Instead of just coming in and saying-----

Deputy Marc MacSharry: "We don't know".

Deputy Catherine Murphy: Yes.

Chairman: We regularly find that there is information in the heads of or available to witnesses which they do not impart in public session. As Chairman in the last year, I have come to that conclusion. I will not list the Departments I am sure about.

Deputy Catherine Murphy: Every time somebody comes in with whom we find this pattern, can we set the relevant matters aside and put them together with the others to show that there is an issue and that there will be consequences for people if it continues?

Chairman: It is a fundamental function of Accounting Officers who come before us to co-operate and report to the Committee of Public Accounts. They do not come here to dodge bullets; they come here to answer the questions.

Deputy David Cullinane: I wonder if there is any training from PR companies to dodge questions.

Deputy Josepha Madigan: They will complain that they were not asked the questions.

Chairman: They will say we did not ask the right questions but we expect them to be a bit more open. We expect them to assist us. The point is well made and we will come back to it. That is the OPW situation.

The next item is No. 625B, correspondence received on 30 June 2017 from An Garda Síochána. The document provides an analysis of expenditure relating to the Garda College division from 2009 to 2016 as requested by the committee. We note and publish that and will discuss it as part of our compilation and report on the Templemore issue.

The next two items, Nos. 654B(i) and 654B(ii), comprise correspondence, dated 29 June, from Dr. Brendan Murphy, President of Cork Institute of Technology, on the 2015 financial statements. This was requested at our meeting. I have asked the people finalising the report on third-level institutions to review the document. We hope to have the final sign-off on that education report in private session later today. I have asked for anything that needs to be in our draft report to be brought forward. In fairness, it is a good and comprehensive reply on the information we sought. We have to acknowledge that a lot of information has been provided there.

The next item is correspondence dated 30 June from the Dublin Institute of Technology enclosing a breakdown of the library budget and legal fees for 2014 to 2016. That or extracts from it can be considered for inclusion in our report which we hope to finalise this afternoon and launch early next week. We will come to our work programme shortly. The correspondence is noted and will be published.

The next item is correspondence dated 3 July 2017 from Mr. John Barrett, executive director of human resources and people development in An Garda Síochána. We will come to that in a minute with the other Garda correspondence and take the two together.

The next item is No. 659B, correspondence received on 30 June 2017 from University College Cork enclosing information requested at the meeting of 22 June on the acquisition of IMI and on the Irish Maritime and Energy Research Cluster, IMERC, of companies. I have asked for that information to be taken into consideration in the report we hope to finalise this afternoon. In fairness, UCC provides comprehensive answers to the questions we asked. We have good information there. It is interesting that both CIT and UCC deal with a common interest in the IMERC and have provided a briefing note on the group of companies. We received the same document from both on foot of our questions last week.

Deputy Catherine Connolly: Is this the Irish Maritime and Energy Research Cluster?

Chairman: Yes. It is an extensive document. They explain all the different subsidiaries. When the representatives from the college appeared before us, we asked the president about the acronym SNO and whether it is the name of a company. He could not provide full information on the day. It is called SEFtec NMCI Offshore Limited. That is where he got SNO Limited. He has given us exact details of the company and the other subsidiaries. The question was asked whether they paid Cork Institute of Technology for the use of its facilities. It is confirmed that the company paid €242,680 excluding VAT in respect of its costs before there was any dividend. They also paid dividends of €340,000 to CIT. The functioning, costs and contributions of those organisations is well set out in the letter. It is good to get that because the question was asked specifically the last day.

Deputy Catherine Connolly: I had asked a question on that specifically. Should I come in now or come back to it?

Chairman: Come in now.

Deputy Catherine Connolly: It was about UCC and IMERC. I do not know whether correspondence has come in on the external review and whether we could have a copy of it. There were three things I asked for specifically. Will I go through them?

Chairman: Has the Deputy had an opportunity to-----

Deputy Catherine Connolly: I have not. That is my difficulty.

Chairman: We will be in private session to sign off on the education report in the afternoon and we might discuss that when we come to it by which time the Deputy might have had an opportunity-----

Deputy Catherine Connolly: For the record, I set out the three things. I asked for clarification on the internal audit and the procedure on it going to the board of governors. I asked about the external review of IMERC, its status and a copy of it. I asked for clarification as to whether a senior lecturer or lecturers had been appointed in non-compliance with procedures. That information was not available. They were to clarify those three things for me.

Chairman: They seem to have dealt with some of these issues.

Mr. Seamus McCarthy: The IMERC report - the international review - is attached, I think, to Dr. Murphy's submission. It is item No. 13. His letter states that he attaches as appendix 6 a copy of the review as requested.

Chairman: It is the final appendix. There are 17 pages in that. In fact, both UCC and CIT provided the same report. I see a reference to the internal audit committee in the reply from UCC also. During the course of the next couple of hours, we might have an opportunity to review that in private session at least. They appear to have provided good information. That is UCC, CIT and some information from DIT on the library issue. We note and publish all of those and will deal with them in private session before we complete our report later on today.

The next item is No. 649C, correspondence from Mr. Seán Ó Foghlú, Secretary General of the Department of Education and Skills, in reply to a request from the committee for a response to correspondence sent to the committee by an individual on the use of public funds to obtain legal advice. I propose to forward the reply from the Department to the correspondent. We have dealt with it extensively and that is a further reply from the Department. Is that agreed? Agreed.

Next item is No. 650, correspondence of 23 June from an organisation on a complaint being investigated by An Garda Síochána on the winding up of the Association of Municipal Authorities of Ireland in 2014. The committee has been copied with the correspondence but it is addressed to An Garda Síochána. As such, we note it but someone else is acting on it. No. 651C is correspondence received from a number of individuals with regard to Clonkeen College in Blackrock, County Dublin. This was discussed last week and the secretariat has written to the Department of Education and Skills for a response. I propose that we write to the correspondents informing them that we are awaiting a response and will contact them when have it. Is that agreed? Agreed.

No. 656C is correspondence dated 30 June 2017 from the chief executive officer of Horse Racing Ireland in response to a query sent by the committee about Dundalk racetrack and how much it actually costs, as well as various issues around loans and debenture which had been granted over the assets of the company. This issue goes back several years but we will note this and send a copy of that response to the individual who wrote to us.

No. 657C is correspondence dated 2 July 2017 from an individual and concerns an investigation by the Revenue Commissioners into a complaint made by the individual as an employee. I propose we write to Revenue to establish the process for hiring companies to carry out investigations of this nature. The individual is, I believe, now a former employee. We will wait for a reply and ask Departments and public bodies questions on their processes and procedures if there is a loss to the taxpayer.

Before I complete the correspondence there are two more items I want to bring to the committee's attention. The first of these is item No. 658B, dated 3 July 2017, from Mr. John Barrett, executive director of human resources and people development at An Garda Síochána. The document refers to matters concerning evidence heard by this committee about Templemore Garda College that Mr. Barrett believes is incorrect. Other matters covered include the handling of a complaint about Mr. Barrett, a tracing methodology in respect of EU funds and a timeline of events from 2015 to present. We will note that and consider it as part of drafting our report. We had a meeting in private session yesterday and are scheduled to have another meeting next Tuesday. We can discuss that then. Would any member like to make any particular comment on this at this stage?

Deputy David Cullinane: Had we requested this particular information from Mr. Barrett?

Chairman: No.

Deputy David Cullinane: Did he just send this information?

Chairman: My understanding is that this is unsolicited information that Mr. Barrett, having watched the proceedings, has sent directly to us. We did not ask him for it but he supplied it of his own volition.

Deputy David Cullinane: I just want to be clear on this. We are hoping to finalise a report. Is it the case then that any information or documentation that we get, be it from Mr. Barrett or from anyone else, cannot be tested from this point on?

Chairman: Correct.

Deputy David Cullinane: We will come back to this issue again because the report is for module one. I just want to be clear about the status of any documentation that we get at this point. Claims may be made that need to be either substantiated or examined. Is it the case that it is not possible for us to do so at this point?

Chairman: Yes. We will have no more public meetings so we have to conclude. If there are issues on which we cannot conclude then we will just have to state that and consider them for further examination in part two of our report, which will be carried out after the summer recess.

Finally, we come to No. 663(i). This is from Mr. John Nugent, chief administrative officer, and concerns various questions we asked in public session. It is a short letter, less than a page, and I think we need to put it on the public record because it follows up on matters on the public record and directly replies to us. I am also informed that further information from Mr. Nugent arrived in this morning. This is currently being circulated. All of this will have to be taken into account before we finalise our report on An Garda Síochána. The information here is not extensive but there is some information that is relevant to what we have been discussing.

The first issue in this letter concerns Mr. Culhane and Mr. Howard and responds to Mr. Culhane's earlier correspondence about the draft internal audit interim report. The letter states that a recent meeting of the Committee for Public Accounts confirmed the Garda Commissioner initially sought legal advice over this serious matter and that Mr. Culhane was consequently invited to respond to Mr. Howard's correspondence. The letter then goes on to say that Mr. Culhane responded and confirmed that he has withdrawn the two letters to Mr. Kelly, the internal auditor, at the Committee of Public Accounts, including the comments he made about Mr. Kelly's professionalism, personal motives and integrity.

We need to verify the transcript. I know that I discussed this issue with Mr. Culhane and that he certainly did withdraw certain comments. I do not specifically recall him withdrawing those two letters before this committee, which is what this letter said he did. When the Commissioner was in here the second time I specifically asked her about the status of that letter, whether it still stood and whether it would still be standing by the time we came to producing our report. If that was the case, we would have to conclude that it reflected the official position of An Garda Síochána. Both she and Mr. Nugent said that the matter was going through a process. We now have a letter saying that it was withdrawn in public session several weeks earlier. This letter contradicts what we were told at the subsequent public meeting. We need to get this verified. It is possible that we missed the full withdrawal of the letter in public session. If we did then we would be happy to put that formally on the record but first we need that verified.

Deputy David Cullinane: We sought a lot of correspondence from An Garda Síochána and we have now received some from Mr. Nugent. This correspondence is, unfortunately, still coming in to us now, at the 11th hour. They know that we are up against the clock and that we have to get a report out. It strikes me that An Garda Síochána is waiting until the very last minute to give us the information we need. Does the Chairman know if there is still a deficit of information?

Chairman: There is.

Deputy David Cullinane: My quick observation of this correspondence that has come in about Mr. Culhane is that it contains a lot of withdrawals and retractions. This is to be welcomed on one level but cannot take away from any perceived failures in process and procedures. Retractions and withdrawals can be noted but we are dealing with what happened in real time. This needs to stated clearly. We can welcome and acknowledge withdrawals and retractions but they should not influence our report.

Chairman: The letter we received today is short and contains three or four specific items. There is only a paragraph on each item so the information is easily absorbed.

Deputy David Cullinane: What of the information that we sought and have yet to receive?

Chairman: More information arrived this morning. We are down to a shortlist but we will specifically deal with the information requested. If this committee did not receive the full level of co-operation expected then that in itself will be an issue in our final report. I am putting that on the record here now. To corroborate what Deputy Cullinane just said, this letter from Mr. Culhane would never have been withdrawn, if it is indeed withdrawn, but for the fact that it was raised here at the Committee of Public Accounts.

Deputy David Cullinane: Absolutely.

Chairman: This would not have happened of its own accord. It happened because it was brought up here.

Deputy Josepha Madigan: What do we do with unsolicited correspondence? It is almost like An Garda Síochána is trying to confuse us here. How do we deal with this when it comes to producing the report itself? Do we include it or do we not?

Chairman: We will not be including it.

Deputy Josepha Madigan: We cannot ask An Garda Síochána anything about the contents of this.

Chairman: There is some very good information in Mr. Barrett's correspondence but much of it is his personal opinion, which we have not fully tested. There are a lot of remarks about other people and we have not tested these either. I do not expect that we will be able to include this as part of an appendix to a published report of the Committee of Public Accounts. We will have to discuss this. We would have to go through the letter line by line to see if we could put our names to including it in our report. There is certainly information here that we can work into the report but full publication is a different issue.

Deputy Marc MacSharry: I also want to address Mr. Barrett's unsolicited correspondence. For one thing, I must say that I found it very helpful. It contains opinion, certainly, but there is no difficulty in discounting that. It also points to certain facts that I found to be very helpful. I read this in advance of yesterday's meeting in private session and gave my view of the issues arising from it. As far as I am concerned, there is wilful delay on the part of An Garda Síochána. We are being drip fed information in response to very simple questions. The letter from Mr. Nugent to do with Mr. Culhane is a kind of catch-all to cover all the bases, having been dragged kicking and screaming to give some kind of a response. I recall him withdrawing comments under pressure, but, in the first instance, how does one withdraw a letter? Had Mr. Culhane written to Mr. Kelly and copied to us an apology, a seeking to withdraw, a regret and all the rest of it, that might be one thing, but this is in effect a third party, albeit the line manager, writing on behalf of someone-----

Chairman: Sorry, but someone's phone is ringing.

Deputy Marc MacSharry: -----and claiming something that, to my mind, happened in part, and certainly in terms of the withdrawal of comments, and not other than that. I have read this morning's correspondence as well. While there are these full pages with brief comments on item this and item that, it is a box ticking exercise. One issue came up in the stuff that I read this morning about the 50 accounts. It said all are closed except those that are private or club accounts. That is an issue for me. What private and club accounts? What money is in those?

Chairman: Okay. Some of the rest of us have only seen the letter that came in yesterday.

Deputy Marc MacSharry: You will have to get up earlier in the morning, lads.

Chairman: I was up at 5.30 a.m. We will not go there.

Interruptions.

Deputy Marc MacSharry: You had to jog first.

Chairman: The issue is that by next Tuesday, when we hopefully get to a very advanced stage in regard to our report on Templemore, all that will be taken into account. We will hold off on any further discussion of the Garda report because we want to get through the rest of the stuff, but we will be back to it next Tuesday.

Deputy David Cullinane: Can I just ask-----

Chairman: Sorry, I cut off Deputy Catherine Murphy.

Deputy Catherine Murphy: I wish to raise a couple of things. I have not gone completely through Mr. Barrett's document. However, I share the points that have been raised. There are certainly things in regard to issues that cannot be included because they have not been tested, and that is very fair. However, I found some of the suggestions really helpful. They will be helpful in finalising the report. We gave the date of last Wednesday-----

Chairman: No, yesterday.

Deputy Catherine Murphy: Yes, it was yesterday, for material to be sent to us. If we are going to set a date but it comes in subsequently, do we discount it? What will be our approach?

Chairman: Yesterday was the closing date. We received this letter yesterday and I think another one came late yesterday evening. It might have been circulated last night or this morning. From that point of view, it came in. However, what we have to adjudicate next week is the replies we did not get, that is, that which is outstanding. If something happens or we get useful information, we are pragmatists. We are not giving an extension but we will not ignore it next Tuesday. Definitely not.

Deputy Catherine Murphy: So it is not a firm deadline. The other thing is that a letter would have gone to the Central Bank about the credit union. I am presuming it did go. I had understood that it was being sent more than a week ago. It strikes me as strange that we would not have received even an acknowledgement at this stage.

Chairman: We will ask the clerk. As we speak, he is working on the education report. We will speak to him later on and verify all that. We will come back to it. We will get it checked out. I do not know the answer now. I call Deputy Cullinane. We will try to move on.

Deputy David Cullinane: I will make one brief point. I am assuming that we have no power of sanction over an Accounting Officer. If he or she is not co-operating with us or giving us information, is it simply that we note it in a report?

Chairman: We state it.

Deputy David Cullinane: It is interesting that the language Mr. Niall Kelly, head of internal audit, used when he was in before was of a pattern of withholding information and non-co-operation with him. I am afraid that we are experiencing the same problem here. It has to be noted that-----

Chairman: We will wait until next week to form a conclusion. We will not form it-----

Deputy David Cullinane: Having said that, we are still getting it very late in the day.

Chairman: I understand that. It is a point that we have to discuss next week. We will discuss that point about the level of co-operation.

Deputy Josepha Madigan: We should set out exactly what correspondence we have looked for rather than doing it in general terms.

Chairman: The secretariat had a checklist here the other day. I am sure that it will be updated today having received this correspondence yesterday. We will have all that. We will move on from correspondence received. The next item is on reports-----

Deputy Catherine Connolly: Gabh mo leithscéal, a Chathaoirligh.

Chairman: I am coming to the work programme in the next item.

Deputy Catherine Connolly: No, this relates to correspondence. Has something come in about Deloitte from the Health Service Executive?

Chairman: No.

Deputy Catherine Connolly: Okay. That was to be published at the end of the month.

Chairman: We have not got it yet.

Deputy Catherine Connolly: We are back again to candour. We have asked repeatedly. We were assured that its publication was imminent. Then we were told the end of the month. Here we are. I forget what date it is.

Chairman: Before the day is out, we will write to Tony O'Brien asking him for a copy of it forthwith. I thank Deputy Connolly for reminding us of it.

On reports, statements and accounts received, there is just one set of financial statements that have been laid in the Houses of the Oireachtas in the last week. Those are the financial statements of the Houses of the Oireachtas itself. The sum of €114 million is the throughput in the account in 2016 and there is a clear audit opinion. There are other mechanisms in the House-----

Deputy Catherine Connolly: Bualadh bos.

Chairman: There was a clear audit report on it and it was the only one received. We will note that.

The next item is the work programme. To be clear, today I am proposing, once we finish this session, to bring in the officials from the Department of Finance to deal with the Finance Vote. In the afternoon, we will have those from the Department of Public Expenditure and Reform in regard to its Votes. That session will also include the special report on financial reporting in the public service which the Comptroller and Auditor General produced a little while ago. We will discuss that with the Secretary General of the Department of Public Expenditure and Reform in the afternoon.

Before we get to that session, I want to have a private meeting to utterly finalise the education report which we hope - it is not definite - to launch next Tuesday. We are at a very advanced stage. If we complete the session with the Department of Finance before the voting block, we will start into that private session. If not, I really want to finish with the Department of Finance before the voting block and then we will commence immediately after the voting to sign off on the education report during a short private session. We will then move onto the session with the Department of Public Expenditure and Reform. That is the working plan. If we leave signing off the education report until after the session with the Department of Public Expenditure and Reform, it will be later on in the day and some members may not be able to be here at that stage, so we will get that cleared.

As I said, we are meeting in private session next week in regard to the Templemore report. The other thing I want to highlight relates to next week's meeting. The Garda Commissioner will be in to deal with the Garda Vote. There will also be officials from the Courts Service to deal with its Vote. There will be a joint session with An Garda Síochána and the Courts Service to discuss the collection of fines and the penalty points issue.

We asked that the report on the number of breath tests was to be dealt with as well but we were informed last night that the report is not expected to be finished by next Thursday. It was one of the items that was on our agenda. We are informed that the report is not expected until the end of the month. Therefore, we will not be able to deal with the issue in any great detail. We had scheduled this to be our last meeting of the year to give time to have this report done. We were informed last night that it will not be finished in An Garda Síochána until the end of the month. By the way, I wish to say that Deputy Commissioner Twomey will not be available on that day. However, the Commissioner is here as the principal witness with her two assistant commissioners. Therefore, it is only out of courtesy that I am saying that he personally cannot be here on that day, but the report will not be available to us on that day. I think that is a matter-----

Deputy David Cullinane: I think it should be noted that we are a long time into this issue. The Committee on Justice and Equality has dealt with the issue already. At that point, it was expected that there would be answers to questions. Here we are months later. We had scheduled the meeting but the report is still not complete, which means that the public still does not have answers to those questions as to exactly what happened. I imagine it will now be the autumn before we can come back to it. Is that so?

Chairman: It will probably come out in early August.

Deputy David Cullinane: That is the point. It will be during the recess. Before the Committee of Public Accounts or any other committee looks at it, it will be-----

Chairman: Anybody in the Oireachtas.

Deputy David Cullinane: -----September or October.

Chairman: I am alerting people to the information that we received last night, which is unsatisfactory. One would have thought the period was long enough to ensure we would get a reasonable picture of the overall situation. We will write to the Commissioner, asking her to give us as much interim information, even if it is not the final report. The Garda Síochána has to have an indication substantially on where it is at, without it being the final report, but we want as much of a progress report as is possible.

Deputy Josepha Madigan: I had specifically asked the Commissioner about the report and she had said then it would be at the end of the month. In terms of next week, that is really limiting. Did the Commissioner actually say to the Chairman that it will be August?

Chairman: I will read the note.

Deputy Josepha Madigan: I think we should have another meeting then. Perhaps adjourn part of this one.

Chairman: We have been told that the Garda Síochána does not expect to have the report finalised until the end of this month, which is the end of July.

Deputy Josepha Madigan: They said that last month.

Chairman: Yes.

Deputy David Cullinane: It is very convenient.

Chairman: The Garda Síochána is slow at getting information. We have other public bodies who are smarter and more prompt in providing information. We had information last night and more information this morning and it still has not answered everything. It has been a feature of our dealings with the Garda Síochána; it has not been as efficient in dealing with the Committee of Public Accounts as have some other organisations.

Deputy Catherine Murphy: I presume that when the Commissioner comes before the committee, a substantial amount of the report will be done. In fact the CSO has suspended some of its statistics in respect of road traffic offences.

Chairman: We are only dealing with-----

Deputy Catherine Murphy: I acknowledge that but this is pretty serious stuff. I am conscious that the August bank holiday weekend is a great weekend to bury things. People do not pay a great deal of attention or the level of attention they should to things. One sees that all the time with bad announcements.

Will we be able to question the Commissioner, when she comes before the committee, on what is already available or will she be able to respond with the phrase that she has to wait until the report is complete? What range will we have to be able to explore this?

Chairman: I do not know.

Deputy Josepha Madigan: Did the Commissioner give a reason for the delay?

Chairman: We were told the report will not be ready. We just got a message. We might try to find out more during the course of the day.

Deputy Josepha Madigan: It would be good to get an explanation as to what is causing the delay in order that we can understand it.

Chairman: During the course of the day we will try to establish a bit more information on it.

At this stage, we have completed our discussion on the work programme and any other business. We will now move on to the Department of Finance Appropriation Accounts and the chapters in the report of the Comptroller and Auditor General under that Vote.

We will suspend the sitting while the witnesses take their seats.

Sitting suspended at 9.53 a.m. and resumed at 9.55 a.m.

2015 Annual Report of the Comptroller and Auditor General and Appropriation Accounts

Vote 7 - Office of the Minister for Finance

Chapter 1 - Exchequer Financial Outturn for 2015

Chapter 2 - Government Debt

Chapter 18 - Irish Fiscal Advisory Council

Finance Accounts 2015

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

Chairman: The committee is now in public session. Today we are joined from the Department of Finance by Mr. Derek Moran, Secretary General, and Ms Ann Nolan, Second Secretary General. I am told that it might be Ms Nolan's last appearance before the committee.

Ms Ann Nolan: I think so.

Chairman: Ms Nolan is moving on. We are also joined from the Department of Finance by Mr. John McCarthy, assistant secretary, Mr. Derek Tierney, principal officer, and Mr. Fiachra Quinlan, assistant principal. We are also joined by Ms Victoria Cahill from the Department of Public Expenditure and Reform.

I remind members, witnesses and those in the Public Gallery that all mobile phones must be switched off and not put on silent mode.

I wish to advise the witnesses that by virtue of section 17(2)(*l*) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to this committee. If you are directed by the committee to cease giving evidence on a particular matter and you continue to so do, you are entitled thereafter only to a qualified privilege in respect of your evidence. You are directed that only evidence connected with the subject matter of these proceedings is to be given and you are asked to respect the parliamentary practice to the effect that, where possible, you should not criticise nor make charges against any person, persons or entity, by name or in such a way as to make him, her or it identifiable.

Members are reminded of the provisions of Standing Order 186 that the committee shall 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. Members are reminded of the long-standing ruling to the effect that they should not comment on, criticise or make charges against a person outside the House or an official either by name or in such a way as to make him or her identifiable.

Before I call the Comptroller and Auditor General to make his opening statement, our intention is to complete this session fully this morning because in the afternoon we will be dealing with the Department of Public Expenditure and Reform. I ask members to keep their respective time slots of 20 minutes for the first speaker, 15 minutes and ten minute slots thereafter to ensure we complete this section of the meeting before the voting slot today.

I call on the Comptroller and Auditor General to make his opening statement.

Mr. Seamus McCarthy: I thank the Chairman. I will commence by speaking about the finance accounts. The annual finance accounts present the receipts into and issues from the Central Fund of the Exchequer, together with a set of statements that itemise the transactions. The financial statements of the national debt, which are prepared by the National Treasury Management Agency, are presented in full as Part 2 of the finance accounts.

The finance accounts provide a 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. 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 chapters that are the subject of today's meeting were compiled to highlight key aggregates and trends in Central Fund transactions and in broader State liabilities.

Chapter 1 summarises the Exchequer outturn for 2015. Receipts in 2015 totalled €58.6 billion, representing an increase of €8.9 billion, or 18%, compared with 2014. This was mainly due to increases in tax revenues of €4.3 billion and a number of one-off capital receipts totalling €3.6 billion. Issues from the Central Fund in 2015 of €58.7 billion were €750 million or 1.3% higher than in 2014. The movement in Central Fund receipts and issues is shown in the diagram which is now on screen. This indicates that in 2015 the Exchequer deficit was almost eliminated - the shortfall for the year was just €64 million. This compares to an Exchequer deficit of €8.2 billion in 2014.

Members may wish to know that I issued my audit report on the finance accounts for 2016 last week. It is the Department's responsibility to present the accounts to Dáil Éireann.

In chapter 2 of my report, I outline the trends and composition of Government debt and the cost of debt servicing. 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. At the end of 2015, the general Government debt stood at just over €200 billion. There was a very small decline in the level of debt year on year. However, the ratio of general Government debt to GDP declined to 79% at the end of 2015 from 108% at the end of 2014. This sharp reduction reflected an exceptional increase in the estimated value of Ireland's GDP in 2015, attributed to the activities of a small number of large multinational firms, including the relocation to Ireland in 2014-15 of a few big economic operators.

The main component of Ireland's general Government debt at the end of 2015 was the gross national debt. This is the cumulative borrowing undertaken by the National Treasury Management Agency on behalf of the State.

Gross national debt stood at €196.6 billion at the end of 2015, down marginally from the end of 2014. The cost of servicing the national debt fell by 6% to €7.1 billion in 2015. This reflected a fall in the estimated average cost of servicing the debt, from 3.8% at the end of 2014 to 3.5% at the end of 2015. By June 2016, the average had fallen further to 3.4%.

Turning now to chapter 18 in relation to the Irish Fiscal Advisory Council, the Fiscal Responsibility Act 2012 requires me to report to Dáil Éireann with respect to the correctness of the sums brought to account by the council each year. Chapter 18 is my report for 2015. My report on the audit was issued on 30 June 2016 and I gave a clear audit opinion. Expenditure by the council in 2015 amounted to €823,000.

The 2015 appropriation account for the Vote of the Office of the Minister for Finance records expenditure totalling €26.3 million on five programme areas. The expenditure on financial services policy recorded in the appropriation accounts is €7.6 million. However, it should be noted that this does not include costs associated with staff who are seconded to the Department from the NTMA to deal with banking sector issues, and certain related consultancy costs. Those costs are borne by the NTMA and are not recouped from the Department. The level of costs in that regard is not disclosed in either the appropriation account for Vote 7 or the NTMA's financial statements. At the end of 2015, a net €6.1 million was liable for surrender from Vote 7 back to the Exchequer.

Chairman: I thank Mr. McCarthy and call on Mr. Moran to make his opening statement.

Mr. Derek Moran: I thank the Chairman for affording me the opportunity to address the committee this morning. I am joined by Ms Ann Nolan, second Secretary General, Mr. John McCarthy, chief economist, Mr. Derek Tierney, head of corporate affairs, and Mr. Fiachra Quinlan of the finance unit.

I would like to focus on the four specific items on today's agenda. The first is Vote 7 and the 2015 appropriation accounts for the Department. The Estimate for 2015 was set at €30.6 million. Spend for 2015 was €24.4 million, leaving a surplus to be surrendered of approximately €6.2 million. This surplus arose for a number of reasons. Recruitment did not progress at the pace anticipated, resulting in a pay bill underspend of around €1.1 million and a further €600,000 underspend on non-pay administration expenses. There was also an underspend of

€3.1 million on programme related costs arising from the completion of some work in-house and lower costs in relation to the shareholder management unit. The Department also recouped an additional €500,000 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 outturn for the State.

I draw the committee's attention to the following key points. Tax revenues for 2015, at €45.6 billion, were up €4.3 billion or 10.5% year on year and €3.3 billion or 7.8% on profile. Within that figure for tax revenues, the increase was distributed across the three key tax heads. Income tax grew by 7%, corporation tax by 48.9% and VAT by 7.1% year on year. On the expenditure side, total expenditure, at €58.6 billion, was up €700 million or 1.2% year on year. This was driven by increased voted expenditure which showed an increase of €600 million.

General Government debt as a percentage of GDP fell to 78.7% in 2015 from a peak of 119.5% in 2012. This downward trend is projected to continue with a debt to GDP ratio of some 72.9% forecast for 2017, which is in line with the euro area average.

