

# DÁIL ÉIREANN

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## AN COISTE UM CHUNTAIS PHOIBLÍ

## COMMITTEE OF PUBLIC ACCOUNTS

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*Déardaoin, 20 Meán Fómhair 2018*

*Thursday, 20 September 2018*

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The Committee met at 9 a.m.

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### MEMBERS PRESENT:

Deputy Bobby Aylward,	Deputy Alan Farrell,
Deputy Peter Burke,	Deputy Alan Kelly,
Deputy Shane Cassells,	Deputy Marc MacSharry,
Deputy Catherine Connolly,	Deputy Catherine Murphy,
Deputy David Cullinane,	Deputy Kate O'Connell.

DEPUTY SEAN FLEMING IN THE CHAIR.

## BUSINESS OF COMMITTEE

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

### Business of Committee

**Chairman:** We are joined by the Comptroller and Auditor General, Mr. Seamus McCarthy, a permanent witness to the committee. He is joined today by Ms Georgina O'Mahoney, deputy director of audit. We have received apologies from Deputy Pat Deering.

We have received at least 80 items of correspondence, which is considerable, so I hope the committee can agree on them. I sent out a draft timetable indicating that we would deal with the work programme and certain items of correspondence and that at 10 a.m. we would move on to NAMA. I propose that, when we finish with NAMA, maybe before the vote, we conclude the meeting and hold over the correspondence until next week. There is a large volume of correspondence. We might get some dealt with before 10 a.m. What we get done will be well and good. We will hold over the remainder. I printed off what we got. I am sure there are up to 2,000 pages of correspondence received. I record that I printed off what we got and up to 2,000 pages of correspondence was received. One document from the National Transport Authority, NTA, on the review of public private partnerships ran to 600 pages. I do not expect everyone to have read it all for today. Are members happy in general? If there is specific correspondence, we will deal with it before 10 a.m.

**Deputy Alan Kelly:** I agree in principle. Three or four items are time sensitive and we probably need to deal with those. They are in the correspondence and have been aired in public. Can we deal with those issues specifically? I refer to issues surrounding the Vote for the President and CervicalCheck, the Scally report and Ms Gráinne Flannelly, which is a category in itself. I agree with holding over on the considerable volume of information in the education sphere which must be put together, analysed and brought up at another date. If we could prioritise the three or four items for discussion in the first hour, I would be in favour of that.

**Chairman:** I intended to propose that, aside from the minutes, we move straight to the work programme, which includes those urgent items. There are three items that could be dealt with next week. One is the issue of Vote 1 - President's Establishment, which is very time sensitive with an election around the corner. The second item is the issue of CervicalCheck, on which there is correspondence with which we need to deal this morning. The third item is an invitation from the Organisation for Economic Co-operation and Development, OECD, to the PAC and several other Oireachtas committees and Departments to talk about government accounting. We will come to that. They propose a meeting next Wednesday morning. A representative delegation from the committee will meet the OECD. Those three items have to be dealt with immediately. I just want to clear the minutes first. Are the minutes of 12 July 2018 agreed with no matters arising? Agreed.

We turn back now to the work programme. There are three time sensitive issues on the work programme. I have a note on the file that we can note and publish on the request to discuss Vote 1, which is expenditure on the President's Establishment reported in the Comptroller and Auditor General's report every year. I have received a lot of requests as Chairman for that to be considered. I propose we consider it, as people have said it is not available under freedom of information but is within the remit of the Committee of Public Accounts. If the committee were seen to not want to discuss the matter, it might raise even more significant questions than any questions we might get answered if we had a discussion. In view of the fact that nomina-

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tions close next Wednesday, next Tuesday is the last possible day on which we can go there. I would not be comfortable having a meeting on the issue after the close of nominations at all. I do not think anyone would want to be here two weeks before an election campaign discussing the matter. If we are to do it, we have to get it out of the way promptly.