I would like briefly to turn to performance and outputs in recent years. The Department was restructured around two directorates in 2016 – the economic and fiscal directorate and the finance and banking directorate. This structure remains largely unchanged in 2017. The Department is working towards achieving two broad goals, namely, a sustainable macroeconomic environment and sound public finances; and a balanced and equitable economy enabled by a restructured, vibrant, secure and well regulated financial sector.

I am greatly encouraged by the robust pace of the recovery in the economy, with GDP increasing by 5.2% last year. The increase in economic activity is broadly based and economic fundamentals are strong. Export growth in recent years has been robust and exports continue to contribute positively to growth. This is a reflection of the progress which has been made to restore our competitiveness. Notably, the domestic sector is now driving growth in the economy, with private consumption up 3% in 2016.

Recovery is perhaps most clearly evident in the labour market, with annual employment having increased in each of the last 18 quarters, representing an increase of 231,000 jobs since the low point in 2012. Strong employment gains have driven a substantial turnaround in unemployment, which has fallen from a peak of more than 15% to 6.4% in May.

Key economic indicators point to continued solid growth this year. The Department is forecasting growth of 4.3% this year and 3.7% next year. Despite the pace of the recovery and the strength of our underlying economic fundamentals, we must be conscious of the uncertainty in the external environment which underlines the need for caution supported by prudent economic and fiscal policies.

Public finances also continue to move in the right direction, with significant progress being made on the general Government deficit. Ireland exited the excessive deficit procedure in 2016 and it is planned to reach the medium-term objective of a structurally balanced budget in 2018.

Underpinned by a growing economy, the hard won improvements in our public finances provide a sustainable budgetary platform upon which funding for the provision of public services can be provided in the years ahead. The market reaction to our management of the public finances has been positive but it is vital that we sustain our progress. We must guard against complacency, maintain our prudent management of the public finances and continue with competitiveness oriented policies.

Brexit is one of the serious challenges for the economy. The Government approach has outlined twin Brexit goals, the first to secure the closest possible economic and trading relationship between the EU and UK, and the second to prepare the economy to cope with turbulence of coming years and the structural shift of new realities of Brexit. The best and most immediate policy within the Government's control to counter the likely turbulence of coming years is to prudently manage the public finances to ensure Ireland's economy continues to remain competitive in the face of future economic headwinds.

The last budget outlined a number of policies targeted at the most exposed sectors, measures to support small and medium enterprises, entrepreneurship, agrifood, and exporters, while also targeting potential economic opportunities, such as competing for mobile international investment in the international financial services sector. The Government has also put forward Dublin as an excellent location for the European Banking Authority post-Brexit.

A key focus for the Department in the past year has been the sale of the State's investment in AIB. The successful capital reorganisation of the bank in 2015 provided a supportive backdrop for the commencement of this process and significant work has been undertaken by the Department and its advisers over this period to achieve a successful outcome for the State. The recent completion of the initial public offering, IPO, represents a significant milestone and not only has it resulted in a substantial sum of money being returned to the State, but it also creates a strong platform for the State to recover all of the money it has invested in AIB over time. At the end of this process, the State will continue to hold 71% of AIB, which is worth around €9 billion, and will continue to be a substantial focus for the Department for some time.

As with any organisation, we must strive to evolve, improve and embed the skills necessary to the job at hand. This is an ongoing process. I am pleased to report that the Department was awarded the best learning and development organisation for 2017 for a medium-sized organisation as part of the Irish Institute of Training and Development awards. The award is an endorsement of the commitment of the Department and its staff to the development of a learning culture focusing on both hard skills and those of leadership and management necessary for the job.

I 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 possibly be. I thank the Chairman and committee members for their attention and I welcome any questions.

Chairman: I thank Mr. Moran. The speaking order is Deputy Catherine Murphy, Deputy Marc MacSharry, Deputy David Cullinane, Deputy Catherine Connolly and Deputy Josepha Madigan. Deputy Catherine Murphy, the first speaker, has 20 minutes.

Deputy Catherine Murphy: Good morning. The delegates are very welcome. I want to start with the Government debt. In 2014, it was €203 billion. By 2015, it was €201 billion. The debt-GDP ratio dropped by 120% to 79%. Am I right on that?

Mr. Derek Moran: From the peak.

Deputy Catherine Murphy: That is the year in which there was quite a discussion about leprechaun economics. Mr. Moran told us a small number of large multinationals located some of their activities here. Those were not big job announcements. Were the companies already here? Were they new companies? Do we know who they were?

Mr. Derek Moran: May I address that? The year 2015 saw a very significant increase in GDP. I recall a figure of 26%. We do not have the details of the companies because the CSO collects that information. If it is a small number, it does not make it public. The figure resulted from a number of factors, primarily the onshoring of intellectual property, which has a very high capital content.

Deputy Catherine Connolly: It is hard to hear.

Mr. Derek Moran: I referred to the onshoring of intellectual property plus-----

Deputy Catherine Connolly: Offshoring?

Mr. Derek Moran: No. Onshoring. I refer to intellectual property coming from abroad into Ireland, which gives a big boost-----

Deputy Catherine Connolly: It is a problem with the microphone, not the explanation.

Mr. Derek Moran: -----on the capital account. That would have given us a big surge in GDP and it also affected a range of other areas, such as contract manufacturing and a number of more technical-----

Chairman: Could Mr. Moran explain "contract manufacturing" for the members of the public who do not understand the term?

Mr. Derek Moran: I will ask Mr. McCarthy to help on this. Contract manufacturing is where an Irish company contracts with a third party outside the State to undertake activities for it. It is treated as activities if it is in Ireland.

Mr. John McCarthy: That is it. Let me give a little more flavour on it.

Deputy Catherine Murphy: Can the explanation be very short because I have 20 minutes in total?

Mr. Derek Moran: Perhaps I will conclude? The net result was that we had a very big GDP number that drove down the debt ratios and, in fact, improved all the ratios. Internationally, debt ratios and fiscal ratios are reported against GDP. The net result is that we needed to look through the national accounts figures to see if we could develop an alternative that gave a truer picture of the underlying indebtedness of the State. An expert group was set up under the chairmanship of the Governor of the Central Bank, with participation by Mr. McCarthy and a range of other people. We anticipate, with the publication of the national accounts in a few weeks, that we will have the first indication of what is known as gross national income (Star), GNI*. This will be a measure that cleans out a lot of those issues related to globalisation and it will give a truer sense of what the ratio should be.

Deputy Catherine Murphy: In terms of hard cash, we owed €201 billion in 2015.

Mr. Derek Moran: Yes.

Deputy Catherine Murphy: It had not changed much in a year so it was not that we paid off debt or got a debt write-off.

Mr. Derek Moran: No.

Deputy Catherine Murphy: It was purely in regard to this activity. This shows exposure because if it can move in and make that change it can equally move out and make the opposite change. Therefore, there is real exposure.

Is it true that Ireland's debt is the second highest in the world *per capita*?

Mr. John McCarthy: For each person resident in the State, the Government holds about €42,000 or €44,000 on his or her behalf, so to speak. This makes our figure the second highest. I believe Japan has the highest figure.

Deputy Catherine Murphy: I thank Mr. McCarthy. With regard to aspects of that debt, I want to strip the matter back a little. How is the turning of the promissory notes into sovereign debt captured? I got a reply to a parliamentary question referring to the acceleration of the paying down of the debt. A minimum amount was to be paid off. I do not know the exact terminology. The eight floating rate notes had a range of maturity dates from 2038 to 2053. Between 2016 and 2018, the figure was to be €0.5 billion per year. From 2019 to 2023, it was to be €1 billion per year, and from 2024 onwards, it was to be €2 billion per year. The process has been accelerated. There is now an outstanding balance of €17.5 billion in terms of floating rate notes. Essentially, there has been an acceleration. How is that reflected in the debt?

Ms Ann Nolan: It is all part of the debt. It is debt whether it is in the Central Bank or the NTMA. To that extent, how it is stated is the same. One reason the NTMA has accelerated the buy-back is that interest rates are extremely low at the moment. I refer to floating rate notes. If interest rates were to increase, it would increase on those notes. If one can borrow for 20 years and lock in a low interest rate, one would be as well off to accelerate that swap.

Deputy Catherine Murphy: I can understand the logic if one accepts this is our debt. Some of us have a real problem with that.

Ms Ann Nolan: I understand that.

Deputy Catherine Murphy: There was a commitment – it was called a game-changer – regarding retroactive recapitalisation. This would be the area it would fall into. Has that been eliminated as any kind of a prospect at this stage?

Ms Ann Nolan: Technically, it is our debt. I totally get the Deputy's political point that she does not believe the country should have accepted that debt. They are Government bonds that rank *pari passu* whether they are held in the Central Bank or somewhere else.

In terms of the classification of debt and the issue of whether there was a game-changer, the argument from a purely market-based point of view was that unless there was a prospect of that debt being locked in for a long time, we could not have gone back into the markets and got the interest rates down to where they are now, which is an extremely low level, much lower than we would have imagined even when we did the deal. Now that the interest rates are so low and there is a possibility of them going up, if we accept that it is debt, which we do, I, as a technician, have to accept it is debt and that the Government has taken it.

Deputy Catherine Murphy: The Department, headed by the Minister, has not done anything actively with the European institutions to change that. Is that Ms Nolan's understanding at this stage?

Ms Ann Nolan: My understanding is that there has not been further discussion on possible changes to the nature of the debt.

Deputy Catherine Murphy: The opening statement referred to competitiveness. IFAC will be advising on the fiscal approach and what fiscal space there is, to use the terminology.

One of the big measurements that seems to come into play in relation to competitiveness is wage inflation, but some of the big multinationals on which we are so dependent - we just heard that - are highlighting a whole other issue, namely, the cost of living and accommodation in particular. In terms of being prudent, to what extent is that factored into the management of the economy because, increasingly, we are seeing those costs absorbing huge amounts of household income? Google, for example, said more than two years ago that accommodation was a real issue for it. Is it a real issue for the Department of Finance in terms of prudently managing the economy?

Mr. Derek Moran: In terms of the Irish Fiscal Advisory Council, its role primarily in relation to the Department is, among other things, to look at the forecasts for the economy which bridge all of those issues – the constraints, the capacity constraints, the cost base, employment, unemployment, etc., and to independently assess where that falls within a credible range. It has consistently done that.

One of the issues that we have with success is that as employment numbers go up and as unemployment falls, we start to get to a capacity constraint. We have got higher demand for goods such as housing and so on, but also as one gets down to near enough what technically would be full employment, let us say 5% or thereabouts, one starts to get those additional pressures and the potential for overheating within the economy. I do not think we are quite there yet, but we have to and should be concerned about it. In terms of cost of living and accommodation, everybody is very aware of the supply constraints within the housing sector. That is a concern for all of Government and a set of policy responses is either in place or is being put in place. The reality is that there is a big gap between demand and supply and that puts pressure on prices.

Deputy Catherine Murphy: Yes, but if there is such a big gap, the intervention of building becomes a very real issue for the Department of Finance.

Mr. Derek Moran: The Department of Finance provides the economic framework for others. Rebuilding Ireland's policy document for next year is all about trying to get that supply up and the building of increased social provision. That is an integral part of the set of economic challenges that we have. Perhaps Mr. McCarthy wishes to add something.

Mr. John McCarthy: The Deputy is correct. Competitiveness goes beyond simply wages. There are lots of other issues as well, including the capacity constraints, for instance within the housing sector.

The increase in capital expenditure that has already been announced for 2018, including the additional funding for the Action Plan for Housing, is just shy of 17%, and there is an increase of nearly 15% in 2019. At the moment we are looking at capital spending going from approximately 4.5% or 4.6% this year up to over €7 billion on the basis of unchanged policies by 2021. That has of course to be done within a fiscal framework. There are fiscal rules that make sure we do not let debt and deficits get out of hand but the Government is prioritising capital expenditure within that envelope. I do not want to get into policy.

Deputy Catherine Murphy: Yes. I might come back to this in a minute but I wish to get a few other questions in that I particularly wish to ask.

We heard this morning about the money that was released from Deutsche Bank for the recent AIB share sale. What is the intention for the additional €400 million?

Mr. Derek Moran: I am sorry but the Government policy on that has already been stated, namely, that the sale of one-off assets is going towards the reduction of the debt.

Deputy Catherine Murphy: What difference in percentage terms did the sale of those shares make, including that amount, on the extent of our debt?

Mr. Derek Moran: The rough calculation is that the total is about €3.4 billion. I think it is about 1%.

Mr. John McCarthy: It is nearly 2%.

Deputy Catherine Murphy: I want to talk about the general Government debt. Obviously a whole lot of things help to define it. It is not just the Department of Finance. I am acutely aware that local authorities, for example, hold several hundred million, for example, in development contributions that they are not permitted to spend because it is obviously keeping a balance in terms of the overall balance of the State's finances. We heard recently from the universities when they were before the committee. For example, there was a purchase by UCC of the IMI, both the company and the assets. We heard from one of the witnesses that a look is being taken at other issues that might come into play as part of the debt that are not currently counted as part of it. First, the Department has to have some controls and that is evident with local authorities but it does not seem to extend to all sectors, for example, the university sector. Does that stand out in any particular way?

Mr. Derek Moran: The university sector is one that has changed. It is a question of what is on the Government balance sheet and what is off it. The university sector is not on the Government's balance sheet. There is a rule of thumb but it is much more complicated than this, but if an entity derives more than 50% of its income from non-governmental sectors it is outside the general Government expenditure and not counted in that piece. Clearly, local authorities do not do that but the universities do. They have to manage their affairs in that way so it does not fall within our remit.

Deputy Catherine Murphy: Is Mr. Moran concerned that it could fall within his remit if it was reviewed?

Mr. Derek Moran: This comes up from time to time but it should not. The universities should manage their affairs appropriately. I do not think there is any question of the Government becoming liable for the debts associated with the university sector.

Deputy Catherine Murphy: Okay. I want to come back to the overall debt and the exposure as given that it can move in, equally, it can move out. For example, the Apple ruling at European level is being challenged in the courts but while it is being challenged, where does that sit in relation to our overall debt because it would clearly be counted in as an asset until a challenge is successful, if that is the case?

Mr. Derek Moran: At the behest of the European Commission, it was suggested that the money would be held in an escrow account - in other words, it is held outside of anybody's account. The company paid into the escrow and the escrow is managed until such time as the proceedings are finished. It does not come onto our books now. It will only leave the escrow when the determination is made at the end of whatever period of years the case takes. It does not arise in the context of our debt, plus or minus, in the short term; it only arises when there is a final determination.

Deputy Catherine Murphy: Right, okay. We have the debt-----

Chairman: Deputy Murphy has five minutes remaining.

Deputy Catherine Murphy: We have the total amount of debt for 2015. What does it stand at today?

Mr. Derek Moran: I think it is about €207 billion.

Mr. John McCarthy: At the end of 2016 it was €201 billion.

Deputy Catherine Murphy: So it has been pretty much static since 2015?

Mr. Derek Moran: Yes.

Mr. John McCarthy: I will pick up on an earlier point about the fall in the ratio being solely to do with onshoring. One has to realise that the economy, as it grows, will increase the GDP, which is the denominator, and it will come down, not at the rate we saw in 2015 but it will come down. As we move from a situation of borrowing large amounts of money to not borrowing, it will help with the ratio falling as well. There is a dynamic there. The affordability of debt is ultimately how much the economy earns in a year and its capacity to repay.

Deputy Catherine Murphy: It is quite a sizeable factor in servicing the debt because it obviously takes away our ability to invest in public services. We pay more taxes and all of that. In terms of our exposure, onshoring seems to me to be something to which we should be paying very serious attention. Has a risk analysis been carried out in respect of it? If it was to go back up to 120% as a result of an overnight change, how would it impact on us?

Mr. John McCarthy: In terms of the GDP growth rate, the Secretary General mentioned 26% growth. It is more a function of the nominal growth and such growth was 32% in 2015. The onshoring or growth rate in 2015 reduced the debt ratio by 25 percentage points. We published analysis in June which says that we do not have the GNI* available and GNI*, as the Secretary General mentioned, strips out some of these strange issues. Our best estimate is that the debt ratio to GNI* is still in excess of 100%. We will be able to calculate it accurately next Friday when the CSO publishes GNI* for the first time ever. Our exposure is on the GNI* basis rather than the GDP. The Deputy is absolutely right. There is an exposure if this IP is very mobile. It can move out as well as in. In quarter 4 of last year, we saw more IP coming onshore in Ireland. It is a risk so we carry out a debt sustainability analysis. We have published our annual debt report. What would be the impact on the debt ratio if for instance GDP was to fall by x% or x+2%, if interest rates were to go up or if there was a contingent liability shock? We are doing that war-gaming, so to speak.

Deputy Catherine Murphy: If the new calculation brings it up to 100%, is that how it will be viewed with regard to our debt-to-GDP ratio as it relates to the euro, for example?

Mr. John McCarthy: No, this is a purely domestic term to help us, as policy advisers, but from a legal perspective, it is still GDP.

Deputy Catherine Murphy: Is analysis carried out in respect of why this intellectual property was onshored and why Ireland was chosen?

Mr. Derek Moran: It is part of a bigger process. In the corporate tax space, there has been this base erosion and profit shifting, BEPS, process. Part of the drive of that was to take intangible assets out of tax havens, usually small islands in the Caribbean, and bring them onshore to countries that had substantive and positive tax rates. It is part of that process. In some respects, the scale of it was more surprising than anything else. Some of the impact on the national account is a result of the way the onshoring was structured. What one will see over a period of years is more and more multinationals taking those intangible assets out of the Caribbean and bringing them into-----

Deputy Catherine Murphy: Yes, but they are choosing to come here. Are they choosing to go to other European countries with, for example, higher corporate tax rates or are they coming here because of the corporate tax rate?

Mr. Derek Moran: We do not know the company or companies involved. If we do, we should not say who it is. At the end of the day, they are coming here because they have substantive operations here, such as production services or research and development centres and this is the final part. I do not think one will see companies that have no association with Ireland coming here. One will see companies that are strongly embedded here and that have created substantial employment.

Deputy Catherine Murphy: Will they be real activities or could we find ourselves in a situation similar to that relating to Apple?

Mr. Derek Moran: No, I think these are real. A very important distinction is that when intellectual property is brought into the country, it has to be treated as a separate trade. Capital allowances do not swamp the core activities of the companies. It is treated as a separate trade. The capital allowances are offset against that and, ultimately, taxed on that base. It probably removes the risk to the corporate tax that has been paid within the jurisdiction. This is real. It is a consequence of what was happening around the BEPS process.

Deputy Catherine Murphy: May I ask one more question?

Chairman: Yes, final question.

Deputy Catherine Murphy: It strikes me that a lot of this stuff is not terribly obvious; ribbons are not being cut and things like that. We did not see a whole lot of it in 2015. There are very real things, such as housing, that have a real impact on the economy on a permanent basis. Where, in theory, there are some funds available, our ability to borrow is one of the big impediments to solving this problem. Would there be some value, in the context of being prudent in managing the economy, to invest more heavily in one of the things that is actually restricting growth in the domestic economy by virtue of the amount of money being absorbed by households in terms of the cost of accommodation.

Mr. Derek Moran: I will give the Deputy the sort of answer I think one of my counterparts in any Department of Finance in any jurisdiction would probably give. We have a set of rules and those rules prescribed a direction. There is a freedom for any Government to make a decision at any point to spend any amount of money but the rules require that we raise the moneys in a way that is sustainable, in other words through a tax or a charge or other channel. We get into debates about fiscal space. Fiscal space is only that piece we can do without going to discretionary revenue measures, without raising taxes.

Deputy Catherine Murphy: It is unsustainable not to have an affordable housing option for an economy. It drives a whole lot of things, including wage inflation. That is just an opinion.

Chairman: I will call Deputy MacSharry next.

Deputy Marc MacSharry: I welcome the witnesses and thank them for the points they made. I will make a number of points on the accounts first. Receipts included €701,000 compared with €350,000 budgeted for in respect of the recoupment of certain expenses on the stabilisation of the banking sector. What was the nature of those expenses?

Mr. Derek Moran: Can I search that out for the Deputy?

Deputy Marc MacSharry: Yes.

Ms Ann Nolan: We can get the Deputy a detailed breakdown but, broadly speaking, with certain things such as the guarantees and so on, we can recoup certain expenses along with them. For example, we will have expenses in selling the AIB shares this year but it will all be paid for by AIB. In some cases, for some of the shares, AIB will pay the people we employed directly but in others we pay them and then claim it back from AIB. Where we pay and claim it back, it comes in as recoupments. I could not, off the top of my head-----

Deputy Marc MacSharry: I know how expenses work.

Ms Ann Nolan: -----but we can give the Deputy-----

Deputy Marc MacSharry: I know how expenses work.

Ms Ann Nolan: What did the Deputy say?

Deputy Marc MacSharry: I know how they work-----

Ms Ann Nolan: What happens is-----

Deputy Marc MacSharry: -----I just want to know what they were.

Ms Ann Nolan: We will give the Deputy a list for the 2015 ones. I know what the ones for this year are so I can tell the Deputy the type of thing they are. For example, where we employ legal firms to check all the documents before we sell all the shares, we pay the legal firm and then we claim it back from AIB. That is in the original-----

Deputy Marc MacSharry: But that was not back in 2015?

Ms Ann Nolan: No, but there are things every year in the banks.

Deputy Marc MacSharry: So they could be professional fees.

Ms Ann Nolan: They are likely to be professional fees or they could be in some cases for the guarantee where it was towards the civil servants' costs. We claimed those back from the banks as well. We will get a detailed note and forward it to the committee.

Mr. Derek Moran: Yes. We do not have the details but we can get them.

Deputy Marc MacSharry: The witnesses will send that to the committee and we will get that a later date.

Mr. Derek Moran: Yes.

Deputy Marc MacSharry: It is unfortunate that they are not able to give it to us now. We have a problem with getting information from some people. I am sure they will be the exception.

Mr. Derek Moran: We do our best.

Deputy Marc MacSharry: Can the witnesses tell me who they were recouped from?

Ms Ann Nolan: From Bank of Ireland, AIB and PTSB.

Deputy Marc MacSharry: No doubt they will have that detail for us as well.

Mr. Derek Moran: Yes.

Deputy Marc MacSharry: Why is it so difficult to predict the annual level of expenses?

Ms Ann Nolan: For example, at the beginning of this year, we did not know whether we would be doing the initial public offering, IPO. There were three windows, as the Deputy will remember the Minister saying. It could have been in June this year, it could have been in the autumn and it could have been in the following June. At the beginning of a year, we do not really know what expenses we will incur, so therefore we do not know which ones we will recoup.

Deputy Marc MacSharry: Typically, would it all be legal and accountancy or is there anything else? Is there anything unusual?

Ms Ann Nolan: As I say, there are some Civil Service costs sometimes.

Deputy Marc MacSharry: Are the officials charging themselves out at so much an hour or whatever, and they will pay?

Ms Ann Nolan: Yes. There is a standard rate, depending on the grade and so on.

Deputy Marc MacSharry: What is the standard rate?

Ms Ann Nolan: If it is a CO, there is the CO's salary-----

Deputy Marc MacSharry: Divided by?

Ms Ann Nolan: -----plus a 25% or 16% estimate - I cannot remember the percentage - for the cost of pension multiplied by the number of hours.

Deputy Marc MacSharry: Does the Department draw in a margin? Would Ms Nolan not draw in a margin for the State?

Ms Ann Nolan: We do not draw a margin but we are careful to make sure that where we are entitled to recoup, we recoup completely.

Deputy Marc MacSharry: The Department should do that. With €201 billion of a hole to fill, it should not miss a genuine opportunity.

Ms Ann Nolan: To be fair, and Deputy MacSharry might remember it as he was probably friendly at that time with the then Minister, the late Deputy Brian Lenihan, when we did the original guarantee, the banks were not in a position for us to be drawing anything other than our costs from them. The piece for the Civil Service costs goes back to the guarantee. There is probably very little of that left now because there is hardly any of the guarantee left but there are other things that have happened subsequently where we have, for example, sold the preference shares. It would have been in the original deeds of the preference shares that if we had expenses, they paid them. We could not always tell in any given year which of those transactions we would be doing so we would make an estimate but we could be right or we might not be.

Deputy Marc MacSharry: Okay, I understand. It is not a huge amount of money but the principle of a barter system does not look well. To the extent that it happens, albeit not much, we should be including a margin for anything we are providing.

Ms Ann Nolan: I am sorry to say, and I hope we will not be intervening again and putting in any new instruments, that in that case we cannot change the terms and conditions of the instruments. The margin or non-margin was set in 2010, 2011, 2012 and 2013.

Deputy Marc MacSharry: I understand, should it arise. I can assure Ms Nolan-----

Ms Ann Nolan: I will bear that in mind.

Deputy Marc MacSharry: -----that if the shoe was on the other foot, they would lay it on pretty thick.

Ms Ann Nolan: I have to be careful what I say. All the actions we took and the kind of recoupment we put in was also overseen by DG COMP and we had to be careful with that too at the time.

Deputy Marc MacSharry: As we are on that kind of issue, will Ms Nolan remind me, for those who are tuning in to the committee proceedings, what we are getting annually from the individual banks?

Mr. Derek Moran: In what terms?

Ms Ann Nolan: In what terms? Sorry, I am not sure. We got recoupment.

Deputy Marc MacSharry: I suppose, in layperson's terms as opposed to accountancy terms, what I would like to know is what the people are getting on an annual basis in terms of a dividend or-----

Chairman: Levy.

Deputy Marc MacSharry: -----levy.

Ms Ann Nolan: The levy is €150 million, and that is across the banking system.

Deputy Marc MacSharry: Is that just a flat rate?

Ms Ann Nolan: It is not a flat rate but the Finance Bill is organised in such a way that makes sure we do not go below the €150 million. The rate of tax goes up if there is a danger that, between them, we will get less than that.

Deputy Marc MacSharry: Okay. Do we review that based on the performance or profitability of the bank?

Ms Ann Nolan: No. It is a stamp duty-type levy so it is not a profitability levy.

Deputy Marc MacSharry: It is linked to transactions.

Ms Ann Nolan: No. It is based on their deposit interest retention tax, DIRT, payments because we have that figure. It is apportioned between them, depending on what DIRT they pay.

Deputy Marc MacSharry: It is a formula linked to the proportion of DIRT payments that they give in a year.

Ms Ann Nolan: Yes.

Deputy Marc MacSharry: Is that in a Bill or a statutory instrument?

Ms Ann Nolan: It is in the Finance Bill.

Deputy Marc MacSharry: That could be changed.

Ms Ann Nolan: Yes.

Deputy Marc MacSharry: Perhaps it is something we could recommend. The amount is €150 million a year. Is there a dividend linked to AIB as well where we still own 71% as a shareholder?

Ms Ann Nolan: Yes. AIB paid its first dividend this year which was €250 million. It paid it based on the shareholding at the beginning of the year so we will get that full amount. I am not certain whether we have got it yet. We may get it at the end of the month.

Deputy Marc MacSharry: I am concerned. It is €250 million and Ms Nolan is not sure.

Ms Ann Nolan: It is coming.

Deputy Marc MacSharry: The poor Secretary General there thought we were €5 billion more in debt than we were until Mr. John McCarthy intervened.

Ms Ann Nolan: No. It is in the figures. We are getting it this year. There is no doubt.

Deputy Marc MacSharry: I am sure Ms Nolan is well on top of the detailed figures but with the headline figures, I am concerned when €5 billion is missing.

Ms Ann Nolan: I am not missing €5 billion. I hope there will be future dividends, but we do not get to say what those dividends are. We will get 71% of whatever dividend the board decides and the board has to get clearance from the ECB for any dividend.

Deputy Marc MacSharry: There was mention of €400 million on "Morning Ireland" this morning. To go back to what Deputy Murphy was dealing with, the officials are not allowed comment on policy but at this point the message in the media, which I presume emanates from the Department's press office, is that €400 million went back into the Exchequer. Is that an indication that the fiscal space, to use that terrible phrase, may be different or is it an assumption that it will be paid off the €201 billion?

Mr. Derek Moran: As I said at the outset, Government policy on this is straight up, that one-off sales of assets go against the debt.

Ms Ann Nolan: Not only that, it would not affect the fiscal space because our ownership of the bank is a financial asset. When assets come back from there, we are just changing one financial asset into another. It is not income in the fiscal space sense.

Deputy Marc MacSharry: It is once-off money, but once-off money can be useful, for example, for capital expenditure.

Ms Ann Nolan: No. It does not create fiscal space. We owned the shares and now we own the money.

Deputy Marc MacSharry: I agree, but money is money.

Ms Ann Nolan: It is just the cash. On European rules, I mean, it is not.

Mr. John McCarthy: It is not general Government revenue or Exchequer revenue.

Deputy Marc MacSharry: I understand that. We will get to the European rules in a minute. The Department is saying that under European rules, that €400 million is not spendable money.

Ms Ann Nolan: Yes, under European rules.

Deputy Marc MacSharry: Is that absolutely a European rule or is it our interpretation and application of a European rule?

Ms Ann Nolan: No. It is an absolute European rule. We are not the only ones with these type of assets and it is not specific to us.

Deputy Marc MacSharry: On page 18 of the Appropriation Account 2015, Vote 7 - Office of the Minister for Finance, note 6.3 refers to contingent liabilities in respect of ongoing litigation relating to the Irish Bank Resolution Corporation, IBRC, Permanent TSB, PTSB, and some third party warranties and indemnities provided in connection with the sale of Irish Life Limited, the disposal of the Bank of Ireland contingent capital notes, the disposal of the preference shares in Bank of Ireland and the liquidation of IBRC. How does referring to these liabilities without indicating their monetary value serve the interests of openness?

Mr. Derek Moran: I am not sure I understand. Sorry, I will just check the note.

Deputy Marc MacSharry: While Mr. Moran is looking for that, have we an estimate, an idea or a view on the eventual liability?

Ms Ann Nolan: There is a large amount of litigation going on in that area, particularly around PTSB. It has been going on for many years. We have won most of the cases. We have won every case that has come for decision but there is a contingent liability because we never know for certain that we are not going to win the next one.

Deputy Marc MacSharry: Is there any view on what it could be on a good day or a bad day?

Ms Ann Nolan: On a good day, it will never materialise.

Deputy Marc MacSharry: On a bad day?

Ms Ann Nolan: It would be a very bad day if it did. “I do not know”, is the answer because it is just very difficult to estimate. These are former shareholders in PTSB.

Deputy Marc MacSharry: Internally, would the Department have had a look at that, for example, Mr. McCarthy, as the economist?

Ms Ann Nolan: We have looked at it. It is almost like we can estimate it up to the total value of the money we put into the banks, if we say the banks were not worth that. That is so unlikely it would be at the ridiculous top end. As I said, we won all the cases, but it is----

Deputy Marc MacSharry: What is the nature of the warranties and indemnities?

Ms Ann Nolan: When one sells anything, one provides warranties and indemnities.

Deputy Marc MacSharry: Are they open-ended?

Ms Ann Nolan: No. They come to an end.

Deputy Marc MacSharry: When do they come to an end?

Ms Ann Nolan: Different ones come to an end at different times. In terms of the ones that have come to an end so far, there were a couple of warranties on the Irish Life one, which ended up with it paying us money. It has not happened to date that we have had to pay out extra money on any of these because-----

Deputy Marc MacSharry: Surely the Department would not issue such guarantees unless it had an estimate of the exposure.

Ms Ann Nolan: There are some guarantees that one has to enter into. If I sell the Deputy a car, but I shoot out the tyres subsequently, he might say I have to guarantee that I will not damage the car after I have sold it. There are certain warranties one has to enter into where there is not necessarily a financial-----

Deputy Marc MacSharry: Is it fair to say Ms Nolan does not know the estimate of the exposure?

Ms Ann Nolan: No. I do not think I know the estimate.

Mr. Derek Moran: We continue a provision in the Estimate in terms of the legal costs of dealing with these issues as they arise. They are unpredictable. As Ms Nolan said, we have not lost any of them to date; we have won them.

Deputy Marc MacSharry: Which is great.

Mr. Derek Moran: These are all around the legacy of the crisis, and they can go to law. It is a contingent liability but, as I said, to date we have not lost any of them. This will go on for some time before it comes to an end.

Deputy Marc MacSharry: With regard to GNI*, the new system we made up in the CSO in February, does anyone else in the world acknowledge GNI* as a reasonable economic indicator?

Mr. Derek Moran: There is a huge amount of interest in it, the reason being that these phenomena of globalisation are not unique to Ireland. The scale of what hit us before anybody else is quite significant, and Mr. McCarthy was a member of the group. Ten or 11 countries showed a particular interest because they have a greater or less exposure around this. In terms of what it is fundamentally, it is for us not to forget that we have a very high *per capita* debt and a huge sovereign debt burden. The legal denominator will always be GDP for all the reports internationally, but there are differences in the structure of the Irish economy that we need to acknowledge. GNI* gives us that metric to look at that. We will see the number next Friday, but it will probably be around 100% compared to 73%, which I believe is our current estimate for the end of this year. Mr. McCarthy might deal with our interest internationally.

Mr. John McCarthy: What we are particularly interested in in terms of GNI* is to see where the economy is really going when we strip out some of these strange one-offs. As the Secretary General mentioned, other countries have this issue as well. Within the EU 28, I am aware of 14 or 15 national statistical institutes that have identified onshoring of intellectual property, IP, as being an issue for them. Some of them are large countries and the IP coming onshore is not ginormous, whereas we have the opposite. We are a very small country in terms of IP coming onshore, so it completely distorts our accounts. What we need to do is to try to get an indication in terms of repayment capacity. Debt to GDP is not a good indicator of repayment capacity. Debt to GNI* is.

The reality is that we are at the coalface in terms of these issues. We are a very globalised economy and that presents challenges for us as advisers and for politicians in terms of making decisions, but also for statisticians in trying to measure what is going on because we have issues such as production that takes place in the Far East but which is included in the Irish national accounts for legal and statistical reasons. There are huge statistical issues, so we believe GNI* will be a better indicator of what is going on in the economy.

Deputy Marc MacSharry: In terms of the European constraints that are on us, they are prescribing where we need to get to in terms of debt to GDP ratio. Is that correct?

Mr. John McCarthy: That is right.

Deputy Marc MacSharry: What percentage do they want to see?

Mr. John McCarthy: We have a legal requirement to get to 60% of GDP. It must be corrected at a sufficient pace and that pace is one twentieth of the difference between the actual debt ratio in a current year and the 60%. To give the Deputy a simple example, if we were at 100%, the difference is 40%, so it needs to be corrected by 2% per annum, that is, one twentieth of the difference, which is 40%. It has to come down by 2% every year.

Deputy Marc MacSharry: We have to get to 60% by a certain date.

Mr. John McCarthy: No. It just has to be done at the correct pace. The rules are silent on "when".

Deputy Marc MacSharry: As an economist, does Mr. McCarthy believe that is good for a country with such an infrastructural deficit, for example?

Mr. John McCarthy: As was mentioned earlier, the fiscal rules do not tell a government or a sovereign nation state what it can and should not spend on.

Deputy Marc MacSharry: No. They are telling them what it can borrow.

Mr. John McCarthy: It is absolutely right that there should be a constraint on borrowing, but if we identify that we have needs in a particular area, funnily enough, the rules say, "That is grand, but you have to finance it." It is perfectly plausible to me, especially when we have a debt ratio on a GNI* of 100% or €201 billion, to be exact, that one should not finance this by issuing more debt. If we decide that we have needs in a particular area, be it infrastructure or whatever, as I mentioned, we are doing it but we have to be able to finance it. That is not unreasonable.

Deputy Marc MacSharry: I appreciate that, but it is the way we finance it. Would it not be sensible for a country like Ireland to issue a 100 year paper specifically to enable infrastructure?

Mr. John McCarthy: We have issued 100 year century bonds-----

Deputy Marc MacSharry: I know we have.

Mr. John McCarthy: -----but, ultimately, that involves issuing more debt and we are close to the limit as to how much debt we can issue.

Deputy Marc MacSharry: We are close to the limit in line with the European rules.

Mr. John McCarthy: And also market constraints.

Deputy Marc MacSharry: What market constraints?

Mr. John McCarthy: The market constraint that could easily exist were we to say: "We will not obey the rules. We will not get to 60% of GDP fast enough. We will build on our €201 billion stock pile of debt and continue adding to that." That would price us out of the markets at some stage.

Deputy Marc MacSharry: Is there not an argument that we will strangle ourselves unless we invest in appropriate enabling infrastructure in the meantime? Is it counterproductive?

Chairman: Deputy, we are on time.

Deputy Marc MacSharry: I know that. I have a final question.

Mr. Derek Moran: Ultimately, this is in the area of choice. If there are particular needs in one area, one makes choices around how that area is prioritised over others. We went through a phase in the "noughties" where we put huge amounts of money into capital investment and what we ended up getting was only price increase. We did not get an adequate return for that. That was a mistake. I do not disagree with the Deputy about investment needs and so on, but choices have to be made within an overall constraint.

Deputy Marc MacSharry: We probably need to find a way to get concessions. That is a separate issue. I do not want to get the witnesses into policy and I am going down that road.

I have a final question. As the Apple case progresses, is it the witnesses' Department that is managing that case?

Mr. Derek Moran: Yes.

Deputy Marc MacSharry: How is it going?

Mr. Derek Moran: The first thing to say is that we are not expecting to be in court on this until well into the back end of next year. There is a very long list of work streams. We are working with both the Commission and the company about finalising the escrow, getting an escrow manager and getting the money in, and that is complex. This is not a small amount. It is 25% of our revenues in a year and so on.

Deputy Marc MacSharry: I understand.

Mr. Derek Moran: It is going fine within its own terms, yes.

Deputy Marc MacSharry: It is going alright. In terms of the outlook, is it three, four or five years?

Mr. Derek Moran: Realistically, yes.

Deputy Marc MacSharry: If we lose, has the Department made plans?

Mr. Derek Moran: I do not think we ever go out to plan to lose.

Deputy Marc MacSharry: I did not say that we expect to lose. I am asking if the Department has prepared for an unfavourable outcome in terms of what we may need to do as a nation.

Mr. Derek Moran: Ultimately, if we get to that stage, and I averted to it earlier, the money will be held in escrow and when we get a decision, the money is transferred from escrow either back to the company, if our case is upheld, or to the Exchequer if it is not.

Deputy Marc MacSharry: What if we lose our case and get our €11 billion plus interest? Have we planned for that eventuality and the steps we may need to take to ensure there is no negative impact on foreign direct investment, FDI, or that it makes IDA Ireland's job more difficult because our tax regime cannot be trusted?

Mr. Derek Moran: We have been doing that from the start of this process. FDI is generally positive about the approach of the State with its dealings with the Commission and on this matter. That is an ongoing process.

Technically, the bigger issue will be that in the year that it might happen, all of sudden all of this money will come on the balance sheet, will displace any borrowing plans the NTMA, National Treasury Management Agency, might have, and there is an absorption issue. However, that is far down the road. Some of these cases have been going for decades.

Deputy David Cullinane: I will come to Mr. Derek Moran first. Can we have short and sharp answers from him, if he can, because we are working to a clock today?

If I can start with the GNI*, gross national income (Star), Mr. Moran said it gives a more accurate picture of the market value of goods and services in this State and is more reliable than GDP, gross domestic product? Is that correct?

Mr. Derek Moran: It takes some of the peculiarities which gave us the distortion of 26% and it gives us a clearer picture?

Deputy David Cullinane: Is it more reliable than GDP?

Mr. Derek Moran: Yes, as an indicator of what is going on in the real economy in Ireland.

Deputy David Cullinane: Does that mean then that GDP has proved to be an unreliable measurement in this State?

Mr. Derek Moran: As Mr. John McCarthy already said, many countries are facing this challenge. The impact on statistics-----

Deputy David Cullinane: We are focused on this State.

Mr. Derek Moran: I take the Deputy's point. That is why in the immediate aftermath, an expert group was established to look at it, meaning there is a comparability.

Mr. John McCarthy: GDP is compiled absolutely correctly but it overstates our living standards.

Deputy David Cullinane: Mr. Derek Moran said GDP is still used for the purposes of reporting to international bodies. Is it correct then that GNI* would not be the measurement that would be used but GDP instead?

Mr. Derek Moran: Yes, that is correct.

Deputy David Cullinane: However, it is more than that. Is GDP not what is used to calculate the fiscal rules? For example, I assume the debt-to-GDP ratio, which Mr. John McCarthy went through, still uses GDP and not GNI*.

Mr. Derek Moran: It is GDP.

Deputy David Cullinane: Are we then essentially calculating the implementation of rules based on unreliable measurements? Will Mr. John McCarthy answer that question?

Mr. John McCarthy: It is our legal obligation. Everything from the Stability and Growth Pact to fiscal rules is done on the basis of GDP. That will always be the case because in most countries, GDP is the correct measure. We are just unusual in the Irish context, given the size of multinationals and some of the more unusual activity-----

Deputy David Cullinane: Mr. Derek Moran told us we were not unusual. He said this was a phenomenon not unusual for Ireland. Is Mr. John McCarthy now saying it is unique?

Mr. John McCarthy: What I said was that the scale of it is much more so-----

Deputy David Cullinane: The extent of it is more unique.

Mr. John McCarthy: Yes, it is more unique.

Deputy David Cullinane: That is a bit different from what Mr. Derek Moran said earlier.

Mr. Derek Moran: I said other countries have it but it is about extent and scale.

Deputy David Cullinane: We can differ on that. Whatever about that, the extent of it is certainly more unique to Ireland. Is it the case then that we have to calculate the implementation of the fiscal rules based on a measurement which is less reliable in this State than it is in other states?

Mr. John McCarthy: I will give the Deputy an example. If we were using debt-to-GNI*, the fiscal rules would be even more binding than they are now. In other words-----

Deputy David Cullinane: That is not the point.

Mr. John McCarthy: It is.

Deputy David Cullinane: With respect, that is not the question I asked. If the question I asked could be answered. I did not ask about the consequences. Are we calculating the fiscal rules on measurements which are less reliable in this State than they are in other states? I am not interested in the consequences. We have to work within the fiscal rules and calculate how they work in this State. We were calculating them on debt-to-GDP on GDP figures. Mr. John McCarthy just said they are less reliable in this State because of the extent of how multinationals locate here.

Mr. John McCarthy: The information content-----

Deputy David Cullinane: Please do not deal with the consequences. Will Mr. John McCarthy deal with the question I put?

Mr. John McCarthy: I am dealing with the question. The information content in GDP is much less in Ireland than it is in other countries. We are still obliged to use GDP by our legal obligations. International organisations and financial markets will continue to look at GDP because it is the internationally accepted norm. GNI* is a domestic measure which no other country produces because it gives a better indication as to what is going on in the economy.

Deputy David Cullinane: We can have GNI* figures, put them into brochures and documents and put them up in bright lights but in reality it does not make a bit of difference to how the fiscal rules are implemented because they are based on the GDP figures. That is correct.

On the debt-to-GDP rules, Mr. John McCarthy earlier said the rules are silent on how long it would take to get to the correction of the 60% of debt-to-GDP and that it would have to be done at a reasonable or correct pace. The only absolute rule is that it would be done on the basis of a one twentieth ratio. Are we exceeding that ratio year on year?

Mr. John McCarthy: We did obviously in 2015 because the ratio came down by 25 percentage points.

Deputy David Cullinane: Do we expect to exceed it this year?

Mr. John McCarthy: Only because of the strong nominal growth.

Deputy David Cullinane: For example if the State decided, is it possible we could only reduce it by one twentieth? Would that free up extra revenue for the State?

Mr. John McCarthy: No, because one has the other rule. The debt relates to the stock but the more important and binding rule is the balanced budget rule and the need to achieve the MTO, medium-term budgetary objectives, and to correct it at a sufficient pace which is 0.5% of GDP per annum. Both rules are binding. While we may overcorrect or reduce the debt ratio faster, we are still obliged to correct the structural balance.

Deputy David Cullinane: Is Mr. John McCarthy telling me that, by sticking within the one twentieth rule but not overstating it, there is no wriggle room in slowing down the pace of repaying debt because of the other more binding rules?

Mr. John McCarthy: Exactly.

Deputy David Cullinane: Is Mr. John McCarthy certain of that?

Mr. John McCarthy: Yes, 100%.

Deputy David Cullinane: Staying on this issue and how the sale of AIB shares can be used and not used, the briefing document to the committee dealing with AIB receipts for capital spending stated that because it is classified as a financial transaction, it is the substitution of one form of an asset for another. It is correct then that shares to cash are seen as equal.

Would shares to capital be seen as like for like as well?

Ms Ann Nolan: No.

Deputy David Cullinane: Why not? It would seem sensible that this would be the case.

Ms Ann Nolan: Shares are regarded effectively as just a way of holding cash. When we put the money into AIB, it was not regarded as spending because we were just holding cash in another way.

Deputy David Cullinane: Are the shares not seen as an asset?

Ms Ann Nolan: They are seen as an asset in the same way as cash is.

Deputy David Cullinane: Yes, but they are still seen as an asset.

Ms Ann Nolan: Capital is not seen as an asset. If one buys something capital, it is seen as spending. When we bought the shares in AIB, it was not treated as a capital purchase. That is why when we get the money back, it will not be treated as such. Logic might say the other but those are the rules and I cannot change them.

Deputy David Cullinane: I know we cannot change the rules. Have we sought clarification from the Commission on that rule?

Ms Ann Nolan: We did very much at the time. We went through it in much detail at the time we put the money in and on various occasions since on the various financial transactions.

Deputy David Cullinane: Can the Department share that with us? Could it give us a briefing note on the clarification it got from the Commission?

Ms Ann Nolan: Yes, I can give the committee a briefing note on that.

Deputy David Cullinane: It would be useful because one is conscious as well that even at the national economic dialogue exchanges there was much discussion about the need to invest in capital. I think everybody is on the same page, so what we are trying to do is to look at ways in which we can increase capital spending if possible. If it is not possible under the rules that is fair enough but we just need absolute certainty.

The final issue I wish to raise is the marginal tax rate above 50%. We hear a great deal about that. How many PAYE workers are paying a marginal tax rate above 50%?

Mr. Derek Moran: The way it breaks down is that about 20% of income earners pay at the top marginal tax rate.

Deputy David Cullinane: It is less than that; I have the figure. I just wanted to get confirmation on it. The marginal tax rate is the income tax rate, the USC rate at the top, which is 8%, and then the PRSI rate. For those who earn between €32,800 and €70,000 the maximum they would pay is 49% to 40% on a portion of their salary on PAYE, 5% USC and 4.1% PRSI. Is that correct? They would be under the 50%. Only those who earn more than €70,000 would pay more than 50%.

Mr. Derek Moran: Yes.

Deputy David Cullinane: My calculation is based on the Revenue ready-reckoner, and the most recent one indicates that there would be 359,754 workers above that. That is the number who earn more than €70,000 and who would pay above the 50%, which is 14.3%

Mr. Derek Moran: I was thinking in terms of who pays at the top marginal tax rate of 40%, which is around 20% of income earners.

Deputy David Cullinane: If my figures are right it is 14.3%.

Mr. Derek Moran: I am not disputing them.

Deputy David Cullinane: Okay, it is 14.3%. Then if we were to reduce the marginal tax rate below 50%, what we are doing essentially then is giving a tax cut to the top 14.3% income earners. Is that a fair assumption?

Mr. Derek Moran: Yes.

Deputy David Cullinane: Yes, okay. Is that the policy at the moment?

Mr. Derek Moran: Again, we do not normally comment on policy matters.

Deputy David Cullinane: I know, but in terms of what is on Mr. Moran's desk, is it something on which he had to do some work to calculate the costs of doing that and calculate how many people are paying it. He will understand why I am asking it because it is something that is new in the public domain. It will cost us money. If this was followed through it would be a cost to the Exchequer but it would be only the top 14.3% of taxpayers who would benefit.

Mr. Derek Moran: I said we cannot comment on policy matters.

Deputy David Cullinane: Okay, but does Mr. Moran accept that it would only be the top 14.3% of income earners who would benefit?

Mr. Derek Moran: If one cuts tax at the top rate it affects the proportion that are chargeable at the top rate.

Deputy David Cullinane: Okay. I have one final question on the working group that was set up by the Department on insurance providers. When was that set up?

Mr. Derek Moran: It was in 2016.

Ms Ann Nolan: Yes, in 2016.

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

Ms Ann Nolan: The working group was set up in 2016 and the first report was at the end of 2016 on motor insurance.

Deputy David Cullinane: It was called the insurance working group. What function did it have?

Ms Ann Nolan: The terms of reference are in the public domain. It was to look at the cost of insurance and to come up with recommendations to reduce insurance costs.

Deputy David Cullinane: Did it examine the possibility of price fixing?

Ms Ann Nolan: I do not think it looked at price fixing. As far as I know, it did not.

Deputy David Cullinane: This was the Government working group that was to look at problems in the insurance industry and now there are allegations of price fixing. The witnesses are aware that there was a raid on some of the main players in the insurance industry. Was that something the Competition and Consumer Protection Commission, CCPC, did independently? Was the working group essentially not focusing on what was the real issue if it was not focused on price fixing, which is the one issue that now seems to be the big problem?

Ms Ann Nolan: The working group was in contact with the CCPC. I am not sure how many “c’s” there are.

Deputy David Cullinane: The CCPC.

Ms Ann Nolan: Yes. The working group was in contact and had numerous meetings with the CCPC. Inasmuch as the CCPC is independent in the function of its duties the working group would have made a great deal of effort not to interrupt or disrupt the capacity of the CCPC to look at and raid and whatever else.

Deputy David Cullinane: I completely understand that.

Ms Ann Nolan: Similarly, it would have been very careful not to involve what was essentially a policy group in its operation.

Deputy David Cullinane: I would not expect it to do that, to usurp the role of the CCPC, but I would expect a high-level working group established by the Department to examine the real issues. Ms Nolan might not be aware of it but it is possible that it examined the possibility of price fixing. Could Mr. Moran confirm that the working group was established by his Department?

Mr. Derek Moran: That is right.

Deputy David Cullinane: Did it report back to him?

Mr. Derek Moran: It reported back to the Government. The group was chaired by the junior Minister, as distinct from the officials.

Deputy David Cullinane: Could Mr. Moran furnish the committee with any report or examples of references to price fixing? Is it possible for him to find out whether the working group examined that issue?

Mr. Derek Moran: I will go back and consult.

Deputy David Cullinane: Yes, it would be helpful if Mr. Moran could report back.

Deputy Catherine Connolly: I congratulate the Department on a clear audit account and it was on time. That is the first thing.

I am reminded of *A Tale of Two Cities*. This is a tale of two countries. I am fascinated by the language that is used. I wish I had more time today to examine it. I know we are a bilingual country but we certainly have two languages going on here, namely, the language of economics, which is very restricted, and the language of those on the ground who are at the receiving end of this very narrow view. I will preface my comments with that. Do the economists and financial people look at that? The last statistic I looked at before I came in here was that house prices are rising by €1,000 per week. At the end of the month 375 people were on trolleys in hospitals, 37 in Galway, and there are constant moderate reports from consultants telling us that a direct consequence of spending time on trolleys is premature death. Before I ask any specific questions, does that come into their reckoning at all?

Mr. Derek Moran: A lot of the issues raised by Deputy Connolly, be they health or housing are sectoral issues that are dealt with in policy spaces other than the Department of Finance. What we try to do is take an overview of the financial and economic position into which all of those challenges fit. In terms of whether we talk to representative groups or people about those sorts of challenges, the answer is "Yes".

Deputy Catherine Connolly: That was not my question. Mr. Moran said he does not deal with the policy but in a sense the Department has made judgments in terms of the use of phrases such as: "Key economic indicators point to continued solid growth". He also said: "I am greatly encouraged by the robust pace of the recovery". In addition, he referred to "a balanced and equitable economy". I could name any amount of statistics but if we take health and housing where the latter is in major crisis, where does that feature in the overall report in the context of the "robust pace of recovery"? Where does housing come into that?

Mr. Derek Moran: In terms of a robust pace of recovery, that is fact. The key economic indicators are that the economy is growing. That does not mean the growth is evenly spread. It does not mean that we are without problems. What happens perhaps after the depth of crisis we have had is that periods of underinvestment catch up with one. The reality is that over the past four to five years there are 230,000 more people in work than were heretofore. The unemployment rate has dropped from more than 15% to just over 6% and is on its way down. In terms of what the Department of Finance does, it is a measure of well-being. Below that, in terms of Government policy and in the policy space generally-----

Deputy Catherine Connolly: That is okay, but when I look at the Department's five-page document certain things are picked out. I accept that employment is up and that must be welcomed, but it is a discussion for another day as to what type of employment is up, for example, zero-hours contracts and work involving precarious hours. Mr. Moran presents some figures by way of backup for the thriving economy and his view that we are going in the right direction. There are other figures that indicate the economy is not thriving at all. We see house prices increasing by €1,000 a week and a complete crisis in direct construction by local authorities which is leading to vast waiting lists. For example, the waiting list in Galway goes back to 2002, which means that people have been waiting for 15 years and not a single house has been constructed. Mr. McCarthy has referred to the billions going into housing, but the money is actually going into housing assistance payments which go straight into the pockets of landlords. In turn, this artificially maintains house prices at an unacceptable level. Where does this feature in the five-page document? Can the Department of Finance stand over it as housing policy?

Mr. Derek Moran: I am sorry-----

Deputy Catherine Connolly: I have made it easy for the officials by mentioning the word "policy". I take it back. I mean it in the sense of it being an indicator.

Mr. Derek Moran: What we do in the Department-----

Deputy Catherine Connolly: Mr. Moran referred to employment and other indicators. I am asking about housing and health as indicators. Are they indicators of a thriving economy?

Mr. Derek Moran: Our job as officials in the Department of Finance is to set the financial framework in which the Government makes all of its policy choices across all of the areas referenced by the Deputy. When it comes to an analysis of the economy, the indicators are the ones about which I spoke. Within any financial framework the Government of the day makes choices as to where it will invest and how it will address the problems to which the Deputy is alluding. I am not denying in any way that there are problems.

Deputy Catherine Connolly: I am putting the question to Mr. Moran specifically and understand he cannot comment on policy. However, the Department of Finance's paper refers to certain indicators while ignoring others. That is what I am taking exception to, although that might be too strong a word to use, but that is what I am highlighting. The paper refers to being greatly encouraged by the robust pace of the recovery and so on. There are many other indicators that tell us we should be very concerned about the pace of the economy. Does Mr. Moran agree with this?

Mr. Derek Moran: I suppose we cannot get very far in this conversation without being dragged into referring to the responsibilities of others. Let us take the housing example. Should we be concerned about what is going on? There is no doubt that house prices are going up.

Deputy Catherine Connolly: As an indicator, does that cause the Department of Finance concern?

Mr. Derek Moran: Let me pick through it. House prices are continuing to go up and they are going up at a rapid pace. Is that something at which those of us in the Department look and about which we are concerned? Yes, it is. However, house prices are still about 30% below their peak. I do not think anyone should aspire to reaching their peak values because they were not sustainable, but they are well below them. They are, however, going up faster than earnings. Is that a cause of concern at which we look? Yes, it is. Is it being driven by cheap credit or a credit bubble? The answer is no. Credit is not that cheap and the level of mortgage lending is still subdued. Are people over-leveraging, as they did in the past, with all of the social and financial consequences? The macro-fiscal rules the bank has brought in place absolute constraints on what people can borrow as a multiple of their income. We have to take a number of views on it. Are we looking at it as an economic risk factor and so on? Yes, we are.

Deputy Catherine Connolly: They are not included in the paper or the opening statement. The Department of Finance did not put them down as indicators that the housing problem was concerning.

Mr. Derek Moran: I am sorry-----

Deputy Catherine Connolly: I heard what Mr. Moran said and I am commenting on it. There was no reference to the lack of capacity in hospitals that inhibited a healthy society and how, in turn, it contributed to a thriving economy. They are all indicators.

Let us come back to specific questions about the national debt, to which the Comptroller and Auditor General referred. My colleague also went through it, as did others. We had a leprechaun moment where the national debt seemed to be lower than it was. The matter was brought to the attention of the Department of Finance by EUROSTAT. Is that correct?

Mr. John McCarthy: The Central Statistics Office published the figures.

Deputy Catherine Connolly: The Department of Finance did not discover it.

Mr. John McCarthy: We do not measure the economy; the Central Statistics Office does.

Deputy Catherine Connolly: The Department of Finance did not alert anyone to what had come from the Central Statistics Office and EUROSTAT.

Mr. Derek Moran: Like anyone else, we would not have known until the day they were published.

Mr. John McCarthy: We get them at the same time; they are published at 11 a.m.

Deputy Catherine Connolly: What was the national debt in 2008?

Mr. John McCarthy: It was approximately 25% of GDP.

Deputy Catherine Connolly: I will relay what the Comptroller and Auditor General told us. As a proportion of GDP, the general Government debt rose from 42% in 2008 to 120% in 2012 and 2013. In 2008 it was almost one third of what it was in 2012 and 2013. Is that correct?

Mr. John McCarthy: Yes. The figure of 25% to which I referred was for 2007. The Deputy is right.

Deputy Catherine Connolly: It was 25% in 2007.

Mr. John McCarthy: Yes; that was the low point.

Deputy Catherine Connolly: It was even less.

Mr. Derek Moran: In terms of the vulnerability of the economy, the figure went from 25% to over 40% to 112% in rapid sequence. We tend to think in that way.

Deputy Catherine Connolly: Okay, but I am not beholden to figures. The national debt had no role in the crisis that ensued in recent years. Is that correct?

Mr. John McCarthy: It was the fallout from the crisis.

Deputy Catherine Connolly: Will the officials explain to me in plain English how it became 120% of GDP? Will they include the role of banks and borrowing in that regard? Will they, please, clarify it simply for me because I am not an economist?

Mr. Derek Moran: There are various elements to it on which Mr. McCarthy can elaborate. We had two crises. We had a financial and a fiscal crisis. Total revenues – taxes coming into the Exchequer – collapsed. The figures dropped from approximately €50 billion to approximately €32 billion at their lowest. We lost €18 billion in revenues on the fiscal side per annum, all of which had to be replaced. At the same time the unemployment rate climbed from full employment to 15% in that period. Suddenly, we had significant outlays in social spending. Spending pressures increased and we had a fiscal contribution.