Strictly, it will be the Accounting Officer only in relation to expenditure. I would not allow any question to be directed involving the President. The President is not answerable to the House, which is a long-standing principle that we will honour entirely. If anyone asks a question about what the President did or did not do, I will rule it out of order. The Accounting Officer will be here to answer and Mr. Seamus McCarthy has published his report from the previous year. The most recent report will not be out until next week. As such, we will have to go with the most up-to-date information we have. The secretariat was in touch with Mr. Martin Fraser, the Secretary General of the Department of the Taoiseach, who is the Accounting Officer. We would invite him. There is a letter from him on file in which he raises some points and which we can note, publish and put up on screen. It is No. 1557. We can deal with the those points now.

**Deputy David Cullinane:** What is the logic or reasoning behind examining this in the first place? I have no difficulty with scrutinising any set of accounts and if a proposal is made, I will support it. We have the letter from the Accounting Officer. However, the accounts are audited by the Office of the Comptroller and Auditor General and I might put a number of questions to him before we proceed. If his office audits the accounts, I am sure it will have seen whether any pattern of issues arises. I ask the Comptroller and Auditor General whether there has been any issue in respect of the accounts.

**Chairman:** I understand. The Deputy asked two questions. The first was to me and why we would examine this. It is Vote 1. There are 40 Votes before us every year and we discuss the majority of them, albeit we do not get to all of them every year. As Chairman, I have received several requests to discuss the matter and I said that if we do it, it will have to be done promptly as I would not like to do it during the campaign. It is the first chapter in the Comptroller and Auditor General's report every year which we are free to examine. I would not like to have a substantive discussion on the issue-----

**Deputy David Cullinane:** With respect, the proposal came from the Chairman. We have a great deal to do but let us not rush things either. We have a responsibility to ask questions before we proceed to bring people in, especially if an Accounting Officer has raised concerns himself and written to us. I am, therefore, asking the Comptroller and Auditor General about the work his office has done. Second, my understanding is that Mr. Fraser is not an accountable officer, but is rather an Accounting Officer for the purposes of those accounts, which is a different thing. I ask Mr. McCarthy to outline what that distinction is. I have no difficulty with us doing it. We should do it quickly if it is the first chapter. However, I do not want us to waste our time if Mr. Fraser is going to come in and say he cannot answer any of the questions we ask. We have a responsibility to the Committee of Public Accounts to get answers to these questions before we proceed. My questions were to the Comptroller and Auditor General.

**Mr. Seamus McCarthy:** The Vote for the President's Establishment is audited in the same way as all other Votes. There is no difference. There is a difference in that the Accounting Officer for the Vote - and any Vote holder is an Accounting Officer - does not have executive responsibility for the decisions on how spending is done.

**Deputy David Cullinane:** Who does?

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**Mr. Seamus McCarthy:** Those decisions are made in the President's Establishment. There is a deputy secretary who is the secretary to the President.

**Deputy David Cullinane:** What body scrutinises those?

**Mr. Seamus McCarthy:** The audit is the same and the questions are addressed to-----

**Deputy David Cullinane:** That is the Comptroller and Auditor General's audit.

**Mr. Seamus McCarthy:** Yes. My audit addresses any questions we have to the President's Establishment and the secretary to the President. The answers are given in the normal way but the Accounting Officer for the President's Establishment is the Secretary General to the Government.

**Deputy David Cullinane:** Is the issue then that the Accounting Officer, or accountable officer, is saying he cannot answer questions because it would be unconstitutional? That seems to be what he is saying. Mr. McCarthy says he audits the accounts in exactly the same way, signs off on them and gives an opinion. I imagine if there were an issue, there would be exchanges between management in Áras an Uachtaráin and the Comptroller and Auditor General.

**Mr. Seamus McCarthy:** There would be.

**Deputy David Cullinane:** The Comptroller and Auditor General does that in the course of all of the audits of all Departments and we have an opportunity to scrutinise them. The problem here is that we are being told we do not have an opportunity to scrutinise these accounts in the same way due to legal or constitutional issues. Is that not what Mr. Fraser is suggesting?

**Chairman:** It is suggested. We are not being told this but it is suggested.

**Deputy David Cullinane:** That is a suggestion but he is the person saying it and he is the person coming in. We may need to get some clarity on that. Do we have legal advice as to what we can or cannot do and what we can or cannot ask?