Deputy Catherine Connolly: I understand. What went into the banks?

Mr. John McCarthy: A total of €64 billion, but the actual amount because there is different treatment of general Government revenue was 28% of GDP.

Deputy Catherine Connolly: A total of €64 billion was put straight into the banks to bail them out. Is that correct?

Mr. John McCarthy: Yes, of which we are getting-----

Deputy Catherine Connolly: Now we are talking about AIB and shares. According to the rules, we cannot use the money from selling the shares because we treat it as cash. Is that it?

Mr. John McCarthy: It is not counted as general Government revenue. It is a financial transaction.

Deputy Catherine Connolly: Let us consider one example. We will not mention the IRBC because we do not have time to go into the matter, but let us consider AIB. We bailed out the banks. We bailed out AIB to the tune of 100%. According to the mad rules with which we must comply, we cannot use the money we have just received from the sale of the shares in AIB to help the economy in any way or to reduce the number of patients on trolleys. We cannot give the money to local authorities to build houses directly. Is that right?

Mr. Derek Moran: I am sorry, I mean-----

Deputy Catherine Connolly: That is my question. Can we not use it under the rules?

Mr. Derek Moran: Government policy is not to use it in that way. This is money we borrowed to bail out the banks that is now being returned and has been set against the debt.

Deputy Catherine Connolly: I am not holding the officials over the coals for policy. I am asking a simple question. Mr. Moran has referred to Government policy. Is it Government policy that we cannot use what we received for the shares, or are they EU rules?

Mr. Derek Moran: Both.

Deputy Catherine Connolly: Will the officials, please, try to explain it for me?

Mr. Derek Moran: We will receive €3 billion. As we have explained, that is not an income line; it does not count as revenue. If we spend the €3 billion, we will burst the deficit target and it will be added to it. It is, therefore, a combination of both.

Deputy Catherine Connolly: Government policy could be changed to allow us to spend the money. Is that correct?

Mr. Derek Moran: Only at the cost of breaching the fiscal rules.

Deputy Catherine Connolly: Then it is the fiscal rules that are stopping us from spending the money. Is that it?

Mr. Derek Moran: It is both.

Mr. John McCarthy: The rules prevent us from spending one-off revenue. That is what was done in the bad old days when we were spending one-off transitory revenue to finance expenditure. That is why we had one of the worst fiscal crises of any advanced economy ever. The rules prevented us from doing that but the Taoiseach-----

Deputy Catherine Connolly: I do not want a history lesson. I do not need a clarification on the history of this. I need to understand so that I can explain this to people. What did we get for selling the AIB shares? Why can we not spend this money?

Mr. John McCarthy: We got €3.4 billion.

Deputy Catherine Connolly: To put this in plain English, I will have to explain that to people on waiting lists, people on trolleys and people who cannot get health treatment. Please explain this.

Mr. John McCarthy: The rules do not allow us to spend one-off revenues. The Taoiseach has stated that, even without the rules, this is the right thing to do. Both of these come into play.

Deputy Catherine Connolly: The rules are stopping the Taoiseach but he is happy to tell us he is complying with these rules. The Taoiseach is basically stating he will not even attempt to change these rules to be able to get people off trolleys or to build houses. Mr. McCarthy has brought in the Taoiseach on policy. Is that not what he is saying?

Mr. John McCarthy: The Taoiseach has said that even without the rules, this is the right thing to do.

Deputy Catherine Connolly: Let me put this in plain English. The Taoiseach has said that we are going to comply with these rules and Mr. McCarthy is repeating what the Taoiseach said. The people left waiting for homes or spending nearly two thirds of their income on astronomical rents are the collateral damage of those rules. Speaking as economists and financial experts, do the witnesses have no views on this? Do they think that the collateral damage of this kind of policy is acceptable? Do they not think that there should be movement to change those rules? I understand if they feel they cannot comment.

Mr. Derek Moran: This is not a comment. We have to consider the concept of one-offs. Let us say that we get €100 million this year and spend it and it then becomes an embedded cost. We do not have €100 million the next year to pay for that or the following year or the year after that. What has happened then is one has opened up a line. That is why one-offs-----

Deputy Catherine Connolly: One-offs can make a considerable difference to the number of houses built. They can give hope to people. They can give vision to the country and bring change.

I will leave that for the moment and will ask another specific question about risks to the economy. The only serious challenge to the Irish economy mentioned by the witnesses was the much-discussed Brexit. What other risks have they considered? What other challenges face the Irish economy?

Mr. Derek Moran: Twice a year we produce a risk matrix, which we then publish as part of the budget and the stability programme update, SPU. This matrix looks at everything from geopolitical risks to trade protectionism and uncertainty in the US exchange rate realignment. It covers a whole range of those kinds of risks. When one is only allocated five minutes for an opening statement, one just covers what one can. I tried to keep the focus as much on the accounts as on anything else.

Deputy Catherine Connolly: We as members of the committee are allocated even less time. We must read all of this information before us on the table and try to get to the crux of the matter. I have a great difficulty with the idea of a thriving economy, an economy that is moving in the right direction. This idea of keeping the economy going sounds very much like Fine Gael's slogan in the last election but that is just a coincidence. At the same time, we have an enormous amount of problems that could be sorted out. I have many solutions to them. There are many solutions to the housing crisis, for example. The Department's active endorsement of this Government policy, however, is making things worse.

My second question concerned risks. Has the Department considered the risk of climate change? Where does that fit into the Department's risk factors?

Mr. Derek Moran: When it comes to our long-term fiscal planning, we look at the risks and costs associated with climate change. This is an ongoing process because from 2021 or so we will be exposed to fiscal costs as a result of not meeting targets. This is quite significant and it comes under our planning horizon.

The Taoiseach has made a number of statements about the need to move on the mitigation of climate change. This drags us back into-----

Deputy Catherine Connolly: I am going to stay away from the Taoiseach and politics. I am looking at risk assessments here and specific mention was made of Brexit. I actually think that Brexit offers opportunities, as has been acknowledged by many people, but that is for another day.

This is the last Dáil in which to take any meaningful step to stop climate change. The 2006 Stern report, which I am sure the witnesses have read, is a landmark study on the economics of climate change. It clearly pointed out in 2006 that it would be 20 times cheaper to prevent further climate change. The London School of Economics, not known to be a particularly radical organisation, published a paper in 2015 that concluded that the net economic benefits to countries from tackling climate change continue to outweigh the costs. I could quote many other groups, none of them radical, arguing that we must tackle climate change and that it is a major risk to economies and to economic productivity on many levels. Where is that built in here? Where is the Department alerting the Government to this risk?

Mr. Derek Moran: What we present, Deputy, is a set of macroeconomic risks. Let us look at how we feed into the issue of mitigation. In 2008 we changed the vehicle registration tax to base it on carbon emissions rather than engine capacity as expressed in cubic centimetres. This was a mitigation factor to try to improve quality. That raises other issues as we go on. Other gases become important and that raises policy challenges in itself. In 2010 we introduced a carbon tax, initially on oil fuels, but now on solid fuels as well. The plastic bag levy is another example. We have had many policy inputs on this matter.

Deputy Catherine Connolly: I accept that and I welcome all of these as positive measures. We need to hold these up, however, against what needs to be done. I am talking about the economic challenges posed to our country by climate change in terms both of the direct effects and of the enormous fines we will be obliged to pay within a few years, which range from €600 million up to more than €5 billion. We are talking Monopoly money here. That is not built in to the witnesses' statement. Why is Brexit the only risk outlined here? Am I in trouble, Chairman?

Chairman: The Deputy is well over her time.

Deputy Catherine Connolly: I am sorry. The Chairman should have told me.

Chairman: I was being generous.

Deputy Catherine Connolly: My final question concerns infrastructure. We are about to get an opening statement from the Department of Public Expenditure and Reform. It will refer to the key importance of addressing infrastructural needs. The European Union, which apparently sets the fiscal rules we cannot change, is criticising us for not investing in infrastructure. My questions are on climate change and infrastructure.

Mr. Derek Moran: Mr. McCarthy has said all that he has to say about the economics of climate change. All that I can say is that our direct policy inputs in respect of climate change mitigation involve the kind of things I already mentioned. I was heavily involved with the vehicle taxation change from cubic centimetres to carbon. We are now moving towards addressing nitrous oxide and other such pollutants.

Deputy Catherine Connolly: I asked for the bigger picture.

Mr. Derek Moran: Each of these policy components contributes to the bigger picture. When it comes to the issue of fiscal exposure, the Deputy is absolutely right. From the early 2020s on we will be exposed to fines. We have to manage this, which we are trying to do on a cross-Government basis.

Deputy Catherine Connolly: Is Mr. McCarthy going to answer that?

Mr. John McCarthy: No.

Chairman: Grand. Some other members will come back with a second set of questions in a few minutes. One thing that may have surprised people here, and I have never heard it stated so openly and directly, is Mr. McCarthy's comment that Ireland has the second highest debt *per capita* in the world.

Mr. John McCarthy: Among advanced countries, yes.

Chairman: Would that be OECD countries?

Mr. John McCarthy: Pretty much, yes.

Chairman: Mr. McCarthy might send us that list and whatever document of international comparisons that he took it from.

Mr. Derek Moran: Yes, sure.

Chairman: Send us the list of international comparisons of debt *per capita* for all of the advanced countries. Are we talking about state debt?

Mr. John McCarthy: It is general Government debt, yes.

Chairman: One of the biggest difficulties we have in Ireland, and the reason why the recession was more difficult this time around, is the level of personal debt. State debt is state debt but then we add the personal debt to it.

Mr. John McCarthy: I agree.

Chairman: Most people are carrying more than €43,000 debt on their shoulders as a result of mortgages. Does the Department have an indication of the average personal debt in this country? What is the total debt per person? I am sure that adding in personal debt would put us far above Japan.

Mr. John McCarthy: I have the figure, though it will take me a minute or two to find it.

Chairman: I will come back to Mr. McCarthy in a moment. Do the witnesses take my point, however?

Mr. Derek Moran: Absolutely. Mr. McCarthy is sourcing that figure now.

Chairman: Listening to this, one would think we have the debt under control. It is nice to get direct information that we have the second highest debt *per capita* in the world. I have not heard a Minister putting it as succinctly in recent years.

Mr. Derek Moran: From the Department's point of view, we recently published a first annual report on debt and debt sustainability. I cannot remember the exact title.

Chairman: The Department might send it to the secretariat.

Mr. Derek Moran: The real worry, as things go along and look quite good, is that people forget we have a legacy of this scale. It is an important contribution in terms of giving an assessment of our vulnerability to changes in economic circumstances as well.

Chairman: That is fine. Is the issue of personal debt dealt with in the report that the Department produced?

Mr. Derek Moran: No. It is purely sovereign.

Chairman: Surely someone at Government level between the Department or the CSO has done-----

Mr. Derek Moran: The Central Bank.

Mr. John McCarthy: The Central Bank. It compiles the data on personal debt and non-financial corporation, NFC, debt.

Chairman: Can the Department put the two together and send us a combined information note?

Mr. John McCarthy: We would be happy to.

Chairman: I will leave it at that. The next question relates to the GNI* way of doing our national statistics and its approval by EUROSTAT. The officials said that other countries have similar problems. Some of them are big ones, so they affect us relatively. What other countries have a problem relative to their economy like we have on this issue?

Mr. John McCarthy: None. We are the outlier. As it was so important and is a huge issue, EUROSTAT sat on the working group. The OECD, the IMF and the UN all sat on the working group because Ireland is at the coalface here. Everyone, from a statistical perspective, was really interested in this. They support what we are doing, but there is no intention to roll it out for other countries yet. There are other countries with an issue, but they recognise that we are so far out there.

Chairman: Our problem is unique then in all advanced countries.

Mr. John McCarthy: In its scale.

Chairman: In its scale. Exactly. That is interesting to hear. Will it require EUROSTAT approval? Will this star have any international standing?

Mr. John McCarthy: No, it will not.

Chairman: So it is just to keep ourselves-----

Mr. John McCarthy: It is-----

Chairman: It is just things are not as they are-----

Mr. John McCarthy: Yes.

Chairman: Okay. A topic that came up over the year on a couple of occasions is the issue of contingent assets and contingent liabilities. We have been told here that contingent liabilities do not really feature and that this is not a priority for the Department to include in the national balance sheet, and the Department is saying that EUROSTAT does not really get into it. However, what contingent liabilities are on the State balance sheet? Is that information in the report?

Mr. John McCarthy: This is the chart. I am happy to send it-----

Chairman: What are the headings?

Mr. John McCarthy: Most of them are related to the State's exposure to the financial sector. They obviously have declined. Those contingent liabilities have fallen dramatically.

Chairman: Okay. I will tell the witnesses what we are talking about in the Committee of Public Accounts which we feel the Department is missing entirely. The first is the amount that is due under the redundancy and insolvency fund. We have heard the Taoiseach - the witnesses need not get into the politics - talking a lot about publishing the names of people caught for social welfare fraud of more than €5,000 while it is €33,000 for taxpayers. There is a lower threshold. We understand the majority of the redundancy and insolvency fund will not be paid. We are satisfied from what we have heard that no one gives a hoot about collecting it in public bodies. It used to be in the Department of Enterprise and Employment, which shipped it over to the Department of Social Protection, which has not done an analysis of how much of it is actually collectible. Some of it has to be collected. Some of it refers to companies that have been restructured and are still there. We have had correspondence from the Department of Social Protection. It says that it writes to Revenue to find out if PAYE numbers are still valid. However, there is no connection. If it related to interest on a deposit account of someone on social welfare, the State would be able to match that up and track that down. However, there is no proper tracking down of it here. I am just saying that there is a gap in the Department's national accounts and it needs to look at it.

I will give a second example. When companies are liquidated, sometimes there is an asset at the end of the liquidation process which, ultimately, if there are no shareholders, is to be transferred to the State. We have not established the Department has a mechanism to do that. The Department got a big receipt the year before last of €10 million. A company in England sent it over to us. We heard about that during a meeting last year. To put it in layman's terms, it is the corporate equivalent of someone dying intestate. I am satisfied that there is no mechanism in place by anyone.

I am just giving three examples that have crossed our desk in the past 12 months. The third example relates to the household charge. Before the local property tax was introduced, there was a €100 per annum charge. If it was not paid, interest was charged. If it was never paid, €7,200 is now due. In the year in question, the Department collected €30 million. The following year, it collected €30 million. Last year, it was a lesser amount. When selling a house, a person has to get an up-to-date certificate from the local authorities and normally has to discharge that charge before the sale can go through. That proves to me that there is money out there to be collected but the Department is doing nothing about it. It is only if someone is selling a house that he or she gets caught at that point. There has to be a mechanism in place. The Department has to talk to the people who are over collecting the money. This is not just the Revenue Commissioners. The Department collects money separate from them. The Department needs to talk to those people about having a mechanism to compare those houses which have come into the local property tax net, which I think is nearly 100%, with those that should have had a liability for the household charge. There is tens of millions of euro out there that zero effort is being made by the State to collect. It collects some of it by default when someone tries to sell a house. Some of that is contingent income which I think the Department does not take into account.

How much is in the rainy day fund? I think it was established last year.

Mr. Derek Moran: Perhaps Mr. McCarthy-----

Chairman: How did that work last year?

Mr. John McCarthy: It does not come in until after we balance the books. We balance the books in 2018, so it comes in the year after.

Chairman: When does it start?

Mr. John McCarthy: 2019.

Chairman: So there is nothing in it yet.

Mr. John McCarthy: There is nothing in it yet. There is provision at the moment for €1 billion to be provided to the rainy day fund in 2019, 2020 and 2021. The operation of the rainy day fund and the amounts that are to go into it are currently being reviewed. There will be further detail in the summer economic statement, which will be published next week.

Chairman: Page 21 of the briefing note states:

> Following the recent change to the composition of the Government, the rainy day fund is currently under review. An update on the rainy day fund will be provided in the Summer Economic Statement 2017.

Mr. McCarthy is actually telling me that there is actually nothing in it anyway. We are talking about nothing.

Mr. John McCarthy: It does not kick off until 2019 at the earliest.

Chairman: The public got the impression, as it came in in 2016, that there was something in this. I was wondering if that was the hidden fiscal space. When we talk about that, there is zero in it. When do the witnesses expect that we will have the summer economic statement?

Mr. John McCarthy: It will be either Wednesday or Thursday next. Government will decide after Wednesday's Cabinet meeting to publish it that afternoon or on the Thursday.

Chairman: It will be published within six or seven days.

Mr. John McCarthy: Exactly.

Chairman: Okay. The witnesses might send us a note. It is too complicated for the public. Now that we have exited the excessive deficit procedure in 2016 and are under the Stability and Growth Pact, is it possible for someone in the Department of Finance to write a note in layman's English on the difference? I am not asking for it here now because-----

Mr. Derek Moran: We will do our very best.

Chairman: I think the witnesses know what I mean.

Mr. Derek Moran: I know exactly what the Chairman means.

Chairman: That is, to give it to us in simple English. We had far greater restrictions on the use of our funds and our targets when under the excessive deficit procedure. I ask the Department to send us a note.

NAMA is heading for a surplus of €4 billion. We need to talk about this. To me, this is a bit like a windfall receipt. In fact, it is not a windfall receipt. It is the working out of loans over a period of time. Has any of that surplus been transferred to the Department yet?

Ms Ann Nolan: There will be no surplus until all the sub-debt is repaid in 2020.

Chairman: 2020. Okay. Everyone pays an annual dividend. Two years ago it was projecting €2 billion, €2.5 billion, €2.6 billion, €3 billion, €3.2 billion and now €4 billion. Given that NAMA is tidying up property loans which contributed to the housing problem and is sitting on what is expected to be a conservative surplus of €3 billion to €4 billion, can some of that not be used in the meantime to deal with the housing crisis?

Ms Ann Nolan: There are two aspects to that. First, the surplus is projected. It does not exist yet to some extent, although NAMA is making profits at present. However, it does not have a surplus because it has not yet paid off all the debt. The surplus is what will be left when it pays off all the debt.

Chairman: I understand that.

Ms Ann Nolan: In the meantime, we have tasked NAMA to build a number of houses. Obviously, we did not instruct it because if we did it would be against EU rules, but it has agreed to build 20,000 houses between now and 2018 or 2019.

Chairman: Is it to build or fund it?

Ms Ann Nolan: It is to fund them, effectively.

Chairman: Is that through local authorities, voluntary housing or developers?

Ms Ann Nolan: It is mainly through developers. In some cases it is funding, in other cases it is co-funding and in others it is merely enabling. It is working with its developers, depending on what funding model the developer has to get those houses.

Chairman: Could this extend the life of NAMA indefinitely if it is going down this new route?

Ms Ann Nolan: No, it has to-----

Chairman: This sounds as if it will have loans in place for several years for new housing.

Ms Ann Nolan: No.

Chairman: It was not established to be a housing finance agency.

Ms Ann Nolan: It is not, and it will not be. Under the EU state aid rules, it finishes in 2020.

Chairman: What happens to its loans then?

Ms Ann Nolan: At that point, it will have to sell off any remaining interests. The State will have a choice to either monetise what is left by selling it or to take it into some other State organisation, because we will get any surplus. Assuming it has paid off all the debt, the surplus applies to the State.

Chairman: Okay. When the surplus of €3 billion to €4 billion arises, or it could be more when the time comes-----

Ms Ann Nolan: It could be.

Chairman: -----can that be used for infrastructure or is it deemed a financial instrument like the AIB shares? We should know the answer to this.

Deputy Bobby Aylward: Will it go to write off the national debt?

Chairman: Will it go against debt or can it be used for the citizens? Will it go to the international bondholders or will it go to benefit the Irish people?

Ms Ann Nolan: The upfront rule would probably be that it is a financial transaction. However, unlike the one we discussed earlier-----

Chairman: AIB.

Ms Ann Nolan: -----we have no ruling from the EU on that yet. We might be in a position between now and then - I am sure the Department is already looking at it - to consider whether we could make a different argument.

Chairman: Ms Nolan said there is no argument to be made.

Ms Ann Nolan: With AIB, we cannot make a different argument because many banks all over Europe got money, so there are many comparators and EUROSTAT has made rules. There is nothing exactly like NAMA. I am not promising the committee anything since I am retiring and I will not be responsible for it, but the instinctive rule will be to say it is the same. However, we have between now and then - it will depend on what comes back - to develop a case that might allow us to use the money in another way.

Chairman: Is Ms Nolan saying that case has not been put?

Ms Ann Nolan: If we put it now, it will just say "No". It has to be nearer the time. One can develop the case but if one puts it upfront, it will just say "No". One develops the case between now and 2020, and it depends on how the money is coming back. One has to ensure all the debt is repaid.

Chairman: What if NAMA completes its task much sooner? It is on target. It was set up with a ten-year term. The Minister encouraged the quick big sales to the vulture funds. We have had special reports on that and a commission is looking at Project Eagle, which was the first big sale. That was all in an effort to get NAMA to wrap up a little sooner. What if it does? It sounds as if the Department has not made a case yet. I am disappointed to hear that. While there is certainly a minimum surplus of €3 billion, which is a conservative estimate, because we think it is not coming to us any sooner, we are not making a case as to how those funds could be utilised. This is known as planning ahead. Ms Nolan is also saying - in light of current thinking - that NAMA's projected surplus of at least €3 billion will sit there until 2020 and all the good things-----

Ms Ann Nolan: Chairman, it does not-----

Deputy Bobby Aylward: It is just sitting there.

Ms Ann Nolan: It is not sitting there.

Deputy Bobby Aylward: There is money just sitting there and not being used.

Ms Ann Nolan: NAMA does not have much cash. It does not have €3 billion sitting there. That is a projected surplus. NAMA is continuing to sell things but it has not sold everything yet. It is investing, and those investments will come back between now and 2020. It has some cash and there is €500 million in senior debt still to be paid.

Chairman: I am looking at the financial accounts for the full year. Half a dozen semi-State companies have made dividend payments to the State each year. They cannot be guaranteed to be profitable two or three years hence. It is exceptionally conservative that NAMA cannot even pay an interim dividend or an interim payment.

Ms Ann Nolan: It is not a question of being conservative. It is the state aid rules under which the EU agreed to keep NAMA off-balance sheet in the first place. NAMA must repay all the debt, which is the senior debt we guaranteed and the junior debt that it owed to the banks, before it makes any dividend payment to the State. The arrangement is that we get the surplus at the end. That was the arrangement from the beginning.

Chairman: Okay. Perhaps Ms Nolan will send the committee a note on how she thinks that is shaping up. There might be a quick answer to my next question. When some of the banks got into trouble, the taxpayer had to bail them out. Essentially, what happened was that the bank debt, which was a problem debt, was handed over to NAMA, another State organisation, which, through its work, effectively reprivatised that debt to vulture funds such as Cerberus, etc. Instead of the debt being held by Irish banks, it is now held by the international vulture funds. Are the main companies that bought the funds from NAMA regulated here?

Ms Ann Nolan: It depends on the structure of the companies. Some of them would be and some of them would not.

Chairman: What would happen if one of the regulated vulture funds went bust? Would the taxpayer have to bail it out?

Ms Ann Nolan: No.

Chairman: Explain that.

Ms Ann Nolan: We would not bail out a vulture fund. We only bailed out the banks because the Irish people had deposits in those banks and if we had not bailed them out the Irish people would have been at a loss. Perhaps, even more importantly, Irish businesses needed the banking system to keep working so they could keep working.

Chairman: I understand that. There are mixed views on it, but I take Ms Nolan's point.

Ms Ann Nolan: That is the reason.

Chairman: I take Ms Nolan's point. Others might not, but I do. That is my personal view. AIB and Bank of Ireland are now profitable and they are starting to pay dividends. What is the position with corporation tax from the banks we bailed out? Now that they are profitable and talking about profits of €1 billion, when will we see corporation tax from those banks?

Ms Ann Nolan: Obviously, the Revenue Commissioners would not give us information on individual taxes. When one reads the banks' annual accounts, however, one can see that they still have deferred tax assets, that is, they have losses on their books that they set against corporation tax. We talked earlier about the bank levy and that is one of the main reasons we have a bank levy. It is not just the banks that we bailed out, it is all the banks in the system that have deferred tax assets or losses on their systems.

Chairman: Who can give us a note on the entire deferred losses of the financial institutions? Ms Nolan said it is in their public accounts. I am asking her to assist us now, because we do not have the research.

Ms Ann Nolan: We can present the committee with whatever is in their public accounts.

Chairman: Perhaps Ms Nolan will provide a summary of, and a total for, deferred losses for the financial sector that are in the system and we will look at that compared to their annual profits.

Ms Ann Nolan: Yes.

Chairman: We heard reports that AIB said in its prospectus that it will not be paying tax for 30 years.

Ms Ann Nolan: I will give the committee a note on what is in the public domain on the main financial institutions. I cannot guarantee to get it for all the financial institutions that are outside. We will not get the information from the Revenue Commissioners so we will have to get it from the public domain.

Chairman: Ms Nolan is not projecting any corporation tax within the next decade from AIB or Bank of Ireland, the main banks we bailed out.

Ms Ann Nolan: I honestly cannot say for certain how much each of them has. I know what is in AIB's prospectus because-----

Chairman: Refresh the public on that.

Ms Ann Nolan: I think it is approximately 30 years.

Chairman: So it does not expect to-----

Ms Ann Nolan: It depends. If it makes bigger profits, it will be a shorter time.

Chairman: That would be 25 years. We get the message, but Ms Nolan might send us a detailed note. The next item is the AIB dividend of €200 million that will be paid this year.

Ms Ann Nolan: It is €250 million.

Chairman: Is that going against capital or can it go into revenue? It is not a capital receipt or a once-off payment. It is an annual dividend, not a windfall receipt.

Ms Ann Nolan: That is income for the Government. It can be spent and probably will be spent.

Chairman: That can go into current expenditure.

Ms Ann Nolan: That is current income.

Mr. John McCarthy: It is exactly akin to any dividend from any stakeholder.

Chairman: Exactly. Like the other semi-States that I mentioned.

I have one or two more questions. Looking at page 11 of the finance accounts, will the witnesses tell me about what is not here in the Central Fund? In 2015, Ireland paid €1.952 billion to the EU. Under that there are receipts from the EU of €66 million, a fraction of that. We had it here with the Department of Agriculture, Food and the Marine and it slipped away from the Committee of Public Accounts because the money that we received from the EU in respect of agriculture does not come through the Department Vote or the Central Fund because it is audited by the European auditor. Essentially, it has not crossed our desk, except that we have asked for it in the last year. What is the net position of Ireland being a net contributor? Could we have a breakdown of the last few years?

Mr. Derek Moran: We can get that for the Chairman. Over recent years we have been on that margin. In some years we are a net contributor and in others we are a net beneficiary, between the ins and the outs. We can get that information for the Chairman.

Chairman: And also the projections for the next few years. Why in the Central Fund do we have the payments out but not the income in? The Central Fund should capture the total income into the State. Why is that receipt from Europe, which is about €1.2 billion or €1.3 billion, not there? Perhaps the Comptroller and Auditor General might tell us. I know it is a separate fund but why is it not in the Central Fund account?

Mr. Seamus McCarthy: It is not brought to the Exchequer. I cannot say if that has always been that way. I can research the point.

Chairman: I ask that a note be sent to us because Europe sends about €1.2 billion to Ireland each year. We pay it around €1.9 billion, which is much more, but the receipt of that €1.9 billion does not go through the agriculture Vote.

Deputy Bobby Aylward: Is the Chairman talking about the CAP?

Chairman: Yes, I am talking about the CAP. None of that comes through the Oireachtas. We never see it coming through the agriculture Vote, the Estimates or the Committee of Public Accounts. The Central Fund is meant to capture everything that is not in the Vote of expenditure and it does not come through there either. Please send us a note. We do not have the total picture. The obvious next question is what other major receipts and expenditure is not captured in the Central Fund.

Mr. Derek Moran: We will put something together on that. The position we are in is that of moving from net beneficiary to net contributor.

Mr. Seamus McCarthy: The large figures that are not going through are PRSI receipts. They are not in the Central Fund. They go directly into the Social Insurance Fund. Also motor tax.

Chairman: And the local government fund, which is motor tax receipts and that goes out to Irish Water.

Mr. Seamus McCarthy: Yes.

Chairman: Send us a note on all the funds that are not -----

Deputy Bobby Aylward: Who scrutinises all of these funds? Does anyone scrutinise them?

Chairman: The local government fund goes through this committee, as does the Social Insurance Fund. This European Fund for agriculture and CAP does not tend to come through national parliaments. I ask that someone put together a full picture because we do not have a consolidated figure.

Deputy Bobby Aylward: Does it go through the Office of the Comptroller and Auditor General?

Chairman: No. It goes through the European auditor. It does not come through the Oireachtas at all.

Mr. Seamus McCarthy: There is a consolidation account which does come to the committee by agreement. There is not legal basis for it but it is put together by the Department of Agriculture, Food and the Marine in co-operation with the Department which deals with Leader.

Chairman: That changes. It goes around the House.

Mr. Seamus McCarthy: That does come to the committee as a note.

Chairman: Okay. Mr. McCarthy knows the full picture. There are a few aspects that are not in these figures, so I ask that the national Parliament be given the overall picture. I am not saying that there is an issue but we want the total picture.

I will move on to page 47 of the same set of accounts. On the money that we borrowed from the troika, at the end of 2015 we still owe €50 billion, mainly from the European Stability Fund, and the Stability Mechanism Fund. Some of it does not have to be repaid for some time. The average repayment of that is up to 18 years. It is the case that we have paid off the IMF contribution in full?

Mr. Derek Moran: About 81% of it.

Chairman: What is stopping us from clearing that? What interest rate are we paying? The witnesses spoke about refinancing some of our debts. Would it not be better to borrow now over a longer period at a cheaper rate? I recall that the Kingdom of Demark and Swedish money was a little higher than the average. Why are we continuing that?

Mr. Derek Moran: We continue to look at the options. We went down to 81% of the IMF loan. That kept them in the troika system, within the surveillance system.

Chairman: Yes.

Mr. Derek Moran: It has dropped below that level for Cyprus, I think. We are looking at what opportunities open up for us. We are at a very early stage. The maturity of those loans is very short. There are only a few years left on the IMF money.

Chairman: There is an average of five years left on the IMF, whereas on the European money, there is an average of 18 years left. The UK, Sweden and Denmark loans are also about five years. There are mixed views on this. Some would say that having the troika keeping an eye over our shoulder is a good thing for the Department of Finance, given what happened. Perhaps it is no harm that it is still under its surveillance but the other view is that if they were paid off, the Department would not be under its direct surveillance. Can the Department give us a note on the pros and cons? Is it good for Ireland to be under the surveillance of the troika or not? As the Secretary General of the Department of Finance, would Mr. Moran prefer to have the IMF having direct surveillance over his Department or would he prefer if were an ordinary member of the IMF, where it makes an annual visit as it does elsewhere?

Mr. Derek Moran: The participation of the IMF as part of the troika is essentially a European choice. It is the decision of the three funding agencies, not only what we would like. We have two visits from the troika annually. They are relatively short compared to what they were. They are primarily interested in our capacity to repay the money we owe it. There is nothing much beyond that. In terms of an annual article 4, our relations with the IMF is back to a regularised position. That is our main engagement with it It is always useful to get some sort of external view. We get that primarily through engagement in the traditional way, such as with the OECD and the IMF visits, not from the surveillance missions.

Chairman: I have two other questions on which Mr. Moran might give us some information. Looking at the AIB sale again, given that money was borrowed to buy out AIB, now that the State has got some of that money back, it has to go back against the borrowings as a financial transaction. I understand that. Has the Department calculated the interest that Irish taxpayers paid through current revenue on the borrowings to bail out AIB since 2008, since the bailout? I would expect a minimum of that because it was interest paid on a year-by-year basis that came out of current revenues. We could argue about capital, but there is a strong case that part of the proceeds of the sale of AIB should go back to recouping the interest that we paid on the bailout of AIB as a minimum. What are the Department's figures on that equation and where are we on that?

Mr. Derek Moran: All borrowings are just that. The State borrows the money it needs. It is not separately identified against what the need was. We do not have a stream of borrowing that is identified as AIB. It is possible to look at the money that was injected and track what that might have cost over time but it is not an exercise that we do.

Ms Ann Nolan: When talking about the difference between current and capital, it should be borne in mind that when one looks at what we got back from AIB, much of the money, including fees on the guarantee and so on, came in as income. During the years when we were paying interest, the income from AIB was probably higher than the interest going out. That is not to say that justifies what we did but it is not simply one way or the other.

Chairman: That is an angle. The Department might look at that. I would have thought the capital which we borrowed is different from the interest that we paid on that capital borrowing. It cost taxpayers money to pay for that during that period.

Mr. Seamus McCarthy: In the 2014 annual report, we did that sort of exercise which we cleared with the Department. We plan to repeat that this year. It would bring those numbers to account. Clearly there are policy implications, which is where the Chairman is going on the matter of how it might be applied.

Chairman: Will the Department of Finance have that for its September figure?

Mr. John McCarthy: Yes, we expect to have that.

Chairman: Good, so we will see that in September. Is there something in that? Mr. McCarthy is going to tell Mr. Moran that there is something in the book there.

Mr. John McCarthy: There is. In the annual debt report, we have taken figures from the Central Statistics Office, CSO, on the general Government impact of banking support on the revenue side and on the expenditure side, broken down by interest, dividends and so on.

Chairman: Is Mr. McCarthy emailing that document to us?

Mr. John McCarthy: Yes.

Chairman: Mr. McCarthy will be pleased to hear that I am on my last question. The briefing note we got from the Department of Finance was document No. 653A(ii). It is interesting how this was brought into it. On page 34, it states that the Department of Finance received €12 million in 2015 under the fair deal scheme into the Central Fund. That note says that the collection of funds commenced in 2011. I do not have the previous years' figures. I ask the witnesses for a note on what has come in from the nursing home support scheme from 2011 up to the estimate for 2017. Is that money collected from the estates of deceased people, or what are we talking about there?

Mr. Derek Moran: Subject to confirmation, that would be my understanding. Under the fair deal scheme, Revenue becomes the ultimate collector where there are outstanding payments. We will get a note for the committee on that.

Chairman: Is there a corresponding amount going back? The HSE is covering the cost of paying for the fair deal scheme in nursing homes on an annual basis.

Mr. Derek Moran: They are separated.

Chairman: I ask Mr. Moran to explain that.

Deputy Bobby Aylward: How does the cost compare with the income?

Chairman: It costs us much money.

Deputy Bobby Aylward: We have no figures there.

Mr. Seamus McCarthy: The difficulty there is that outlay and loans are extended at one point in time. They are collected at another point in time. I am doing a report on the fair deal scheme. It will probably be a special report.

Chairman: A special report.

Mr. Seamus McCarthy: It will be towards the end of the year.

Chairman: Will Mr. Seamus McCarthy look at this issue that I was just talking about here?

Mr. Seamus McCarthy: We are looking at that.

Chairman: On that €12 million, does it not go back to the HSE, or is it just built into estimates? Is it separately identified as going to it?

Mr. Derek Moran: It is a receipt into the Central Fund.

Mr. Seamus McCarthy: There is not a corresponding transfer.

Chairman: That is the question because we saw the receipt into the local government fund from motor tax and there is a payment out to match it. We now see a receipt into the Central Fund for the fair deal scheme, but we do not see an equivalent payment going back to the HSE to cover it. I think it is a bit much. It is not right that €12 million from the fair deal scheme, where payments are being met out of the HSE current budget, comes in the back door to the Central Fund and the Department of Finance for receipts from the fair deal scheme, and that there is no mechanism in place to pass it directly back to the HSE to pay for ongoing fair deal schemes. Do the witnesses get the point?

Mr. Derek Moran: I get the point, but that is not the way that it is structured.

Mr. Seamus McCarthy: The way that it is structured is that the money is advanced to the HSE first, and this is method of collection-----

Chairman: I ask the witnesses for a note. Is Mr. McCarthy doing a report on that?

Mr. Seamus McCarthy: We are doing on a special report on that.

Chairman: Sorry about that. Deputy Catherine Murphy wishes to speak again.

Deputy Catherine Murphy: In response to Deputy Cullinane, Mr. Moran said that the CSO published figures on our GDP. In 2015, what was Mr. Moran's reaction when he saw the figures?

Mr. Derek Moran: The reaction, like that of most people, was one of surprise. We found out when the figures were published and it took us a bit of time to dig into them to try to understand what it was. The accounts themselves, because the number of companies was so small, did not give a huge amount of detail. That led to the establishment of the-----

Deputy Catherine Murphy: Did the Department of Finance question it and say it could not be right?

Mr. Derek Moran: That would be our initial reaction, but the CSO is a very professional organisation and it compiled the data in accordance with the standards that would have been acceptable.

Deputy Catherine Murphy: Did the Department of Finance have to engage with organisations like EUROSTAT about it, or would EUROSTAT have engaged with the CSO? What is the mechanism there?

Mr. Derek Moran: It would primarily be EUROSTAT and the CSO as independent statistical agencies.

Deputy Catherine Murphy: They would have been trying to figure it out. It was more than just a surprise.

Mr. John McCarthy: Absolutely. It was a shock to everybody. It is a matter of record that I get the figures two hours in advance. I was shocked. Everybody was shocked. We had Paul Krugman's tweets. The main interlocutor with the CSO is EUROSTAT, because it sets the rules and the statistical framework. Since we meet credit rating agencies, the IMF and investors as part of our day-to-day job, we had to try to explain where this was coming from. We got the figures a couple of hours in advance, and it was a difficult communications challenge. It still is, because it still crops up in meetings in Brussels, Paris or wherever.

Deputy Catherine Murphy: It would be an equally difficult communications challenge if it went in the other direction.

Mr. John McCarthy: Absolutely.

Deputy Catherine Murphy: It might be slightly more than that.

I want to go back to the promissory notes. I understand the minimum amount for 2016 to 2018 was €500 million a year. According to a reply to a parliamentary question I got last night, it was €3 billion in 2016. It is €2 billion so far in 2017. That is way ahead. We met the Governor of the Central Bank, Professor Philip Lane, maybe a year ago about this. I think he said that they would be "extinguished". My understanding is that we printed money and have to take it back out of the economy and that is what the IOUs were, and that we have to extinguish them. We do not have to extinguish them as quickly, and the witnesses explained about how money is cheap at the moment. If we can park that and just spend it, and pay it down in the timeframe - I have a real problem with it and do not think we should be doing that - does that not leave some capacity to borrow for things that we can borrow for now and save later on?

I want to come back to a point that Deputy Catherine Connolly made. We are going to have cash fines imposed on us as a consequence of not meeting our 2020 climate targets. It will become a real issue for the Department of Finance when there are cash fines. It will not be something theoretical but something in practice. We are going to miss the 2020 targets and by virtue of the fact that we are on the wrong trajectory, we are going to have a real challenge with the 2030 targets. We should spend on some of the things that would ensure we avoid those fines, which could be very substantial. Would that not be a more prudent approach if there is the ability to pay this other way? Does that space exist if we do not approach the payment of those floating rate notes and have not accelerated it? Does that create a space to spend money in a different way where it is cheap to borrow and we will save money in hard cash and fines as early as 2020?

Mr. Derek Moran: I think we have gone through the promissory note matter in a bit of detail. The accelerated programme of selling over the minimum has been to avail of a very positive interest rate environment which probably makes it sensible to do that.

On borrowing to invest, essentially any borrowing we do at the moment is for investment purposes. The current account is in balance or in surplus and any borrowing we do is on the investment side only. We are not borrowing for day-to-day spending. On climate mitigation, Deputy Murphy is absolutely right. We face a challenge in 2021 and beyond of fines and not meeting the targets, and we are on the wrong trajectory.

Deputy Catherine Murphy: Do we have an idea of how much the fines would be?

Mr. Derek Moran: My understanding is that it is about €600 million.

Deputy Catherine Murphy: Is that per annum?

Mr. Derek Moran: Per annum. It is a question of what accelerated mitigation programme can be put in place. I do not think we will meet those targets. Again, this is not my area of expertise. However, we should do everything we possibly can to minimise that exposure because it will be a fiscal charge going forward.

Deputy Catherine Murphy: There are three big areas. The two areas we can probably influence the most are housing or built stock - in terms of retrofitting and avoiding the loss of energy in order to make buildings more energy efficient - and public transport. Some of those projects are very big. The ones that will bring a real return are those such as the DART underground, where we could borrow for a long-term purpose in the same way that led to the construction of the London Underground in Victorian times. I am only talking about the capital side here. It strikes me that we are paying off promissory notes when we could invest to save by at least heading towards the 2030 targets by taking an initiative now. I cannot understand why this is not seen as prudent. I am probably straying into policy.

Mr. Derek Moran: We probably are.

Deputy Catherine Murphy: It is about being prudent.

Mr. Derek Moran: I think the committee will be talking about the capital plan this afternoon with my colleagues.

Deputy Catherine Murphy: The cost of servicing the debt in 2015 was €7.1 billion. What was the cost last year?

Mr. John McCarthy: It was €6 billion. I will get the Deputy the exact figure.

Deputy Catherine Murphy: Is it lower again this year?

Mr. John McCarthy: I will come back to the Deputy in one moment.

Deputy Catherine Murphy: On AIB, we were getting a dividend and we are probably still getting it. I think it will be approximately €250 million this year. In respect of the sale of the shares, what is the projected dividend? I know it is a projection.

Ms Ann Nolan: We cannot project the dividend because the dividend is a function of how much profit it makes but also its agreement with the SSM - the ECB. So it must clear it. It is for the board, which is independent. If the Deputy is asking me what I am hoping for, I would hope it would pay a bigger dividend next year in view of the fact that last year was the first dividend. However, I do not know.

Deputy Catherine Murphy: With less of the company.

Ms Ann Nolan: We have less of the company but if the amount is bigger, we might end up with as much money.

Mr. John McCarthy: The cost of servicing the debt was €6.2 billion last year and it will be €6 billion this year.

Deputy Catherine Murphy: The issue of hidden fiscal space has been talked about. Is there such a thing as hidden fiscal space that the witnesses can identify?

Mr. Derek Moran: We have discussed this at other fora and in other committee rooms. Fiscal space is a point-in-time calculation. It is a case of data comes in and a figure comes out at the far end. There were changes between the SES last year and what happened on budget day. They are all explicable for a range of changes within that. If the Deputy is asking me whether there is a heap of hidden money, my answer would be "No". I do not know whether Mr. McCarthy wishes to elaborate.

Mr. John McCarthy: I think that when the Taoiseach was referring to hidden fiscal space, he was talking about the total quantum of expenditure - the €58 billion rather than just the incremental amount - and he made reference to the comprehensive review of spending that is under way to identify efficiencies. This is where we might find hidden fiscal space.

Deputy Catherine Murphy: I do not know if the Taoiseach knows how threadbare some of our public services are but let us park that one. We will have that debate in a different place. In respect of NAMA, do the witnesses have any idea of what remains to be sold? What is the estimated quantum that remains to be sold?

Ms Ann Nolan: I am not absolutely certain but I can get that figure for the Deputy. Otherwise, I would just be guessing.

Deputy Catherine Murphy: If Ms Nolan could do so, I would appreciate it We have had this discussion before. It is fully funded to 2020 but the Department brought the date for disposing of what remains of the loans in NAMA back to 2018. Given that there is a rising property market, has there been any reassessment of the position?

Ms Ann Nolan: I do not think we brought back the date for disposing of the loans. I think we brought back the date for paying off the senior debt because the senior debt was a contingent liability on the State and was affecting our ability to borrow elsewhere. Only half a billion of that debt is left and I expect it to be paid this year.

Deputy Catherine Murphy: I love the way Ms Nolan throws around the term "half a billion euro".

Ms Ann Nolan: I know. It is terrible stuff, but anyway. I did spend time on the spending side and I know half a billion euro is a huge amount of money if one is trying to provide services. Changing that date would not really affect matters because it will have enough to pay that half a billion and I do not think-----

Deputy Catherine Murphy: So €500 million is left in senior debt. What is left in junior debt?

Ms Ann Nolan: Approximately €7 billion.

Deputy Catherine Murphy: So €7 billion-----

Ms Ann Nolan: I could be wrong. Mr. McCarthy wishes to add something.

Mr. Seamus McCarthy: It is €1.5 billion.

Ms Ann Nolan: Is it only €1.5 billion?

Deputy Catherine Murphy: Can we get that clarified?

Ms Ann Nolan: We will have that checked.

Deputy Catherine Murphy: That is paid before the people who bailed everyone else out get paid. Could we find out the quantum of what remains? The property market is rising. While I understand that there are state aid rules relating to this, is there scope to do it later if there is a possibility of gaining more? It seems very obvious that by bundling all of these debts and rushing it, we did not get the maximum amount. I am left here to speak about the housing crisis. Even if somebody wants to rent a three-bedroom house in Lucan, they need €2,200 per month. I have a real problem with NAMA in any event but it strikes me that rushing the wind-up of NAMA may well reduce - rather than increase - what we ultimately get. Is there any-----

Chairman: We will give the others a chance to speak.

Deputy Catherine Murphy: Will another look be taken at that? Is there any scope for it?

Ms Ann Nolan: NAMA is independent. It is off-balance sheet. It must act within its own legislation but one of the things it is supposed to take into account is the return and the best way to maximise that return.

Deputy David Cullinane: Could Mr. Moran tell me which Department is responsible for working out compliance with the fiscal rules?

Mr. Derek Moran: That would be the Department of Finance.

Deputy David Cullinane: Does the Department of Finance do that in conjunction with the Department of Public Expenditure and Reform or by itself?

Mr. Derek Moran: We work very closely with the Department of Public Expenditure and Reform. In terms of the separation, however, the determination of the setting of the overall aggregate expenditure level rests with the Minister for Finance and the allocation of that then rests within the-----

Deputy David Cullinane: So it would be mainly the Department of Finance?

Mr. Derek Moran: The political arrangement for the two Departments has changed that dynamic.

Deputy David Cullinane: We often hear from some commentators that politicians, particularly those of us in Leinster House, live in a bubble but it is nothing compared to the officials in the Department of Finance because I do not see any empathy in some of the commentary I have heard regarding the level of pressure on public spending and ordinary working people. That is a different story and it is just my opinion. At a meeting of the Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach, the Minister said that the fiscal rules are not fit for purpose in light of Ireland's demographic situation and capital needs. He seems to be a step ahead of officials in the Department of Finance.

Chairman: Who said that?

Deputy David Cullinane: It was the Minister for Finance.

Chairman: This morning?

Deputy David Cullinane: Yes. Can Mr. McCarthy or Mr. Moran outline the work the Department has undertaken to seek changes to the fiscal rules? We have heard a great deal from a lot of commentators and Mr. McCarthy and Mr. Moran will be aware that the Committee on Budgetary Oversight has done much work examining capital spend with regard to fiscal rules. We know there is some flexibility with smoothing the spend over the four-year period but it is accepted that there needs to be change. If we take the Minister for Finance at his word, he also accepts that there needs to be a change. What levels of work, analysis and engagement have there been between the Department of Finance, which Mr. Moran has said implements the fiscal rules, and the European Commission?

Mr. Derek Moran: I will begin to answer the Deputy's questions and then I will hand over to Mr. McCarthy. We have gotten a range of changes and clarifications at a European level which have actually improved the application. I sometimes upset Mr. McCarthy when I say there is a "problem with the rules", but the rules are a single set of rules to fit every country in the EU. It is a one-size-fits-all approach. They are not very adaptable to the peculiarities and particularities of individual countries. In each of the years since the rules have been put in place we have worked through them and we have gotten a number of very technical changes which have helped us. Mr. McCarthy is the chairman of what is known as the output gap working group, which is an integral part of the process. He chairs that group at a European level in order to drive forward an approach based on a greater degree of common sense.

Deputy David Cullinane: I have listened for the last minute and a half and I have heard an awful lot of technical terminology. I would be very grateful if I could get specifics-----

Mr. Derek Moran: I will be asking Mr. McCarthy to go----

Deputy David Cullinane: -----in respect of what has been sought - I hope Mr. Moran will bear with me - from the European Commission in respect of changes to the application of fiscal rules, specifically in terms of capital spend.

Mr. John McCarthy: I will give the Deputy one example. This is unfortunately technical and we will try to provide a note in layman's terms as the Chairman has requested, although it is not easy. In 2015 or 2016, after we came out of the excessive deficit procedure we were concerned about the reference rate, which is a key metric which feeds into the calculation of fiscal space. It is updated in the rules every three years. It is calculated out over a ten-year timeframe and it has backward and forward-looking components. We felt that process was unfavourable in an Irish context because in 2015 it would have taken into account the negative potential growth rate in 2010 and 2011, when the economy was in the depths of the crisis. We made a very strong economic argument to the Directorate General for Economic and Financial Affairs, DG ECFIN, that it should be updated on a annual basis, which would have meant eliminating those years from the calculation. I am open to correction on this because it was a couple of years ago but that change increased fiscal space by approximately €400 million to €500 million in that year and in subsequent years.

Deputy David Cullinane: What would be helpful----

Mr. John McCarthy: That is one technical change which has been implemented.

Deputy David Cullinane: It would be helpful if the witnesses could furnish this committee with examples of what they have sought and what they have achieved as well as examples of changes which were sought but not achieved. That would be helpful. Mr. McCarthy offered up a staunch defence of the fiscal rules a number of times. That is fair enough. He also spoke a number of times about the economic crash and said that the reason it occurred was because we did not have rules to the extent that we do now.

We need to bring a big elephant into the room, and park it there, in terms of the reason for the crash. In the first instance, there was an over-reliance on consumption taxes. There was excessive commercial borrowing and excessive lending by the banks which led to the crash. The Department of Finance, the people who in the past sat where Mr. McCarthy and Mr. Moran sit now, were also asleep at the wheel and did not see any of the flags. Let us be realistic when Mr. McCarthy throws this issue back at us in respect of the crash. We understand there was a crash. The people we represent suffered greatly because of it. The Department of Finance, however, needs to take responsibility for having been partly responsible for a lot of the policy decisions and their implementation. Does Mr. Moran think it is possible that in making sure that we do not repeat the mistakes of the past that we are now going too far in the opposite direction? Are we restricting spending to the extent that we are creating pressures in health, housing and infrastructure? Everybody accepts that these pressures are there. Does he understand how difficult it is for us as public representatives to see these huge pressures in public services? They are obvious and real. They are not imagined. Yet all we hear is that academic, economic language about the fiscal rules, which may or may not be appropriate. A debate can be had on them. Mr. Moran can imagine our frustration. That is why I am asking this question.

The Minister has said today that the fiscal rules which currently exist are not fit for purpose because of the demographic pressures in this State. For once I agree with the Minister for Finance. Changes need to be made. What work has Mr. Moran and his Department done specfically up to now to make sure that we can get the changes we need to allow us to spend money - not unrealistically or recklessly - in the way that is necessary to ensure that the people who need health care get health care and that the people who need a roof over their head get a roof over their head? Will Mr. Moran point out to me, in simple language, what changes to the fiscal rules he and his Department have sought but not gotten?

Mr. Derek Moran: Mr. McCarthy has already offered to prepare a note for the committee on that subject because much of it is technical. It goes back to this concept in the rules. I will say this carefully, the fiscal rules as they stand are in general probably a good thing as a framework. We have a set of rules that apply to the totality of the EU. The economies of the area are very different in terms of scale, size, dynamics, recent history and so on. To that extent, there are occasions where they can be entirely counterintuitive in terms of how they apply at any point in time. I absolutely recognise that. In the end, we have come from a situation - and I think we began some of this discussion earlier - where in 2007 we had a debt rate of 25% and we reached 120% within a couple of years, which exposed the country to huge problems. We have to try to get the balance right to prevent that happening again. In the end of the day, the rules are an integral part of the overall fiscal pact. There was a referendum on this whole structure a number of years ago and it is the framework in which we operate.

Deputy David Cullinane: I am being very patient. I was one of those who campaigned against that referendum. It is very interesting that people who campaigned for it are now saying the fiscal rules are a one-size-fits-all approach which needs to be changed. I welcome their conversion. In my view, which is possibly correct, it is possible that we have gone too far in the opposite direction and have put a straitjacket on ourselves. That is the point I am making. If I was to be political about it, and I do not want to be, I measured the policies of the Tea Party in the United States against the fiscal rules and found very little difference between them. And yet, that group would be seen as very economically conservative, even by the standards of the US.

I would like to comment on capital gains tax, which is discussed on page 11 of the briefing note Mr. Moran has provided to the committee. It says that the top ten in terms of capital gains tax, CGT-----

Chairman: This is the Deputy's last point. I want to move on to Deputy Connolly as there is a vote coming up.

Deputy David Cullinane: This will absolutely be my last question. It says that the top ten returns accounted for almost two thirds of receipts with a similar share attributable to company directors or shareholders. This seems to be very similar to corporation tax in that it is peculiar to a small number of companies. Mr. Moran was asked earlier about the corporation tax for companies and he said that Revenue does not give the Department the names of the companies. Is it possible that these are the same companies and that not only do we again have an overdependence on a small number of companies in respect of corporation tax but potentially that same overdependence in terms of capital gains tax?

Mr. Derek Moran: I do not have information that would allow for matching across. In terms of capital gains by corporate entities, there may well be an alignment. We are well aware of the concentration risk on the corporate side, which is a big number in overall terms while the capital gains tax represents a smaller figure. The difficulty with CGT is that when a gain is made at a certain point in time the tax paid becomes payable at that point, so it varies over time. I do not have a particular insight which I can offer the Deputy around how CGT returns match with the top ten payers in the context of corporation tax.

Deputy David Cullinane: If Mr. Moran is conscious of the overdependence and it is possible that it is not simply in the area of corporation tax but could also be in the area of CGT, would that information not be beneficial to him? As Accounting Officer and someone who has to make sure we do not repeat mistakes of the past, of which we were reminded several times by Mr. McCarthy, and in order to make sure there is not such overdependence, Mr. Moran should be in a position to see whether there was an overlap. Why is it the case that Mr. Moran was not given that information? Is there a reason-----

Mr. Derek Moran: It is individual taxpayer information. It is just-----

Deputy David Cullinane: Is it for reasons of data protection?

Mr. Derek Moran: Yes. It is as simple as that, and when one gets down to data sets that comprise ten companies or ten individuals-----

Deputy David Cullinane: Without Revenue naming them, could it tell the Department that they are the same companies?

Mr. Derek Moran: It is possible to get in and do a data analysis of a bigger pool of data, but-----

Deputy David Cullinane: I will ask my final question. What I am saying is if there are, to take a round figure, ten companies in respect of which there is a concentration of corporation tax and then ten companies, or nine or whatever, in respect of which there is a concentration of capital gains tax, without Revenue giving the Department the names of the companies, could it at least give the Department data that show that seven of those ten companies are the same?

Mr. Derek Moran: It is certainly well worth-----

Deputy David Cullinane: Could Mr. Moran ask for that information and furnish the committee with it?

Mr. Derek Moran: Certainly. We will look at doing some of the analysis on that.

Deputy David Cullinane: I thank Mr. Moran.

Mr. Derek Moran: No problem.

Chairman: Did Mr. John McCarthy want to come in on an earlier point? He indicated a few minutes ago-----

Mr. John McCarthy: Yes, I did.

Chairman: -----when we were talking about EUROSTAT reviews-----

Mr. John McCarthy: Yes. Deputy Cullinane accused me and others of being asleep at the wheel, but-----

Deputy David Cullinane: I did not accuse Mr. McCarthy at all, in fact.

Chairman: The Deputy referred to Mr. McCarthy's predecessors.

Deputy David Cullinane: I referred to his predecessor and the Department, so-----

Chairman: The Deputy directed the comment at Mr. McCarthy's predecessors.

Deputy David Cullinane: Mr. McCarthy should not be precious about the Department. It is big enough to take criticism.

Chairman: I call Deputy Connolly. It is to be hoped she is the last speaker.

Deputy Catherine Connolly: I am. Deputy Cullinane has asked the Department to come back with a breakdown of what it saw, and I will not repeat the request. It seems the Department is quoting the rules without looking at the consequences and it is leaving out the indicators that I already mentioned and will not repeat.

I have some practical questions. Does the Department of Finance pay rent for the building in which it is located?

Mr. Derek Moran: No. The OPW is the landlord and we occupy the building, so there is no rent payable.

Deputy Catherine Connolly: The OPW is the landlord, and the Department is there free of charge as a Government body and a Department. Is that correct?

Mr. John McCarthy: Yes. That is correct. The OPW is our landlord.

Deputy Catherine Connolly: There is a landlord but no rent payable.

Mr. John McCarthy: Yes.

Deputy Catherine Connolly: That is fine. I just wanted to clarify that.

I was asleep at the wheel when I heard about the universities. Will Mr. Moran clarify the 50% again? Is there less or more funding? What is that-----

Mr. Derek Moran: It is more complicated than that but, as a general rule of thumb, if an entity derives more than half of its income - its revenue - from sources other than the State, it is not on the Government's balance sheet. In general Government terms, if it derives the majority of the money from the State, it is on the Government's balance sheet.

Deputy Catherine Connolly: Is that in respect of any liabilities?

Mr. Derek Moran: The liabilities are not the Government's liabilities.

Deputy Catherine Connolly: That is if more than 50% of its funding comes from elsewhere.

Mr. Derek Moran: Yes. That is a very crude rule of thumb but it is-----

Chairman: If we take how Irish Water failed the EUROSTAT test-----

Deputy Catherine Connolly: This is important to me. There is a whole movement here with all sorts of things such as trusts and, particularly, foundations. The point has been made to us by numerous third level institutions that less than 50% of their funding comes from the State, so I thank Mr. Moran for clarifying this. We have had Garda representatives come before the committee repeatedly and given them a very tough time regarding off-balance-sheet transactions. It might be a bit of an exaggeration, but it is a parallel system of accounts, and it seems off-balance-sheet methods are the direction in which the Government is now going. If it can find a way to build houses off-balance sheet and have a health system off-balance sheet, it will seek to do so. Is that right? Am I wrong? Am I simple-minded?

Mr. Derek Moran: I do not think we have a health system that is off-balance sheet-----

Deputy Catherine Connolly: We do not but if the Government could find a way to have one, it would seek to do so. Off-balance-sheet funding has been mentioned repeatedly in respect of housing, for example.

Mr. Derek Moran: Government initiatives to spend money off-balance sheet are extraordinarily difficult to carry out. It is extraordinarily difficult to find the mechanism by which to do so. There may-----

Deputy Catherine Connolly: Is it not extraordinary in itself that we are now playing with these rules and it is extraordinarily difficult to get money on-balance sheet to build homes in order that people can actively participate in the economy and as citizens? Is there not something cracked about this and the fact that we have to find ways to be off-balance sheet? The Garda, for example, thought - as did the Department of Justice and Equality, mind - that it was okay to be off-balance sheet. Is this not worrying for the Department of Finance? In the witnesses' training, do they not look at other things that are equally important in a thriving economy and learn that housing is the most basic requirement? If we have a housing crisis, property prices rising by €1,000 a week and Government policy stating it will give money to the private system in the guise of social housing, does that not trouble Mr. Moran as an indicator that this economy is not thriving? Should the Department not be looking at the rules and telling the Government it will comply with them as that is its job, but that this is the result and the collateral damage?

Mr. Derek Moran: This is the conversation we had earlier. Housing policy is not for us-----

Deputy Catherine Connolly: Yes, but what is for the Department is the fact that the housing policy is promoting the market and making the market unsustainable because taxpayers' money is going directly into the housing assistance payment - I am directing this to Mr. McCarthy as well - which is called social housing, and directly to the private market, keeping it artificially high. Does that not concern the Department? No? Okay.

Mr. Derek Moran: I am not sure where I can go on this.

Chairman: It is a policy issue.

Deputy Catherine Connolly: My difficulty with the policy issue is when I get something like this seven-page opening statement, which is really a glorification of the policy. That is my difficulty.

Regarding the EU contribution, what do we pay to the EU? I know we are net contributors now and that this is different from the European Stability Mechanism. What are we giving to that?

Mr. John McCarthy: We do not give anything to the European Stability Mechanism, ESM. We have paid in capital.

Deputy Catherine Connolly: That is what I want to have clarified.

Mr. John McCarthy: It was a couple of years back and it was-----

Deputy Catherine Connolly: That is okay, but we-----

Mr. John McCarthy: It was a couple of billion euro-----

Deputy Catherine Connolly: A couple of billion euro?

Mr. John McCarthy: Yes. The Deputy should remember that the total funding capacity of the ESM is €500 billion across the euro area. There is callable capital also but we do not pay that in. That would only be called if there were a problem in a member state. A couple of billion euro went in but it was a one-off.

Deputy Catherine Connolly: We paid that and we are not getting it back. That goes into bailing out countries in the future or helping them.

Mr. John McCarthy: We got a loan from the European Financial Stability Facility, EFSF, which was the ESM's predecessor.

Deputy Catherine Connolly: Can Mr. McCarthy come back to me and tell me in a note what exactly we have paid into the European Stability Mechanism?

Mr. Seamus McCarthy: It is in chapter 1. It is now displayed on the screen. Deputy Connolly will see the capital contribution to the European Stability Mechanism was €510 million in

2012, the same amount the following year and then €255 million in 2014.

Deputy Catherine Connolly: This is entirely separate from our contribution to the EU. What is that contribution?

Ms Ann Nolan: It is on the third line of the same page.

Deputy Catherine Connolly: My final question concerns clarification regarding the harbours. I thank Mr. Moran for his briefing document. It was very helpful. The Government won a share in the harbours. Is that right? In this briefing document Galway jumps out at me, but there is a list of all the harbours. I ask for clarification on this. Mr. Moran will see that reference is made to the Department and Galway Harbour Company.

Chairman: There is reference to a shareholding. Is that a majority or a minority share?

Mr. Derek Moran: I would have to check.

Deputy Catherine Connolly: That is okay.

Mr. Derek Moran: We will furnish a note to the committee.

Chairman: The Department might give us a note on page 29 to tell us across the board-----

Mr. Derek Moran: That is no problem.

Deputy Catherine Connolly: Go raibh míle maith agaibh.

Chairman: I want to make one observation to Mr. McCarthy. It is not a response, but I will make it seeing as it was mentioned that he chairs a group dealing with some of the fiscal rules at EU level. There would be a concern in some countries - I am not saying it is a unanimous view - that the fiscal rules and this drive to be off-balance sheet to keep within the fiscal rules is resulting in what I would call social engineering. It is having a serious social engineering effect because of the issue with building houses. We had a financial crash, the banks went bust and some people have large mortgages. We are very quickly moving from a position where 80% of Irish people owned their own houses in one generation to being lucky if 20% of the next generation will own their homes. That is what happens at European level. The attitude to that is so be it, but in the way that Irish people live their lives that represents social engineering in Ireland.

Does the way society operates in various countries come within the financial strictures of Mr. McCarthy's work at EU level? I know that is not exactly the reason that Mr. McCarthy is at this meeting. I accept that he may not agree with that viewpoint, but would he accept that it is a point of view?

Mr. John McCarthy: Absolutely, it is a point of view. I stressed this point when responding to Deputy Catherine Murphy at the start, and the Secretary General also made a reference to it. The fiscal rules do not constrain what one spends, they simply constrain the bottom line. If one wants to choose a Swedish type of expenditure model, one can do it but one has to be able to finance it. If one chooses a UK type, where Government spending as a portion of GDP is at the lower end of the spectrum, one can do that as well. It is a policy choice.

I do not want to go into policy but it is a policy choice as to whether we want to spend to address these issues, and certainly there are issues to address. We do not live in a bubble. There is nobody present who is not conscious of the issues, but it is a question of how to finance them.

We would be concerned. The Chairman has a view, which is legitimate. I have a view that fiscal sustainability is the issue, because if we lose that it is back to the troika again. That would create issues. We spoke of the €201 billion debt.

Other countries have issues. I chair a very technical group on how one measures the structural balance, rather than the policy about it. There is another element to it in which I am not involved, that is, the statistical treatment of some of these issues, to which the Secretary General alluded. EUROSTAT does not like anything that Government tries to put off-balance sheet. EUROSTAT had its fingers burnt with Greece, where Greece got the data wrong and suddenly it had a deficit that was three or four times what they thought it was going to be. EUROSTAT has become increasingly strict in terms of the balance sheet treatment of anything. We saw that with Irish Water. We considered that, in conjunction with our colleagues in the CSO and in the Department of Housing, Planning, Community and Local Government that we had done enough to keep it off-balance sheet, but EUROSTAT came up with obscure reasons, which we still do not understand, as to-----

Chairman: Known as common sense. It came up with a common-sense answer, despite the Department's best efforts. That is a matter for another day.

At this stage we have completed our consideration of the Vote of the Department of Finance. We will sign off on it when we are concluding our meeting.

Is it agreed that we suspend until 2.30 p.m.? Agreed. When we resume we will go into private session to complete the education report. Once we have that done, we will discuss the Appropriation Accounts and the Vote of the Department of Public Expenditure and Reform in public session.

I thank the witnesses for their assistance. We look forward to receiving the information requested which can be sent to the secretariat. At the end of the session with the Department of Public Expenditure and Reform we will note the reports and accounts.

Mr. Derek Moran: I thank the Chairman. My colleague, Ms Nolan, is here for the last time with me. I think we have been colleagues for nearly 30 years. I wish her and her family the best in her retirement.

Chairman: I have also seen Ms Nolan in Leinster House for a good few years.

Ms Ann Nolan: I am part of the furniture.

Chairman: We will now suspend the meeting.

Sitting suspended at 12.55 p.m and resumed in private session at 2.30 p.m.

2015 Annual Report of the Comptroller and Auditor General and Appropriation Accounts

Vote 11 - Office of the Minister for Public Expenditure and Reform

Vote 12 - Superannuation and Retired Allowances

Vote 18 - Shared Services

Vote 39 - Office of Government Procurement

Chapter 3 - Vote Accounting and Budget Management

Comptroller and Auditor General Special Report 95: Financial Reporting in the Public Sector

Mr. Robert Watt *(Secretary General, Department of Public Expenditure and Reform)* called and examined.

Chairman: At this late hour this afternoon, we are starting into our work on the Appropriation Accounts for the Department of Public Expenditure and Reform. We are dealing with: Vote 11 - Office of the Minister for Public Expenditure and Reform, Vote 12 - Superannuation and Retired Allowances, Vote 18 - Shared Services, and Vote 39 - Office of Government Procurement.

We had also intended to consider the special report by the Comptroller and Auditor General on the financial reporting in the public sector but because of the late hour, we will hold over that special report and come back to it in the autumn. There is one other special report from the Comptroller and Auditor General we will have to get to as well, but we will leave that to one side. If anyone had in their opening comments a reference to that, we will come back to that separately. We will stick with the Department, including Chapter 3 - Vote Accounting and Budget Management, and leave the special report to one side today.

First, I apologise for the late hour of starting. Mr. Watt will be aware we dealt with the Department of Finance this morning. The committee had four or five meetings with third level institutions over the past month or two, and as we are getting near the end of the Dáil session, we wanted to finalise our report in committee today, which we have done, with a view to launching it on Tuesday next. That took a little bit of extra time to finalise. Even though the Dáil has still to sit for a few hours, we are only now, at this time of the evening, getting to the second half of the public part of the meeting. I have indicated the topics we are going to cover. We are joined today by Mr. Robert Watt, Secretary General of the Department of Public Expenditure and Reform, and also Mr. Paul Quinn, Mr. David Feeney, Ms Helen Codd, Ms Paula Lyons, Mr. Frank Griffin and Ms Fionnuala Burke.

I wish to advise the witnesses that by virtue of section 17(2)(*l*) of the Defamation Act 2009, they are protected by absolute privilege in respect of their evidence to the committee. However, if they are directed by the committee to cease giving evidence on a particular matter and they continue to so do, they are entitled thereafter only to qualified privilege in respect of their evidence. The witnesses are directed that only evidence connected with the subject matter of these proceedings is to be given and are asked to respect the parliamentary practice to the effect that, where possible, they should not criticise or make charges against any person or an entity by name or in such a way as to make him, her or it identifiable.

Members of the committee are reminded of the provisions of Standing Order 186 that the committee shall refrain from inquiring into the merits of a policy or policies of the Government or a Minister of the Government or the merits or objectives of such policies. They are also reminded of the long-standing ruling of the Chair to the effect that they should not comment on, criticise or make charges against a person outside the Houses or an official, either by name or in such a way as to make him or her identifiable.

I call the Comptroller and Auditor General to make an opening statement.

Mr. Seamus McCarthy: I issued clear audit opinions for all four appropriation accounts on this afternoon's schedule. The 2015 appropriation account for the Office of the Minister for Public Expenditure and Reform records gross expenditure totalling €40.8 million, divided across two programme areas: the public service management and reform programme, on which €24.1 million was spent, or 59% of the expenditure, and the public expenditure and sectoral policy programme, which accounted for the balance. At the end of the year, the Department had underspent by a net €4.1 million relative to its budget.

Vote 12, superannuation and retired allowances, is used to pay for Civil Service and prison officer pensions. Pension payments for other public servants are charged, directly or indirectly, to other Votes, including those for education, health, An Garda Síochána and Army pensions. The gross expenditure on Vote 12 in 2015 amounted to €499 million, an increase of 5.3% compared with 2014. Appropriations-in-aid, mainly comprising employee pension contributions, amounted to €136 million in 2015, up 30% from 2014. The increase was due mainly to employee contributions in respect of the public service single pension scheme, which was introduced for all public servants appointed since 2013.

An unusual feature of the account for Vote 12 is the absence of administration expenses. The Department of Finance administered the pension payments charged to Vote 12 on behalf of the Department of Public Expenditure and Reform and charged the associated administration costs to its own Vote. In December 2015, responsibility for administration of the pension payments transferred to Vote 18, shared services.

The 2015 appropriation account for the Vote for shared services records gross expenditure totalling €26.2 million. Overall, there was underspend of €18.7 million, almost 42% relative to the Estimate. A sum of €13.2 million was spent on activities related to PeoplePoint, which handles human resources activities centrally. A sum of €9.3 million was spent on payroll shared services, and €2.3 million on other shared services projects, including a shared financial management project. Expenditure on the payroll shared services centre was €7.8 million, or 46%, less than provided for in the Estimate, mainly due to the later than anticipated transition of certain payroll clients to the shared services office. Expenditure incurred on set-up costs for the financial management project was €8.2 million, or 78%, below estimate.

In the statement on internal financial control, the Accounting Officer draws attention to salary overpayments and steps taken to address this issue. I am carrying out a review of the issue this year and expect to include a chapter in my report on the 2016 accounts of the public services later this year.

The year 2015 was the second year of operation for the Office of Government Procurement. Gross expenditure of €14.3 million was €5.3 million, or 27%, lower than estimated. Note 3 explains that a delay in obtaining office accommodation impacted on recruitment with knock-on effects in other areas of planned non-pay expenditure, resulting in an underspend of €2.8 million. Procurement and subsequent implementation of external support services for the office also took longer than originally planned, resulting in an underspend of €2.4 million.

Chapter 3 is a standard report that aims to consolidate and summarise Vote expenditure for 2015 across all Votes and to demonstrate medium to long-term trends. Gross voted expenditure across all Votes in 2015 was €46 billion, the same as in 2014. This represents a cumulative reduction of almost 13% since 2010.

Chairman: I thank Mr. McCarthy. I invite Mr. Watt to make his opening statement.

Mr. Robert Watt: In the interest of saving time, I will be very happy to take the statement I prepared as read.

Chairman: He might just give us a very brief synopsis. We will publish it.

Mr. Robert Watt: I welcome the clear audit opinion given by the Comptroller and Auditor General in respect of the Votes that are subject to review this afternoon. There are issues in regard to underexpenditure across a number of the Votes. The reasons for that have been set out very clearly. They relate mainly to a number of reform projects that have been committed to. We had a slower than expected take-up on a number of initiatives, slow recruitment processes and retention of contractors involved in delivering some of these projects. These projects are very significant. Obviously, what Mr. Paul Quinn is driving in terms of procurement reform and what we are doing in shared services comprise very significant transformation projects. We have an issue all the time in respect of trying to get the pacing right and trying to pace our projects in a sensible way, ensuring value for money while at the same time ensuring we are spending what is allocated and keeping within profile. We are aware that, for 2015, there were significant underspends, as set out in the Comptroller and Auditor General's report. As a Department, we are very much conscious of ensuring we set out only Estimates and draw down amounts as close as possible to those, consistent with the financial procedures.

More generally, in terms of managing spending, the committee will be aware that a key part of our job is not just preparation of the budget but also executing it during the year. A key issue for us is to ensure overall spending stays within profile. Again, the Comptroller and Auditor General has set out in the report our performance in this respect. It varies from year to year. On average in recent years, we stayed at about 2%. The variance against profile is around 2%. There are many reasons for that. They relate to forecasting errors, issues around forecasting demand, particularly in regard to the health service, and specifically Government decisions on issues such as the Christmas bonus or additional moneys allocated for capital programmes. Especially during 2015, as taxes exceeded profile, the Government had the opportunity to make some additional investments in capital infrastructure and it provided for some restoration of the Christmas bonus. That was the first time it was done since the economic crash. It is an ongoing challenge for our Department in terms of managing spending in line with profile.

I will touch on some of the reform issues with which we are pushing ahead. Procurement reform, shared services and digitalisation are issues we discussed previously at meetings of this committee. We are pushing ahead with those. Two issues that have taken up a lot of our time this year relate to the negotiations on the recent pay agreement. Deputies will be aware that the unions are now in a process of balloting in respect of the new agreement, the extension of the Lansdowne Road agreement. It is very important in terms of securing industrial peace and co-operation with ongoing reform but also necessary to ensure we have a pay settlement that is affordable and sustainable for the State.

My next point is on the capital review. I heard some of the discussions this morning when the members were debating with colleagues from the Department of Finance on capital spending and issues associated with that. The Government is now considering the mid-term review of the current capital plan. The Minister hopes to announce on budget day some additional projects and allocations in respect of capital spending. It is a key part of what the Department is engaged in now.

We are delighted to be here and to answer any questions that arise. I thank colleagues in the Department for all their work. It is very rare we get the opportunity to thank people in the Department for all the effort they put in. Members are aware of the significant work that goes on in the Department in terms of the various projects.

Chairman: We are conscious that we have a representative from the Department of Public Expenditure and Reform present at most meetings.

Mr. Robert Watt: Yes

Chairman: We acknowledge the Department's continued presence.

Mr. Robert Watt: The Chairman asked for that previously and we decided we would keep doing it.

Chairman: That is good. We will publish Mr. Watt's opening statement on the committee's website. I call Deputy Cullinane.

Deputy David Cullinane: I welcome Mr. Watt and his team. As I have four or five themes I wish to work through, I ask the Chairman to give me a shout when I have used half my time.

Chairman: I will.

Deputy David Cullinane: Does Mr. Watt read much?

Mr. Robert Watt: As in books, newspapers, magazines and periodicals?

Deputy David Cullinane: Yes.

Mr. Robert Watt: I read a good bit, yes.

Deputy David Cullinane: I brought some documents that may be of use to Mr. Watts. The first is the Central Statistics Office-----

Mr. Robert Watt: Are props allowed at this meeting? I will not bring a bag of waste and dump it on the table or anything.

Deputy David Cullinane: It is a CSO document on in-work poverty, income and living conditions, which includes a large amount of helpful data. I also brought along a report by the Nevin Economic Research Institute on earnings, low pay and work quality as well as a recently published document from Social Justice Ireland entitled A New Social Contract for a New Century. These also feature a large amount of data that could be useful to Mr. Watt. I will leave the documents for him.

Will Mr. Watt explain what the Special EU Programmes Body, SEUPB, does?

Mr. Robert Watt: That is the programme body that is involved in managing the two main North-South programmes, the INTERREG programme and the peace and reconciliation programme. It is one of the bodies established under the Good Friday Agreement. The projects manage the applications process, so in effect there are two funds with various strands to them and various different themes are set out. The SEUPB organises the process of inviting grant applications, vetting grants and allocating the money. The accountability mechanism, as the Deputy will probably recall, reports to our Department and our counterpart in Northern Ireland, the Department of Finance and Personnel, DFP, and the two relevant Ministers have overall responsibility for its management.

Deputy David Cullinane: Is it the case that the Department was advised in 2014 that there was a risk to funds paid to a PEACE III project? Will Mr. Watt speak to us briefly on that issue?

Mr. Robert Watt: Yes, there was an issue about a payment made to a company and it came to the attention of the body that there were irregularities and allegations of fraud. On receipt of that, payments were suspended and an investigation has been undertaken in respect of that.

Deputy David Cullinane: The Department provided funding of €181,438 to the project in question in 2010. Is that correct?

Mr. Robert Watt: Yes, that is right. The matter was referred by the Police Service of Northern Ireland to the Public Prosecutions Service and it concluded there were no further lines of investigation which would support a positive prosecution. The issue is closed at this stage but it looks as if that money will be lost to the exchequers.

Deputy David Cullinane: I am trying to establish the reason the money has been lost. Before we come to a view on that, is the SEUPB a separate body in terms of accountability? Is it accountable to the Department or to whom is it accountable?

Mr. Robert Watt: The body is in effect accountable to us and the DFP in Northern Ireland and it is accountable to the two Ministers jointly.

Deputy David Cullinane: If a loss to the taxpayer occurs because of irregularities, who is responsible in terms of oversight?

Mr. Robert Watt: The peace and reconciliation programme is 85% funded from the European Union. We would pay and the UK Treasury would pay and then we would recoup the moneys from the EU. I would need to check for the Deputy but I think in this case the loss would be borne by the two exchequers in Ireland and the UK.

Deputy David Cullinane: Mr. Watt said that already. What I asked was given that there will be a loss, which I will address in a moment, what Department has responsibility? I know that whoever in the organisation was responsible for the irregularities is ultimately responsible but in terms of governance, who was responsible in this case?

Mr. Robert Watt: Our Department and the relevant Department in Northern Ireland would be accountable for the loss.

Deputy David Cullinane: Both Departments.

Mr. Robert Watt: Yes.

Deputy David Cullinane: Why is there no prospect of recovering the money?

Mr. Robert Watt: According to my recollection, and it is a long time since I looked at the matter, I believe that the lead partner in the company has been dissolved so I do not think the legal entity exists any more. I think that is why the money cannot be recouped. I think that is the position, yes. The lead partner has been dissolved in effect.

Mr. Seamus McCarthy: That is also my understanding.

Mr. Robert Watt: There is no legal entity in effect to pursue for the-----

Deputy David Cullinane: The only reason is that it was simply not legally possible to pursue somebody for the money.

Mr. Robert Watt: In effect, the company has gone. It does not have any assets any more and no longer exists.

Deputy David Cullinane: Did the company have directors or a board of directors? What was the construct of the company?

Mr. Robert Watt: I do not know. I guess it did have directors. It would have a fiduciary duty.

Deputy David Cullinane: Would the directors not be responsible and could they not be pursued?

Mr. Seamus McCarthy: I imagine the detail would have to be got from the SEUPB. It is audited by me and by the Comptroller and Auditor General of Northern Ireland and the accounts are presented.

Deputy David Cullinane: On the make-up of the company, was it a limited company and did it have directors? If so, what were their responsibilities? Could a note be provided on that?

Mr. Robert Watt: We will come back to the Deputy on that. It was 2014 when the issue came to our attention-----

Deputy David Cullinane: I understand that.

Mr. Robert Watt: -----and we pursued it at that time in order to recover the funds. However, the conclusion from the people who are close to what is going on is that there is not a legal avenue. We will come back to the Deputy in relation to the details. I do not recall whether it was a limited company or a partnership model. I am not sure of the structure. I do not know.

Deputy David Cullinane: That is fine. On a second issue, the Department made a settlement with the Revenue Commissioners in June 2015. Will Mr. Watt give us a brief overview of the reasons a settlement had to be made?

Mr. Robert Watt: Yes. There was a settlement for €27,800 in relation to work that was contracted out from two barristers who were involved in advising the Department in relation to the statute law revision programme. There were differing views between ourselves and the Revenue Commissioners as to whether this should be the subject to either professional service withholding tax or PAYE. We reached a view and then in further discussions with the Revenue

Commissioners they disagreed with that view. On settlement of the matter, we had to pay a further amount. It was, therefore, a different interpretation of exactly what the relationship of the people involved was in the contract with the Department. Obviously, if the Revenue came to a different view, we had to then make that settlement with the Revenue.

Deputy David Cullinane: Was that a voluntary disclosure to Revenue or did Revenue come to the Department?

Mr. Robert Watt: It was part of Revenue's review of our tax compliance. It was a difference of opinion and we had a discussion with Revenue about it. After that, we accepted the-----

Deputy David Cullinane: The Department settled. Did interest and penalties apply?

Mr. Robert Watt: No, I do not think there would be, not from a public body to the Revenue Commissioners in respect of that. It was just a different interpretation of whether the professional service withholding tax would apply or whether it was PAYE.

Deputy David Cullinane: We now have one Minister for two Departments. I know Mr. Watt cannot discuss policy but in terms of his position, given that we now have one Minister and there is talk of the Departments merging, is he still the Accounting Officer? Is he on a par with Mr. Moran who was before the committee earlier or is he subordinate to Mr. Moran?

Mr. Robert Watt: Is Mr. Moran on par with me maybe? I am the Accounting Officer for the Department of Public Expenditure and Reform and Derek Moran is the Accounting Officer for the Department of Finance. The two legal structures remain.

Deputy David Cullinane: They are two separate Departments.

Mr. Robert Watt: Yes.

Deputy David Cullinane: That is very good. There is a possibility that the Departments will merge but they are not being merged at the moment. It is simply that we have one Minister for two Departments. Is that the case?

Mr. Robert Watt: Yes.

Deputy David Cullinane: After the most recent general election, there was much discussion about changing the budgetary process. I understand this arose as a result of a European or international report which stated that Ireland placed far too much emphasis on what was called "one big bang" on budget day and we needed a more elongated budgetary process that was more consultative, engaging and so on. As this issue comes within Mr. Watt's remit and a number of promises were made in respect of establishing an independent budgetary office, will he explain what the new elongated budgetary process consists of or was to consist of?

Mr. Robert Watt: This is part of the overall move as part of our EU commitments to semesterise the budget process. Our domestic elements are aligned with what is required at EU level. There are a number of different elements to it. Obviously, we publish a budget set of proposals in the middle of October and a social welfare Bill and finance Bill-----

Deputy David Cullinane: I am referring to much earlier in the year than October.

Mr. Robert Watt: Let me start from that then. The social welfare Bill and the finance Bill are considered by the Oireachtas and voted on by the Oireachtas. Then we publish in February-

March the returns where the Department of Finance submits the returns to the European Commission in respect of the general Government balance and the fiscal position for the preceding year. We then prepare appropriation accounts, finance accounts and so on in the normal way. We now produce a performance report, which is a new addition that sets out not only the allocations and what we spent in the preceding year, but also the detail of the outputs and outcomes. We published that report in April.

In order to have more dialogue, the national economic dialogue, NED, took place in recent weeks. There, the Taoiseach and Ministers discussed the budget and heard from a variety of interest groups concerning their budget priorities. We will then produce the summer economic statement, SES, which will be published by the Minister next week. It will set out the updated macro view of the economy, where we are this year, the position for 2018 and the broad strategy and the resources that will be available for next year. That will be published-----

Deputy David Cullinane: Was the SES not to be completed by April? Was that not the target date?

Mr. Robert Watt: In previous years,-----

Deputy David Cullinane: Has there been a delay this year in publishing it?

Mr. Robert Watt: -----it was published before the NED. Due to a change in government this year, though, it was felt appropriate that the new Government should have an opportunity to consider its budgetary strategy for 2018.

Deputy David Cullinane: With respect, that does not chime with what Mr. Watt said in his opening statement about openness and transparency or with the work of the Committee on Budgetary Oversight, which was established to allow for a greater input into the budgetary process. What was agreed and what we were told would form part of the new open and transparent consultative process was a summer economic statement in the first instance followed by the NED. Just because the Government decides that it will rejig Departments should not mean that this sequence should not be followed. I am concerned that we have already reverted back to type and that we are engaged in box-ticking rather than genuine consultation. That is my opinion. Why was there a delay in the SES?

Mr. Robert Watt: It will be published next week. The Minister is discussing it with his colleagues.

Deputy David Cullinane: Previously, it was published before the NED.

Mr. Robert Watt: We all know why the summer statement is going to be published next week instead of four weeks ago.

Deputy David Cullinane: We do not. That is why I am asking Mr. Watt.

Mr. Robert Watt: It is because we have a new Government. The Deputy knows that we have a new Government, with a new Taoiseach and a new Minister. It is appropriate for the new Government to consider its budgetary strategy. In parallel to this, the Minister has appeared before several committees over the past week to discuss where he believes the economy and the budget are. Mr. Derek Moran and I have attended the Committee on Budgetary Oversight and spent several days at the NED discussing matters with people.

There is a more open and different approach to budgeting. When I was involved in the Department of Finance in the early 1990s, the budget was prepared and announced to the people on one day and there was no SES, NED, oversight committee, performance report or Maastricht returns. Our current approach to budgeting is different and more open, with Deputies having an opportunity based on parameters set out by the Department to discuss the budget and the options that the Government faces. It is a different situation. Obviously, it would have been better and more desirable had the SES been published in advance of the NED. Hopefully, we will revert to that sequence next year.

Deputy David Cullinane: I suggest that that be the case next year. I do not accept Mr. Watt's reasoning, but I hope that the SES will be published before the NED next year, given that it helps to frame discussion at that event, which Mr. Watt also attended.

Chairman: The Deputy is just over half way through his time.

Deputy David Cullinane: I wish to discuss capital spending. We raised the issue with Mr. Moran earlier. It is accepted almost universally that we have low levels of capital spending. In that regard, we discussed with Mr. Moran the inflexibility of the fiscal rules. What is Mr. Watt's view on the matter? One of my questions to Mr. Moran concerned what changes we were seeking at EU level to enable us to have greater flexibility in how we invest in capital. What is Mr. Watt's Department's view of how rigid or not the rules are?

Mr. Robert Watt: For this year, we propose to spend €4.5 billion on Exchequer capital. That will increase to €7.5 billion by 2021. After last year's election, the Government allocated €5 billion extra to capital spend. For this year, capital spend will increase by more than 10%. Next year, it will increase by a further 15% or 16%. The following year, it will increase by the same amount. Between-----

Deputy David Cullinane: If I could just-----

Mr. Robert Watt: Could I just set out the-----

Deputy David Cullinane: No, I must stop Mr. Watt there. If I had wanted an outline of how much we spent on capital in recent years and how much we would spend in future, I would have asked for it. I asked about how the fiscal rules applied to capital spend. We have heard from the Department of Finance and even the Minister has acknowledged today that the fiscal rules need to be reviewed. If it is almost universally accepted that we need greater flexibility in the application of the fiscal rules to allow us to have more capacity to spend on capital, what is Mr. Watt's Department requesting from the European Commission?

Mr. Robert Watt: As I was saying, the current plans would see an increase in capital spending of 70% by 2021 compared with last year's spending. That represents a significant increase based on current plans, as well as a significant increase by the commercial semi-States in gas, electricity, ports and so on.

The Department of Finance is responsible for the application of the fiscal rules and has been involved in discussions with the European Commission about that matter.

I will make a few remarks. In the absence of fiscal rules from the EU, we would still have to manage our affairs in a way that would put a constraint on the resources that we use for current and capital spending. Were we in an environment in which there were only domestic rules or no rules, we would still have to conduct our affairs in a way that would put a limit or constraint on how much-----

Deputy David Cullinane: We are three minutes into Mr. Watt's second contribution and I still have not heard anything from him to tell me-----

Mr. Robert Watt: If the Deputy allowed me to finish the contribution-----

Deputy David Cullinane: Mr. Watt has not said anything.

Mr. Robert Watt: I have said plenty.

Deputy David Cullinane: I will be more distinct. A debate is happening outside the Houses. The trade union movement through ICTU, IBEC on behalf of the business groups and almost every other group is saying that the fiscal rules in respect of capital spending are not fit for purpose. The Committee on Budgetary Oversight will publish a report that will say the same. What is the Department that is responsible for capital spending doing about it? How has it engaged with its sister Department - the Department of Finance - and the European Commission?

Mr. Robert Watt: What we have been doing is managing our affairs in a way that enables us to increase capital spend significantly. We will increase it by 70% between last year and 2021. That is the main thing that we are doing.

No matter what the rules are, we will need to manage our affairs in a way that will place a constraint on our amount of current and capital spending. We must decide on whether to fund capital by borrowing within the rules or by increasing taxation within the rules. That is possible for us. There is no bar on the Government deciding that it wants to fund more capital or current spending within the fiscal rules by taxing people or generating the revenue. As constructed, the rules count capital spending the same way as other spending apart from the smoothing rule, of which the Deputy will be aware and under which an increase in spending of, for example, €100 million would only use up €25 million of the fiscal space in any given year and the full amount by the end of the four-year period. There is an issue in terms of capital smoothing.

The only change to the fiscal rules that would make a difference would be if it was decided at EU level that capital would be treated in a different way so that governments would be allowed to balance current spending and borrow for capital purposes, which is the so-called golden rule. That differs from the approach that underpins our current rules.

Deputy David Cullinane: Who sets the expenditure benchmark?

Mr. Robert Watt: The Minister for Finance and his Department in consultation with the European Commission.

Deputy David Cullinane: It is not a fixed amount. Is it negotiable? Obviously, the Government must work within the rules, but it is not-----

Mr. Robert Watt: The expenditure benchmark depends on whether a state is in an excessive deficit procedure or the preventive arm and, if the latter, whether the state has achieved its medium-term objective of a structural balance of 0.5% or is moving towards it. We are moving towards it, so our spending can grow in line with potential growth adjusted for the convergent margin, which is a function of how far our deficit is away from the structural balance. When we reach a structural balance, spending will be able to grow in line with potential growth as debated between the Department of Finance and the European Commission.

Chairman: I understood from this morning's session that we exited the excessive deficit-----

Mr. Robert Watt: The excessive deficit procedure, and we are now in the preventive arm.

Chairman: -----procedure last year and we are now in the Stability and Growth Pact.

Mr. Robert Watt: Yes, in the preventative arm of the pact.

Deputy David Cullinane: It would be helpful if Mr. Watt was able to furnish this committee with the application of the rules in respect of capital spend, and details of what flexibilities have been agreed with the Commission in recent years. Smoothing is one example, and the Department of Finance told us there were others which we had succeeded in getting from the Commission. If there are other flexibilities which the Department has sought but not got, perhaps Mr. Watt would furnish us with a report on those.

Mr. Robert Watt: Yes. The only issue on capital spend relates to smoothing and there are ongoing debates between the Department of Finance and the European Commission about the application of the rules, because they are ambiguous. They refer to a structural balance but this is unobservable. There will always be a debate on potential growth and the convergence margin. The Department of Finance has set out the details but this will always be uncertain and subject to discussion. We do not know how fast the economy can grow in real or nominal terms and we do not know at any given time where we are in the economic cycle, whether we are close to potential output, whether there is an output gap or whether it is minus or plus. All these factors have an impact on the way we can grow spending.

Deputy David Cullinane: I will come to public sector pay shortly. I have a slight concern that, outside the Committee of Public Accounts, there is an ongoing live and necessary debate on the application of the fiscal rules and their fairness, and whether they are fit for purpose. In a Dáil committee this morning, the Minister expressed the view that they were not but I do not get a sense of urgency from either the Department of Finance or the Department of Public Expenditure and Reform, or that they recognise the debate going on outside. I ask Mr. Watt to forward on to me any information on changes that have been secured or sought. I am only giving my opinion on these things.

Mr. Robert Watt: I do not have to agree or disagree with the Deputy's opinion.

Deputy David Cullinane: That is the beauty of this. Mr. Watt spoke of industrial peace in respect of the new public sector pay agreement. What was the key issue that brought about industrial unrest in the public service in recent years? What was the one issue that drove industrial unrest?

Mr. Robert Watt: I do not think the period through which we have gone has been one of industrial unrest.

Deputy David Cullinane: I am asking about where there was industrial unrest in the public sector.

Mr. Robert Watt: There has been a very small number of cases of unrest. There was a strike by ASTI members in secondary schools but I do not think any other public servants have gone out on strike in recent years, though there may have been strike notices. There were issues with Luas and other drivers but the secondary teachers represented by ASTI were the only example I can think of in the public service. As the economy has recovered, people's expectations change as do their perceptions about what the State can afford. They see unemployment falling and wage growth in the private sector again and public servants feel they should benefit from the upturn in the economy. They had very significant cutbacks in pay during the crisis and average pay reductions for teachers, gardaí etc. were between 10% and 15%, with more significant decreases for those at higher levels. People legitimately have an expectation of getting some of this back and that has led to greater debate on how we manage resources to meet those expectations.

Deputy David Cullinane: The key driver of industrial disputes and threatened industrial action, in An Garda Síochána, teachers, nurses etc., has been the issue of restoring the public sector to a single-tier pay structure or equal pay for equal work. I have met Mr. Watt and the Minister a number of times on this issue and have tried to get a costing for returning the public service to a single-tier pay structure. We were given a figure of €208 million but it was not dealt with in the extension of the Lansdowne Road agreement. It is extraordinary to have an agreement seeking to maintain industrial peace but which failed to deal with the driver of a lot of the industrial unrest which still looms in some unions. It is extraordinary that this one key issue was not dealt with. We have a recruitment problem in some areas of the public service but the issue of new entrants was not dealt with. Can Mr. Watt explain why? Notwithstanding any requests from the trade union movement, did the Department have its own priorities going into public sector pay talks? Why was returning the public service to a single-tier pay structure not a priority issue for the Department?

Mr. Robert Watt: There is only a fixed amount of money available and the extension to Lansdowne Road will cost us €880 million over the next number of years. There is a limited pot and whatever money was used for other things would have to have been taken away from the general increase across the different grades. There always has to be a trade-off and a discussion about what we can do within the resources. Many anomalies that arose from decisions taken between 2008 and 2011 were addressed and in the previous agreement new scales were put in place to close much of the gap.

There are different opinions on the idea of equal pay for equal work. The Department has an assistant principal and an administrative officer on the first and second point of the scale. They are doing the same work as somebody who came in a few years earlier but that person will be on a different point on the scale. There are colleagues who are also on different pension arrangements. People who came in after 2012 are part of the single pension scheme and pension conditions and contributions are very different from those of colleagues who came in before. Equal pay for equal work is open to interpretation and there are issues around it.

Deputy David Cullinane: I wish to ask one further supplementary question.

Mr. Robert Watt: I have one further point. This mainly affects people who came in after 2012 but the new agreement leads to very significant reductions in the pension-related deduction, PRD, contributions to be made by people who came in after 2012. The new entrants who lost out from the pension arrangements benefit from the agreement significantly in this regard.

Any employer needs to look at what rates of pay are required to attract staff. After the end of this agreement, new entrants to the teaching profession on 1 January 2018 will have a starting salary of €35,000, which will go up to €37,000, €38,000 etc. Given the marketplace for graduates, starting salaries are very competitive. The Department recruits administrative officers as the standard graduate intake, whose starting salary is between €29,500 and €30,000, and we have no difficulty attracting fantastic graduates at that rate. The Government has to strike a balance, to be fair to different groups while-----

Deputy David Cullinane: I have read all of the previous agreements, including the FEMPI Acts, cover to cover so I know exactly what was taken from workers. From 1 January 2011, in addition to all of the other FEMPI cuts, workers who came into the system suffered further cuts. There was some merging of bands in the Haddington Road agreement and there were PRD changes in the most recent agreement. I fully understand what was taken and given back and the workers to whom I referred are still not on the same pay scale. We are not operating a single-tier pay structure. Mr. Watt knows that it is an issue for some trade unions, as it is for that category of workers. We had a debate on FEMPI recently and some of those workers were in the Public Gallery. It is an issue for them. It was an issue, unfortunately, for the different Departments that underpinned a lot of the threatened industrial action, and potentially still further industrial action. Yet, it was not dealt with. I find it incredible that it was not dealt with even as an equality issue. I would have thought the Department of Public Expenditure and Reform would have wanted to deal with that first, notwithstanding all the other balancing acts that Mr. Watt says must be done. I find it-----

Mr. Robert Watt: The Deputy is aware that a large amount of the difference that arose has been addressed. He does not need me to go through the numbers, but a large amount of the disparity has been addressed by the merging of the scales and the restoration of the qualification allowance. The only allowance outstanding is in regard to the HDip, which is €1,200-----

Deputy David Cullinane: I am not talking about that, I am aware of this allowance.

Mr. Robert Watt: -----but the allowances are very significant. They are €3,500 or €4,000 of a qualification allowance, which was not allowed for a while but it was restored. There has been a merging of the scales. The Deputy suggests that the issue has not been addressed to the satisfaction of everybody but this is the way it is and it is an occupational hazard. A significant amount of progress has been made over the last years since the FEMPI cuts and the Minster has indicated there is a process now, under the new agreement, to look again at this issue.

Deputy David Cullinane: I have one final point. I can tell Mr. Watt that those workers affected by this issue who are on low and middle incomes and are struggling to pay mortgages and rent certainly would not see it as an occupational hazard. They would see it as-----

Mr. Robert Watt: It is an occupational hazard that we-----

Deputy David Cullinane: -----an occupational hazard for Mr. Watt possibly, but for those who have to live with it-----

Mr. Robert Watt: No matter who sits here and no matter who is doing this job or the job of government, they are not going to be able to keep everybody happy. They are not going to be able to address all the issues in any given period because we do not have the money to address all the different issues.

Deputy David Cullinane: The Department has €880 million and the cost of doing this would be €200 million.

Mr. Robert Watt: We have €880 million for 310,000 public servants. That is right. If we take €200 million from that there is a good deal less. I have no doubt that the Deputy would then come in and criticise the very low increases for everybody else, in the event that we did address the new entrants issue to his satisfaction. I am sure he would, and while he is fair enough to make that point he-----

Deputy David Cullinane: I remind Mr. Watt that he is not yet the Minister for Public Expenditure and Reform. If and when he ever wants to stand for election and become a Deputy he will be more than welcome to so.

Mr. Robert Watt: I am here engaging.

The Deputy made reference earlier to the lack of openness and transparency. I am engaging now with the Deputy, openly, about the challenges we face. In fairness, I am setting out for him the position, which reflects the position of the Minister. It is not solely my own. I am giving the position on the different trade-offs involved as best I can.

Chairman: Ultimately, the adjudicators of what is fair and not fair are the 310,000 public servants who will be voting on it. It will be their decision and not ours as to whether the agreement will be passed.

Deputy Bobby Aylward: They will be there also to vote at the next general election. I welcome Mr. Watt and his team to the committee. With the change of Government and change in Minister, has this had any effect on the two Departments - sister Departments as they have been called? I would like Mr. Watt's opinion on that. For the last five years there has been a Minister for Finance and a Minister for Public Expenditure and Reform. Now there is one Minster for the two Departments. I would like some comment on this.

Mr. Robert Watt: We are dealing with a new situation in having a Minister who is responsible for both Departments and we are working through that. There are no issues as such that have come up. The concern in the past has always been that when there was one Minister for spending and one for revenue there would not be the same level of integration or coherence because the budget needs to be considered in the round. Having one Minister responsible for both sides of it should help in that respect. Things are moving along. We are busy with the Minister in the preparations for the budget and we are all engaged in that. There is no immediate issue that is problematic for us. We have the senior Minister and we also have three Ministers of State over the two Departments, which helps with the workload.

Deputy Bobby Aylward: Over the past seven or eight years we have had to have the two Ministers due to the crisis - if we will call it that - and maybe now there is no need for a second Minister.

Mr. Robert Watt: That is an issue for the whoever the Taoiseach happens to be-----

Deputy Bobby Aylward: I know it is up to the Taoiseach.

Mr. Robert Watt: Clearly, back in 2011 the crisis had so many different economic, fiscal and banking dimensions that it was a good move at that stage to spread the burden. The two Ministers at the time, Deputies Howlin and Noonan, are both of the view that it helped in managing all the different dimensions of the crisis, including the troika. One of the dimensions of the job that has changed over the years relates to Eurogroup and ECOFIN, whereby the Minister would have to be away for two or three days per month at those meetings. This is an extra element that was probably not as demanding in the past, given the nature of monetary union and our obligations in that regard.

Deputy Bobby Aylward: In his opening remarks Mr. Watt spoke of an underspend. To me, an underspend sounds like a waste in that the money should have been spent somewhere and was not spent. Mr. Watt spoke of contract arrangements, roll-outs and so on. What happens to that money when it is not spent? Is it held in abeyance and rolled over into next year or is it handed back?

Mr. Robert Watt: Most of it, as set out in the Comptroller and Auditor General's report, would be surrendered back to the Exchequer as a surplus. In some cases there will be capital carryover and I believe that in one or two cases some of the capital money we did not spend would be rolled over into the following year. It is part of the capital carryover.

Deputy Bobby Aylward: I would be sorry to hear of the underspend. We need to spend the funds and we need the roll out of projects.

Mr. Robert Watt: It is always a balance. We do not like the notion of asking the Dáil to approve spending, at the end of the year having to say that we were not in a position to spend it and then needing to return the money to the Exchequer. On the other hand we are not going to push ahead with projects just to spend the money if we are not happy about being in a position to deliver in terms of the objectives. It is always a balancing act.

Deputy Bobby Aylward: Okay. Are the pension schemes fully funded? Is everybody fully funded for retirement or is the Department behind in pension contributions? Are pensions fully self-sufficient?

Mr. Robert Watt: It is not fully funded. The pension scheme we have now is pay-as-you-go. The liabilities we have every year are met from the general Exchequer. We have not pre-funded the pensions and we do not pre-fund them. Every year public sector pensions cost about €3.1 billion or €3.2 billion. That is funded-----

Deputy Bobby Aylward: Will that be affordable into the future unless something is done about future provision?

Mr. Robert Watt: A number of steps have been taken such as the Public Service Pensions (Single Scheme and other Provisions) Act 2012 that I mentioned earlier in response to Deputy Cullinane's questions. The single pension scheme has reduced the pension benefits for people who came in after 2013. They are also making the contribution to the pension. This will help in the future sustainability of pensions. With regard to the agreement that is now subject to balloting, the pension related deduction, which was seen as emergency measures during the crisis, this year yielded €740 million. Some €550 million will turn into a permanent contribution that people are making to their pensions - some 70% of the public service are now making a greater contribution - if that agreement is put in to force.

The steps we are taking to ensure the sustainability into the future involve changes to the pension benefits and also the higher contribution, especially those who came in before 2013 and who benefit from the higher pensions. We believe that measures have been taken. The Comptroller and Auditor General commented on one of our reports that looked at the actuarial liability of pensions. In 2007 public service pensions were estimated at around €115 billion. In the most recent analysis this figure was down to between €85 billion and €90 billion. The changes we have made have had a big impact upon the costs of the future liability of pensions, as expressed in today's terms. We are not complacent or sanguine about it, but we are in a better position than we were previously.

Deputy Bobby Aylward: The matter of future pensions is a problem across all sectors, and it is going to be a bigger problem. We must do something about it in the near future or we are going to have a big problem down the line. Deputy Cullinane spoke of the special EU programmes body, SEUPB, and its PEACE III project. What is this special EU programmes body about? Was it part of the PEACE programme?

Mr. Robert Watt: It was set up as part of the Good Friday Agreement, which was in 1998. It was set up to manage the INTERREG North-South programme and the Programme for Peace and Reconciliation funds. It is a body which, on behalf of the authorities on both sides of the Border, manages the programme. There are many cross-Border projects and projects along the Border. The body sets out, with agreement of the Ministers, a broad strategy and then manages the drawdown of the funds. It invites applications from a variety of different community and other groups to access the funding, it assesses applications, it manages the payments and ensures that the recipients of grants actually deliver on what they said they would. SEUPB manages the expenditure on these programmes. Its work, as I mentioned, is accountable to both Ministers.

Deputy Bobby Aylward: Is that body a separate account or what are the audit arrangements for that? Are they completely separate?

Mr. Robert Watt: They have their own audit arrangements and would be driven by the EU requirements. When it comes to EU programme funding, EU requirements are very stringent. SEUPB would have to comply with the rules for EU audit requirements and with the rules we have in place for public money. The EU has its own structure and its own way of accounting.

Deputy Bobby Aylward: Reference was made to irregularities. Is there any hope of the money being recovered? What are the irregularities, first of all?

Mr. Robert Watt: I think the allegation is that fraud was involved.

Deputy Bobby Aylward: Who is investigating that?

Mr. Robert Watt: The Police Service of Northern Ireland conducted the investigation. I understand that investigation is now closed.

Deputy Bobby Aylward: The PSNI.

Mr. Robert Watt: Yes.

Deputy Bobby Aylward: Has anyone been brought to-----

Mr. Robert Watt: No.

Deputy Bobby Aylward: Will there be any moneys recovered?

Mr. Robert Watt: I do not think that money will be recovered, no.

Deputy Bobby Aylward: Did that body go into liquidation?

Mr. Robert Watt: Given the questions, we will come back with a more detailed note. This was in 2014. It was brought to our attention and I was familiar with the details of it then, but I have forgotten exactly what was involved. We will come back with a more detailed note about the exact nature of the allegations and about the structure, which the Deputy was asking about, and why it is that we cannot pursue-----

Deputy Bobby Aylward: That is what the next two questions are about. Can the directors be pursued?

Mr. Robert Watt: I presume that would have been pursued if the directors were *in situ* or if there were any assets in the entity. Obviously, if one has a lead on the assets, one tries to pursue them. I guess in this case the fact it was dissolved means there is not a legal entity we could pursue. We will come back to the Deputy on it. I know it is something we do not take lightly. When it came to our attention, we had discussions with our colleagues in the Department of Finance and Personnel in Northern Ireland and the matter was referred to the police authorities and the prosecution service of Northern Ireland.

Deputy Bobby Aylward: Is Europe concerned about this? It is its money.

Mr. Robert Watt: Unfortunately, it is going to be our money because we would have recouped it from the EU.

Deputy Bobby Aylward: Is it our money?

Mr. Robert Watt: It is our money, yes.

Deputy Bobby Aylward: I thought it was EU funding.

Mr. Robert Watt: In effect, we spend the money and then recoup it from the EU. In this case, we will not be able to recoup the money. I have a more detailed note, because this is from memory and it is three years since I dealt with it. I will come back to the Deputy with the details of exactly what happened.

Mr. Seamus McCarthy: Just for the record, the Special EU Programmes Body, SEUPB, is still in existence and will continue-----

Deputy Bobby Aylward: It is still there?

Mr. Seamus McCarthy: Yes. The difficulty was with a grant recipient of the body.

Mr. Robert Watt: Sorry, yes. It was the grant recipient.

Mr. Seamus McCarthy: It was not the body. The body continues.

Deputy Bobby Aylward: I want to go over *ex gratia* pensions. I see it was €725,000 in 2015. How many cases were involved in those *ex gratia* pensions? Why were there no entitlements to the pensions? What is that cost?

Mr. Robert Watt: As part of the pension deal for public servants, they receive a lump sum on retirement. There are two schemes: the established scheme and the unestablished scheme. There are various schemes. There are then payments under the children and spouses schemes where there might be payments made as well of the same-----

Deputy Bobby Aylward: Are they annual expenses?

Mr. Robert Watt: We incur lump sum expenditures of this nature every year because there are civil servants who retire. For the year 2015, we forecasted 950 to retire. We underestimated that. I think there were 1,170 civil servants who eventually retired. Those people received a lump sum. The pensions for widows and children of civil servants is the particular payment the Deputy mentioned. That is for established civil servants and people who are-----

Deputy Bobby Aylward: Were there not entitlements there originally?

Mr. Robert Watt: Yes. The pensions for widows and children refer to people who had retired or died before the introduction of the contributory pension back in the late 1960s. There are a small number of people still in that category. Obviously, there are not many of them left, but that is-----

Deputy Bobby Aylward: This will be a cost ongoing for-----

Mr. Robert Watt: This cost is under subhead A3 and will come to an end over the next few years. It is a small amount. As the Deputy can see, if I am looking at the right-----

Deputy Bobby Aylward: It states it is €725,000 for 2015.

Mr. Robert Watt: Mr. Frank Griffin will tell me if I am looking at the wrong numbers. The cost is coming down now. It reached a peak of €1.7 million in 2008 and is falling away now as the numbers who would have fallen into this category are dying away. It is a smaller amount. We could provide the Deputy with a more detailed note on it.

Mr. Seamus McCarthy: In note 5 there are details of the numbers. There were 44 recipients in 2015.

Mr. Robert Watt: I see it there. There were 37 the previous year.

Deputy Bobby Aylward: So that will die out altogether eventually?

Mr. Robert Watt: Yes. These are people who retired or died before the 1969 contributory pension.

Deputy Bobby Aylward: With regard to overpayments, the year ended with €257,832.27 of overpayments. Was this due to neglect? How do overpayments come about? What are the overpayments of 2015 about? It seems to be so much in excess of 2014. How did this come about with the modern technology we have?

Mr. Robert Watt: I will ask Ms Paula Lyons from the shared services office to speak in a moment to some of the detail. This is an issue that has now been given more visibility because we have established the shared services of PeoplePoint. In the past, overpayments took place across Departments but we did not have the same visibility that we have of them now. Now that we have moved transactional HR and, increasingly, payroll to the shared centres, we have more visibility of this issue. That is the first point. The second point is that we changed the entitlements of sick leave. Previously, public servants would get six months' full pay and then six months' half pay. That has been reduced now to three months and three months. There are more and more people who are pushing up against the threshold when they do not have full pay. As people are paid in advance rather than in arrears in the public service, if we are not notified in a timely fashion that someone has-----

Chairman: Will the witness say that again about people being paid in advance? Normally people who start an employment get paid at the end of the month. I ask him to tell us about the system.

Deputy Bobby Aylward: Paid in advance?

Mr. Robert Watt: Ms Paula Lyons will be able to explain. In effect, normally one would get paid on a Friday for the work one has done. In the public service, people tend to get paid in advance. If one is sick and exceeds one's threshold where one is no longer due full pay, the bank run has actually commenced before we can make the adjustment that the-----

Chairman: Whether it is Mr. Watt or Ms Paula Lyons, I ask the witnesses to explain the mechanism. What is the pay-----

Mr. Robert Watt: I will ask Ms Paula Lyons to come in on that.

Chairman: I ask for that cycle to be explained.

Mr. Robert Watt: I just have a final point on the issue of overpayments. It is something we are taking seriously. We are looking at a variety of different steps we can to reduce it and we are putting them in place. That is the final point I was going to make. We have recovery plans in all-----

Deputy Bobby Aylward: Will the Department get back its money?

Mr. Robert Watt: Absolutely. We have in place recovery plans where people have to pay back the overpayments over a certain period-----

Deputy Bobby Aylward: Is it foolproof now? Will it occur again?

Mr. Robert Watt: We can never say never but we are taking steps to reduce the incidence of overpayment. We hope that in the next few years we will get to a figure that is better. It is an issue for us and a concern. However, the numbers should be seen in the overall context of the pay bill. In the Civil Service, the pay bill is €1.5 billion. The numbers need to be seen in that context. It is a concern for us. Perhaps Ms Paula Lyons will come in.

Chairman: I ask her to take us through the mechanics of it.

Ms Paula Lyons: The issue is probably around the processing of the pay runs where the processing has to close at a particular point and the payment is made for the following week. The pay run closes on, let us say, a Tuesday for the following week's payment. That is to allow for the process in which a bank file has to be run to distribute the payments. The issue is in capturing any change that would be pay-impacted as a result of absence. That can be sick absence or annual leave. It is about the window of opportunity available.

There are a number of different causes of overpayments. Some of them relate to delay. We have moved to a self-service system, so it is now reliant on employee input or manager input to keep the system updated. That then informs changes that have to be made in the payroll processing. We have put in a lot of effort in recent years in terms of the communication and training processes for employees and managers to input correctly in a timely manner to minimise overpayments.

In response to the Deputy's inquiry-----

Chairman: I have one point. Does that system start from day one when a person begins employment? Most people would assume in every job they take up that there is a week or two-----

Deputy Bobby Aylward: One gets paid the week after, not the week before.

Chairman: Yes. Is there-----

Ms Paula Lyons: The payment-----

Chairman: Why is the system not changed so that when somebody starts in the public service on the Monday or whatever-----

Deputy Bobby Aylward: Very few people get paid beforehand. Most people get paid after doing a week's work.

Chairman: They are being paid in advance for doing the work. No one else does it that way.

Ms Paula Lyons: No.

Mr. Robert Watt: The payment is in arrears, but to make the payment in a week or ten day's time, we have to run the process.

Chairman: It is the processing time.

Ms Paula Lyons: It is the payroll process.

Mr. Robert Watt: It is the payroll that is in advance.

Chairman: Okay, so by the time the person gets the money, the work has been done, but at the time the processing of the payment is done, the work has not been done.

Ms Paula Lyons: The processing has closed on the payroll process. If a pay-impacted absence happens that should have cut or reduced that payment, it is too late.

Chairman: I do not mean this in a bad way, but it seems to be an essential feature of the system that this is happening.

Ms Paula Lyons: It is inherent.

Mr. Seamus McCarthy: Frictional, I think, is the term, which means exactly what Ms Lyons has described. It is built into the design of the system.

Deputy Bobby Aylward: There should be a better system. Someone who is out sick is paid and then the money has to be recovered. It sounds like a strange way to do business. It would not work in my business.

Mr. Robert Watt: It is an issue we are addressing. Perhaps Ms Lyons might set out some of the statistics.

Chairman: Is it peculiar to the public service?

Ms Paula Lyons: No. Overpayments can happen in both the public and the private sector.

Chairman: What about the processing issue? What is the processing time for payroll?

Ms Paula Lyons: It closes one week before the next pay date.

Chairman: Why is there a week's gap between the completion of processing and payment? It only takes 36 hours to get a payment through to a bank.

Ms Paula Lyons: It is just the processing time involved.

Mr. Robert Watt: It is due to the scale of the public service. There are an awful lot of payments to be made through the banking system.

Mr. Seamus McCarthy: Mr. Watt will correct me if I am wrong, but I think the processing time has lengthened compared to when everything was done locally. Although there are economies of scale in operating shared services centrally, one of the drawbacks is that the processing period has extended.

Ms Paula Lyons: There are 120,000 payees in the payroll shared services system, a very significant number. Individual Departments would have processed smaller numbers of payments. I also draw the committee's attention to recoupments.

Deputy Bobby Aylward: What methods are used to recover moneys?

Ms Paula Lyons: There is a recoupment process. Once the overpayment and its value are identified, the recoupment process kicks in. To provide some figures, there were 4,800 recoupment plans in 2016, the value of which was €4.1 million. The point made by Mr. Watt was that this figure represented about 0.3% of the total pay bill.

Deputy Bobby Aylward: It is still a significant amount of money.

Ms Paula Lyons: It is, but in the context of the total pay bill, it is a small percentage. There have been some changes this year that will assist us in getting the recoupment process up and running and having the money paid back more quickly. Auto-recoupment means that if there is a recoupment for less than five days, there is now an automatic process. We do not need to go through stages of the agreement process on the value of the overpayment or to set a plan for recoupment. There has also been a change in respect of the value of the overpayment. It had been calculated with either a gross or a net value. That has been changed in this year's legislation to a net value only. That speeds up the calculation of the overpayment.

Chairman: Is there any loss to the Exchequer as a result of this change?

Ms Paula Lyons: No. It is simply the way in which the recoupment is calculated.

Deputy Bobby Aylward: Would tax and PRSI and so on not come into it also?

Ms Paula Lyons: In what sense?

Deputy Bobby Aylward: In respect of an overpayment that has to be taken back, tax and PRSI would have been paid, although they were not due. How is that handled? I presume it is a problem.

Chairman: For example, let us say someone was overpaid by €100 gross. The net amount was €50, to keep the figures simple. The computer calculates the overpayment based on the net amount received. Rather than recouping the gross amount, the net amount is recouped.

Ms Paula Lyons: It is an adjustment to the system.

Mr. Robert Watt: It is in that position at the end.

Chairman: The system uses the gross amount internally.

Ms Paula Lyons: Yes. The idea is to reduce the time taken to get the recoupment process up and running. That is the effect.

Chairman: Is there a figure below which it happens automatically or is it necessary to ring a person to get his or her consent?

Ms Paula Lyons: That is where the auto-recoupment system comes into play. It is used where the recoupment, in terms of overpayment value, is for less than five days.

Chairman: If it is less than a week's wages, it is done automatically.

Ms Paula Lyons: The salary is adjusted to take account of the overpayment.

Chairman: That would apply in a good few cases.

Ms Paula Lyons: Yes.

Deputy Bobby Aylward: What is the general nature of the court case referred to in note 6.1? What are the costs involved?

Mr. Paul Quinn: We have simply made a note that we will have legal costs in the future in respect of a matter that has been settled in the Court of Appeal. It was litigation that arose originally in the Office of Public Works when the national procurement service resided within that body. The staff members transferred to the Office of Government Procurement in 2014. The case and case management system also travelled to the new office. The decision was appealed to the High Court by the State and the Court of Appeal ruled against it. The matter has still not been settled and we will have to recognise the costs at some stage.

Deputy Bobby Aylward: Does Mr. Quinn know what costs are involved?

Mr. Paul Quinn: We have no estimate, although we have sought one on a number of occasions. The case has to go through the taxing system and we will eventually have to settle. Even in the current year, we are still recognising that it needs to be settled, but we do not have a final amount. The matter was quite significant from a public policy perspective because it concerned the issuing of circulars, which are effectively secondary legislation. It was, therefore, important for the State to appeal in the matter.

Deputy Catherine Connolly: Tá céad míle fáilte roimh na finnéithe. Is iontach beirt bhean a fheiceáil ar an mbord. Tá mé tuirseach traochta. Níl a lán ceisteanna fágtha agam.

I was going to begin with the matter of litigation costs, but Deputy Bobby Aylward has dealt with them. The case went before the Court of Appeal which held against the State. Where does the settlement come into it?

Mr. Paul Quinn: Pardon me.

Deputy Catherine Connolly: Did the court make a judgment?

Mr. Paul Quinn: The High Court case was left outstanding as everything was left to the Court of Appeal. The State appealed to the Court of Appeal which held against it.

Chairman: Are we talking about one person?

Mr. Paul Quinn: It was a set of bidders in a particular competition. There were a number of parties originally who initiated a case against the OPW in respect of a competition for managed print services.

Chairman: Are the legal costs greater than the price of the original contract that is in dispute?

Mr. Paul Quinn: They would not be by a long shot, thankfully, although they will undoubtedly be substantial.

Deputy Catherine Connolly: It was a judgment against the State.

Mr. Paul Quinn: Yes.

Deputy Catherine Connolly: Where does the settlement come into it?

Mr. Paul Quinn: It is a settlement of fees. I apologise. There wee no actual damages awarded to any party. It will simply be a settlement of fees.

Deputy Catherine Connolly: For the sake of clarity, can Mr. Quinn describe the matter without going into the details if he does not want to do so? It was an order made against the State.

Mr. Paul Quinn: Yes.

Deputy Catherine Connolly: The outstanding matters involve costs.

Mr. Paul Quinn: Yes.

Deputy Catherine Connolly: When was the judgment made?

Mr. Paul Quinn: In 2015.

Deputy Catherine Connolly: Has it gone before the Taxing Master?

Mr. Paul Quinn: Yes, it has, but it is still-----

Deputy Catherine Connolly: Where are we precisely?

Mr. Paul Quinn: We are waiting for the Taxing Master to rule. We still do not have-----

Deputy Catherine Connolly: That is better. It was not a settlement but a judgment. The costs are outstanding and the matter has gone before the Taxing Master. It will take its course and the State will abide by whatever ruling is made. The officials will then be in a position to tell us what the costs are.

Mr. Paul Quinn: That is correct. My apologies for using the wrong word. It is soley a matter of costs.

Deputy Catherine Connolly: The Secretary General might have heard my previous comments. We have a major housing crisis, a major health crisis and have failed to deal with climate change. Therefore, I would like to know what he meant when he said in his opening statement that he seeks “to support economic and social progress.” It is too late in the evening and I have already run through all of these matters. I ask him to note that I have a difficulty with his use of language. I have a difficulty when officials use difficult language as opposed to what I or ordinary people understand. When economic language is so different from the norm it becomes a crisis for democracy. Rather it serves a particular purpose but that is a debate for another day.

As for specific questions on the Department’s documents, I have an outstanding question on the allegation of fraud and the money. I seek clarification on a point. The Department provided €181,438. In the normal course of events does it recoup the money from Europe? Does Ireland contribute to the PEACE project? We give it but do we get it back?

Mr. Robert Watt: I will come back to the Deputy with a note, if that is okay.

Deputy Catherine Connolly: Yes.

Mr. Robert Watt: I do not want to mislead the Deputy as it has been so long since I looked at this matter. Yes, the structure of the programme is that it is funded by the Exchequer and then there are recoupments from the EU.

Deputy Catherine Connolly: Yes.

Mr. Robert Watt: We then go through the process of verifying spending, the auditing and so forth. We will get a note for Deputies Connolly and Aylward, if that is okay.

Deputy Catherine Connolly: Yes. Did the SEUPB discover the fraud?

Mr. Robert Watt: Yes.

Deputy Catherine Connolly: It carried out the investigation. Did it have nothing to do with the Department of Public Expenditure and Reform?

Mr. Robert Watt: I would not say it had nothing to do with my Department.

Deputy Catherine Connolly: Mr. Watt should clarify the Department's role.

Mr. Robert Watt: The body is given work to do. It has a work programme and remit. It undertook an investigation or forensic audit and discovered that there was an issue. Perhaps the money was intended for a particular purpose but was not spent on that purpose. I am only speculating here. Let us say there is a project to support a particular community group or activity and then it transpired, with audit, that the spending was undertaken for a different purpose. In effect, the SEUPB has a responsibility to us then. We are the body to which it is accountable.

Deputy Catherine Connolly: Does the Secretary General mean the group?

Mr. Robert Watt: The Special EU Programmes Body.

Deputy Catherine Connolly: Yes.

Mr. Robert Watt: It has specific responsibility for managing the progress. Obviously it brought the matter to our attention.

Deputy Catherine Connolly: I see.

Mr. Robert Watt: We had discussions with the Department of Finance and Personnel, DFP, then.

Deputy Catherine Connolly: The SEUPB carried out its jobs correctly. After the money had been misused it looked and discovered a problem.

Mr. Robert Watt: Yes, it made the discovery as part of an audit process. Deputy, I am not sure exactly-----

Deputy Catherine Connolly: That is okay. What has the Department learned from the incident? Has the Department learned how the discrepancy can be avoided in the future?

Mr. Robert Watt: Without getting into specific details, I am not sure exactly what the situation was here. Our experience of the body is that it is very thorough, very professional and it has carried out its work well over the years. I am sure it has learned lessons from what happened.

Deputy Catherine Connolly: I would like to know the lessons learned.

Mr. Robert Watt: We can come back-----

Deputy Catherine Connolly: I would like to know what the Department has learned. I would like to know what has changed as a result of losing €181,000, which is nearly €200,000.

Mr. Robert Watt: Yes.

Deputy Catherine Connolly: That is all we want to know at this level.

Mr. Robert Watt: Yes.

Deputy Catherine Connolly: What processes have been put in place? How can the situation be avoided? What has the Department learned?

Mr. Robert Watt: Sure. We will do that. As the Deputy will know, when one engages with a third party there is always a possibility or danger, if the third party receives a grant to achieve some social good or social purpose, that the funds will not be used for that.

Deputy Catherine Connolly: Yes. This is a recurrent theme and it is a recurrent theme with charities. There has been a recurrent theme with public moneys going out, yet everyone adopts a hands-off or removed approach.

Mr. Robert Watt: Yes.

Deputy Catherine Connolly: Therein lies a lesson for us. We must discuss the best way to go forward-----

Mr. Robert Watt: Yes.

Deputy Catherine Connolly: -----if everything has become so removed from us that we cannot monitor it properly.

The Secretary General mentioned an interesting initiative on page 8 of the opening statement he submitted. It states "Ireland is a member of the Open Government Partnership (OGP), a multilateral initiative of some 70 countries that aims to secure concrete commitments from governments to promote transparency, empower citizens, fight corruption, and strengthen governance." I welcome the initiative. I believe it is very necessary to empower citizens but we disempower them by using language that they cannot understand. The opening statement provided continued by noting "A public consultation on the Implementation of Ireland's OGP National Action Plan 2016-2018 is currently underway." The Secretary General should clarify and elaborate on that point.

Mr. Robert Watt: We signed up to the initiative a number of years ago. The Irish Government, along with other countries, committed to the principles of open government around the freedom of information, the regulation of lobbying, formal consultation when it comes to politics and a variety of different measures to improve the effectiveness of government and be more open about how we go about it, as the Deputy mentioned.

Deputy Catherine Connolly: To whom does the phrase "public consultation" refer?

Mr. Robert Watt: We prepared a set of new actions or initiatives in this area to build on what we have achieved already and they were approved by Government. It has gone out there and it is for consultation. We have invited people to come back to us with their views on the actions.

Deputy Catherine Connolly: Where would ordinary people see the notice?

Mr. Robert Watt: The notice is on our website. We would put it on our website, and we would advertise with the NGOs and the groups that are involved in this space. I presume there was an advertisement somewhere. We normally put an advertisement in the newspaper inviting views. We have put it up on our website.

Deputy Catherine Connolly: Yes.

Mr. Robert Watt: Deputy, as I said, we have mailshots. We have got people who are interested in this area and we tend to consult with them as well as worldwide. If the Deputy wishes we can come back to the matter.

Deputy Catherine Connolly: I just want to know where the advertisement can be found so that I can advise people about where to find it.

Mr. Robert Watt: I think we are at the stage where we are coming to the end of the consultation process. After that we will look at the plan and then we will go back to the Government.

Deputy Catherine Connolly: I ask the Secretary General to supply me with a quick note on what stage the initiative has reached and whether it is still open to consultation.

Mr. Robert Watt: Yes.

Deputy Catherine Connolly: The final item that I wish to raise is our lovely ID card. The Secretary General dedicated just two lines to the matter in his opening statement. By comparison, the Comptroller and Auditor General dedicated half a chapter to it not too long ago.

Mr. Seamus McCarthy: A full chapter, I think.

Deputy Catherine Connolly: Page 10 of the Secretary General's opening statement reads: "The Government's Digital Services Gateway together with the Public Services Card and MyGovID, our online identity service, are key to Ireland becoming an exemplar in digital transactions." I disagree with that language because what I have read is certainly not an exemplar.

I want to get this matter straight. Is the Department of Social Welfare the lead Department to roll out the card?

Mr. Robert Watt: The Department of Social Protection-----

Deputy Catherine Connolly: Yes.

Mr. Robert Watt: -----has been involved with the card with private contractors.

Deputy Catherine Connolly: Has the Department of Public Expenditure and Reform worked with the Department?

Mr. Robert Watt: We work as part of the group that co-ordinates it across the service. We are very supportive of the initiative. It is more a digital identity. The card is a physical manifestation of it. When one gets a card one can put it in one's pocket, wallet or bottom drawer and not look at it again. In effect, it is a process where we can establish a digital identity so that we know who the person is behind one's tablet, smartphone or computer. That means one can access services more efficiently with us. One has a situation where people can now claim social welfare or pay their taxes.

Deputy Catherine Connolly: No, Mr. Watts. That is okay for the moment.

Mr. Robert Watt: Can I explain?

Deputy Catherine Connolly: Yes.

Mr. Robert Watt: We are trying to empower citizens to engage with us at a time that suits them in a more convenient manner by providing them with a digital identity. The card is the physical manifestation of the process. It is most important that we have identification that we know. The people in Ireland have a password identity and then they can interact with the services.

Deputy Catherine Connolly: I want to comment before the Chair stops me. To use the word, "empower" is a misuse of language.

Mr. Robert Watt: I do not think it is.

Deputy Catherine Connolly: Let me finish. The Secretary General can disagree with me. I disagree with his use of the word, "empower". An identity card is being rolled out. Is that correct?

Mr. Robert Watt: No.

Deputy Catherine Connolly: One needs the card in order to apply for a new passport. Is that right?

Mr. Robert Watt: No. One must go through the process of-----

Deputy Catherine Connolly: Please listen to my question.

Mr. Robert Watt: Yes.

Deputy Catherine Connolly: Does one need an ID card to apply for a new passport?

Chairman: Yes.

Mr. Robert Watt: One needs to go through the process of identity verification, the SAFE II process, where we then can establish who a person is. We can establish that by taking a photograph and matching it against one's records in order that we know who a person is. At the end of that process a person is given a public service card, which one can then use to access services. One can put that card away and never look at it ever again.

Deputy Catherine Connolly: That is not accurate. One needs the card.

Mr. Robert Watt: In the future, in order to renew one's passport online, one will need to have a digital identity, with one's password, that one can then access online. Whether one carries the card or not is irrelevant.

Deputy Catherine Connolly: Is the card necessary to apply for a new passport?

Mr. Robert Watt: In the future, in order to renew one's passport one will need to get one's digital identity.

Deputy Catherine Connolly: So one does need a card.

Chairman: One cannot do it without going through the process.

Mr. Robert Watt: One must go through the process, Deputy, yes.

Deputy Catherine Connolly: One must go through the process to get the card.

Mr. Robert Watt: The card is the end of the process, yes.

Deputy Catherine Connolly: Good.

Mr. Robert Watt: One does not have to carry the card around.

Chairman: No, but one must have it.

Mr. Robert Watt: One must have it.

Deputy Catherine Connolly: To carry it is a personal choice and that is where empowerment comes in. A person cannot decide not to get the card. Is that right? From now on a citizen who is resident in this country cannot decide not to get the card. Is everyone required to have the card? Please answer "Yes" or "No".

Mr. Robert Watt: If one wants to access services in the most efficient possible way. People do not want to wait outside Molesworth Street to get their passport. They want to do it while sitting behind their laptop.

Deputy Catherine Connolly: The Secretary General can give justifications.

Mr. Robert Watt: Yes.

Deputy Catherine Connolly: The Chair can let him do so on Mr. Watt's time. I simply want to hear answers.

Deputy Bobby Aylward: The Passport Office is now on Mount Street.

Mr. Robert Watt: Pardon?

Deputy Bobby Aylward: The Passport Office has moved.

Mr. Robert Watt: The Deputy is right. The office has moved from Molesworth Street. In the future, to access services-----

Deputy Catherine Connolly: Mr. Watt, please.

Mr. Robert Watt: -----people will have to go through that process.

Deputy Catherine Connolly: The Chairman might want to seek elaboration on the justification for the card; I just want to ask questions to get answers. The word “exemplary” or “exemplar” has been used.

Mr. Robert Watt: Yes.

Deputy Catherine Connolly: This process has been ongoing since 2004. The target was to have 3 million cards rolled out by 2013, but it was not reached. I have all of the figures, courtesy of a previous report from the Comptroller and Auditor General. The rolling out of the card was a complete debacle. Would Mr. Watt agree?

Mr. Robert Watt: No.

Deputy Catherine Connolly: Mr. Watt does not agree. Does he agree that the process started way back in 2004 and is still continuing in 2017 at a cost of over €60 million?

Mr. Robert Watt: I think the cost is €60 million.

Deputy Catherine Connolly: Therefore, Mr. Watt does agree.

Mr. Robert Watt: We now have 2.7 million cards and the majority of adults have gone through the verification process. It is going to provide enormous benefits for citizens.

Deputy Catherine Connolly: It may well do-----

Mr. Robert Watt: There will be enormous benefits for citizens in how they interact with us and there will be enormous cost savings for the State. In the future people will be able to access the driver licence, social welfare benefits, tax and passport elements. The process will revolutionise how people interact with the State.

Deputy Catherine Connolly: It may well revolutionise it in Mr. Watt’s opinion, but so far it has cost the taxpayer-----

Mr. Robert Watt: May I say-----

Deputy Catherine Connolly: Please allow me to finish. I am reading from the Comptroller and Auditor General’s report. In December 2009 the Department of Social Protection entered into a contract with a supplier at a fixed price of €19.7 million. I am not going to catch Mr. Watt out on little figures, but I am giving a timeline and examples of the large costs involved. In 2009 the contract was entered into at a fixed price of €19.7 million, plus 21% tax. What was the contract for? It was to produce 3 million cards by 2013. Mr. Watt’s Department and the Department of Social Protection were to work together, ag obair as lámh a chéile. That was the target. Was it reached? The answer is no. Have we even reached that target? The answer is no. By June 2016 there were 2.6 million cards. According to the report, the figure is now €60 million. Mr. Watt might update me, but the current position is that the Department has entered into a contract with a provider. If it does not succeed in providing a certain number of cards, the Department will still pay. Mr. Watt is nodding. Will he clarify the nature of the contract?

Mr. Robert Watt: The contract is run by the Department of Social Protection. We can provide the Deputy with details of where it is. We fully support this initiative which absolutely has been slower than we would have hoped. The Deputy has indicated the numbers. There are costs, but we must look at them versus the benefits. We carried out surveys recently in which we asked people about their experience in interaction with the Civil Service. It was generally very positive and particularly positive when it came to interacting with us through digital platforms and online portals.

Deputy Catherine Connolly: Mr. Watt-----

Mr. Robert Watt: People tell us repeatedly in that and other surveys that they want to be able to interact with the State at a time that is convenient for them. That is what we are about.

Deputy Catherine Connolly: The Department-----

Mr. Robert Watt: In time, this initiative will bring enormous benefits.

Deputy Catherine Connolly: I did not ask about the benefits as I have heard Mr. Watt's comments and got all of them in the Comptroller and Auditor General's report.

Mr. Robert Watt: I do not believe the Comptroller and Auditor General's report dealt with the benefits of the card.

Deputy Catherine Connolly: It did. It indicated the benefits from the perspective of the Department of Social Protection. I am asking Mr. Watt about the matter in his very senior capacity. He has described the process as exemplary, but he has not referred to a single problem that arose. He does not refer to the cost involved, but he does tell us the card is the way forward. I am telling him that so far €60 million has been spent and that the 2016 contract provides for an advance payment to be made by the Department of Social Protection in January 2017 of 50% of the outstanding balance. We will be paying in advance. The cost of cards produced in 2017 is to be deducted in full from the advance payment. Should the target of 3 million cards not be reached by the end of 2017, the cost of cards not produced will become payable in full. It is late, but I cannot accept Mr. Watt telling us that the process is exemplary. I ask him to look at that comment. He could not possibly call it exemplary. There is, however, a bigger issue. This started as a social welfare card, but it has changed, at huge cost to the taxpayer and with no business case being made in advance. It has metamorphosed into an identity card without any open discussion being held. but that is not Mr. Watt's fault. Every person in the country must have it to access a passport. Have I lost Mr. Watt somewhere?

Mr. Robert Watt: I am trying to find the reference to the word "exemplar". I see it now. We have been criticised repeatedly in that when it comes to the provision of digital services, we are not doing as well as we should. The reason is we do not have a digital identity for every citizen in the country. That is what the process is about. The *mygovid.ie* gateway will be transformative. I hope that in the future we can have a discussion with the Deputy about the benefits in comparison with the costs.

Deputy Catherine Connolly: At this point I would prefer to have accountability and an explanation of how the Department can stand over the cost of the contract so far, the failure to deliver the cards and use of the word "exemplar". If I were to have a general discussion, it would be in the context of calling this a thriving economy, but that is a matter for another day.

Mr. Robert Watt: I stated "The Government digital services gateway, together with the public services card and MyGovID, our online identity service, are key to Ireland becoming an exemplar in digital transactions." That is our ambition and what we are striving towards. I hope the next time I appear before the committee I will be able to set out further progress having been made in providing these services.

Deputy Catherine Connolly: The provision of further services is a separate matter. What has the Department learned? Why did it cost this much? Why was there no business case made? Why has the process been ongoing since 2004? I am subject to correction, but it certainly has been ongoing since 2007 or 2009 and we are now in 2017. Why has it still not been rolled out and why has it cost us a fortune? Those were my questions and I have the answers.

Chairman: I have a few final questions before concluding. We are almost done.

I get the point on the public services card. As I have not yet had to apply for one, everyone has not had to apply. It started with the Department of Social Protection as a card that was needed or else a person would not receive anything. It has since moved on and is now required to be issued with a passport or have one renewed. It is a system that will eventually catch most adults. If a person does not depend on receiving something from the State, separate from a passport, for now he or she can get by without it, but the need to have a passport will be the hook from which people will not be able to escape. If a person does not want to have a passport or claim a pension or social welfare payment, he or she will able to survive without it. That is how I see it.

With regard to Deputy Catherine Connolly's questions, there are benefits to the card, but our job in this committee is to inquire about costs, the contract and lessons to be learned. There are benefits, but we have to look at something else. Mr. Watts knows this.

I have a couple of questions about the Department's information and communications technology, ICT, strategy in general. Will Mr. Watt give us the list of services that may be migrated to a digital platform? We have just been talking about being able to tax a car while sitting at the kitchen table or applying for a passport or a driver's licence, with the ability to take a picture on one's phone. What are the main services still being considered?

Mr. Robert Watt: The main elements include the passport application, in respect of which we are moving to an online process. There is also the driver's licence. They are two big transactional elements.

Chairman: That can be done already.

Mr. Robert Watt: We will use the MyGovID system to approve the service people can access. There will be a variety of new features that will enable people to do it in an easier way. Most tax payments can be made to the Revenue Commissioners online.

Chairman: That is the Revenue Online Service, ROS.

Mr. Robert Watt: The other area with the biggest volume of transactions with the State involves the Department of Social Protection. We are starting to move some services. Jobseeker's allowance can be claimed if a person has gone through the MyGovID system and obtained a public services card. The big areas will involve the Department of Social Protection, as well as applications for a driver's licence, a passport and a change in vehicle ownership.

Chairman: Where I see a gap is in the health service.

Mr. Robert Watt: Yes.

Chairman: There is a lot of interaction within the health service in which 30% of all public servants work. I have not seen this process in operation in the health service. Is the Health Service Executive utterly unconnected with most of this process? It seems to be and it was not even in Mr. Watt's train of thought as he spoke. It is possibly one of the biggest areas in which people could be assisted.

Mr. Robert Watt: Yes, I agree. People make appointments to see a GP or undergo a hospital procedure.

Chairman: There are 600,000 people on waiting lists. It could be done electronically.

Mr. Robert Watt: Based on one's digital identifier, one should be able to go in with a personal public services number, PPSN, and password and book an appointment.

Chairman: People would know their appointment date or could cancel an appointment.

Mr. Robert Watt: Yes, or cancel an appointment and receive a text or email alert to say it has been cancelled or whatever.

Chairman: Has the Department discussed this directly with the Health Service Executive, HSE?

Mr. Robert Watt: Yes.

Chairman: Will Mr. Watt give us something on that? While the other areas are good for those who want them, the HSE is a very big area. Outside the Department of Social Protection and perhaps the Department of Education and Skills to an extent, the HSE is the State body with which most people have most contact.

Deputy Bobby Aylward: And social welfare.

Chairman: Yes, social welfare is well caught in there already. Will Mr. Watt come back to us with that because there is a big gap there?

Mr. Robert Watt: I will revert to the committee on that.

Chairman: Does the fact that there is no Executive in the North have an impact on the operation of the North-South bodies?

Mr. Robert Watt: No.

Chairman: No problem.

In the past few years the Department of Public Expenditure and Reform has trained freedom of information, FOI, officers throughout the public service. How has that training gone?

Mr. Robert Watt: In 2014 we changed the original Act to extend FOI to several new bodies and reduce the exemptions. On foot of that, we went through a process of training up appeals officers throughout the system to ensure they could manage.

Chairman: How was that done?

Mr. Robert Watt: We provided that centrally, either ourselves, through officials in our Department or we procured the services.

Chairman: I am not talking about the Department but the entire public service.

Mr. Robert Watt: In respect of FOI, 99 contracts were awarded up to the end of 2016.

There were almost 5,500 participants under that framework contract. We entered into contracts with outside bodies to provide the training.

Chairman: Mr. Watt might send us a note on that. It is important that Mr. Watt listens to what I say next. The Department now has to do the same for protected disclosures. I have yet to meet a single body that knows how to deal with a protected disclosure. Members of this committee are being inundated and I have yet to see a public body that has dealt satisfactorily with protected disclosure. It is no good Mr. Watt saying that the Department has sent the circulars. The Department needs to do what it did with FOI. That is why I teased out that question.

We deal with third level institutions and the Garda Síochána and almost every week people tell us about protected disclosures because people are utterly dissatisfied. There are commissions of investigation into Sergeant McCabe's protected disclosure, and a social worker in the south east had to make a protected disclosure about Grace, who was placed in foster care by the HSE. The system could not cope with that protected disclosure. There have been others in the Irish Prison Service and the Garda Síochána.

For the third time I say I have to yet see a State body handling a protected disclosure adequately. I note we probably only see the ones that did not work out. There is ineptitude. I have seen protected disclosures go to mediation, retired judges doing the adjudication and the public body three months later goes into the Labour Relations Commission and disowns the mediation report. That was a case in the Irish Prison Service. Mr. Watt might have been aware of that. We are utterly at a loss and frustrated at the lack of ability in the public service to deal with these. Whoever did the FOI training needs to bring that thinking to the protected disclosure and must move to that next.

Mr. Robert Watt: Protected disclosure is complex and difficult and the Chairman knows all the reasons why that is the case. We are providing overview training and more advanced training but I take the point. Our Department has produced policy guidelines on how to deal with a protected disclosure and we have a process there which we go through. All public bodies now have to have that same guide. I might share that with the committee. It is a question of people understanding, training and culture. The culture needs to change.

Chairman: It is not a question of giving people the manual; they have to be shown and met and people have to be sent out.

Mr. Robert Watt: People need to want to be able to deal with the protected disclosure in the appropriate manner and to respect the process.

Chairman: How long has the shared services, Vote 18, system been in place? Mr. Watt need not go into detail.

Mr. Robert Watt: We set up the Vote in 2014.

Chairman: Inevitably some mistakes have been made along the line. It is a big system and lots of different things were mentioned. Mr. Watt might give us a note on some of the lessons the Department learned, three years into implementing the new system. It is important that lessons are learned because the Department cannot have got it all right. I am not setting out to criticise because nobody can get everything right the first time. There is no point seeing a mistake, correcting it and making a different one the next month.

Mr. Robert Watt: Yes. We have learned lessons from PeoplePoint and they were applied to how we implemented the payroll and we are using those lessons now in financial management. We can send the Chairman a note on what we have learnt.

Chairman: A note would help increase public confidence in the public service if it sees there is a learning process.

Has the Department produced the annual Financial Emergency Measures in the Public Interest, FEMPI, report?

Mr. Robert Watt: The Minister brought it to the Dáil last week. I think there was a debate in the Dáil last week.

Chairman: Yes, there might have been a brief one.

Mr. Robert Watt: Yes, it was a brief debate.

Chairman: I will not debate the contents of it with Mr. Watt now but I know its format from other years. I suspect very few, if any, of the issues set out in the first FEMPI legislation as to why we were in a financial emergency still exist, apart from the level of national debt. I do not think Mr. Watt will be able to answer this question but do the criteria that existed when the measures were first introduced still exist? We are inventing new excuses each year to keep it alive.

Mr. Robert Watt: We are preparing a Bill to repeal FEMPI.

Chairman: In its entirety?

Mr. Robert Watt: In its entirety. The Minister hopes to get it through Government in September and bring it to the House after that.

Chairman: In the autumn. It will not all go at once but there will be a timescale to wind it down.

Mr. Robert Watt: That will set out a timescale for ameliorating all the measures. The original legislation will be repealed.

Chairman: The seriousness of the housing crisis today is equivalent to the conditions of the national finances at the time that merited that legislation. If there was a case for FEMPI then there is a case for housing emergency legislation in the public interest. That is not Mr. Watt's Department but he could take that on board because it is a recurring theme here.

We feel that while mistakes were made getting into the financial crisis, one of the biggest mistakes made during the crisis was not to plan for the exit from it. We are talking now about planning, zoning, sites and speeding up the planning process. That should have been done three years ago at very little cost so that the houses we need now would have been built rather than in the next two or three years. The housing plan is going out. The troika left in 2013 and while another country would have planned for the recovery, we made no plans. We waited till we got to where we are and sat back for two years. We are two years behind catching up in the housing situation. I am not saying this is the fault of the Department of Public Expenditure and Reform but collectively, the Government and the Oireachtas did not plan adequately and we are playing massive catch up and it is getting harder and harder to catch up.

As there are no more questions I thank everybody for coming here today. I apologise again for the late start. One of the reasons for it was that we wanted to conclude all our business on the Votes in the Comptroller and Auditor General's report before the Dáil recess and we had other reports on the Garda Síochána and third level education, not to mention Project Eagle, which took up quite a lot of our work a few months earlier.

The committee agrees to dispose of Votes 7, Chapters 1, 2 and 18, the finance Votes, which it discussed this morning. It also agrees to dispose of Votes 11, 12, 18 and 39 and Chapter 3 for this Department, which we have discussed.

The witnesses withdrew.

The committee adjourned at 6.10 p.m. until 10 a.m. on Tuesday, 11 July 2017.