**Chairman:** The answer to that question is that we have not obtained legal advice because I understand that we will not direct any questions to him in respect of the President and will question him only in relation to the financial matters for which he is Accounting Officer. He will not be able to explain. It is just to provide the information. He will not have made the specific arrangements. As Accounting Officer, however, he has a duty to report to the Committee of Public Accounts arising from appropriated-----

**Deputy David Cullinane:** However, he does not have a duty to explain how the money is spent. I imagine he will say he has allocated the money.

**Chairman:** He can account for it.

**Mr. Seamus McCarthy:** No. Subject obviously to Mr. Fraser making a correction on this, my understanding is that it would be more around why the money is being spent in the way it is. That would probably be the question at which he would balk. I do not think he would have a difficulty answering how the money was spent.

**Deputy David Cullinane:** The breakdown.

**Mr. Seamus McCarthy:** That is what it was spent on.

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**Chairman:** Exactly, and we would leave it at that.

**Mr. Seamus McCarthy:** Obviously, he would have a responsibility for ensuring that there are proper systems of control in place in respect of the expenditure.

**Deputy David Cullinane:** That makes perfect sense.

**Chairman:** Exactly. I accept that we will not be able to tease out why this decision was made as opposed to that decision, but he will have to say that this happened, this is what it cost, and this was the expenditure. It is a question of having the information available. That is all it is.

**Deputy David Cullinane:** I am okay with that.

**Chairman:** As was said, there would be limits and I would expect that, if somebody strayed too far with a question that I did not pull him or her up on, he would say that it would not be appropriate to answer. I would accept that.

**Deputy Bobby Aylward:** Is the money given in the Vote for the year exceeded or is the President's Establishment living within the money voted every year? Is it going outside of the Vote that is being passed every year? Is it spending more than is being allocated or is it spending less? That is an important question.

**Mr. Seamus McCarthy:** I can address that. There has not been excess expenditure on the President's Vote in any year.

**Deputy Bobby Aylward:** So it is coming in under budget?

**Mr. Seamus McCarthy:** It is coming in under budget.

**Chairman:** It is coming in in line with the Estimate.

**Mr. Seamus McCarthy:** Normally it would have a surrender of, perhaps, 10%. I think that was the figure for 2016. There is not a danger of that.

**Deputy Marc MacSharry:** We should do it and get it over with. I am sure we are equally proud of all our Presidents. I do have a problem with Mr. Fraser's letter. He quotes the Constitution in it and, frankly, he is wrong. He suggested that this is unconstitutional. At no time are we seeking to question the powers or functions of any President or the execution of same, nor would we. The Chairman quite rightly pointed out that any such questions would be offside. I agree that is appropriate. However, the tone of the letter did bother me. It then goes on to say that, if we do this, it would in some way undermine the impartiality of the Civil Service. I resent that suggestion because I do not see how that would remotely be the case. In fact, my interpretation is the converse of that. Here we have a senior civil servant seeking to direct the operations of the committee. I have a real problem with that. We should go ahead. We should do it. We should keep the questioning very much to the question of where the money goes and what happens to it. It is a matter of public interest. When people see the value for money they are getting - indeed the 10% surrender and coming in under budget is an example to all Departments - it might even encourage more people to engage in the democratic opportunity that is before us in October. I thank Mr. Fraser for the advice but it is flawed and incorrect. Under no circumstances are we seeking to undermine his impartiality or that of other civil servants in the political process. I cannot say the same for this letter in terms of how it looks to me. It seems he is seeking to influence our particular view. In fairness to everybody on the committee, at no

time in my few years on this committee have I felt that anybody took his or her political jersey through that door.

**Chairman:** Can the letter be moved along on the screen? I call on Deputy Peter Burke. I am sorry, I missed Deputy Alan Kelly.

**Deputy Alan Kelly:** The Chairman should let Deputy Burke go first. I will go after.

**Deputy Peter Burke:** Having looked at the letter from the Secretary General to the Government, I note he signs off using that title, this is something I would take seriously. My big concern is that the campaign is now under way. The nomination process under Article 12 is concluding. It is very clear that candidates are out there robustly campaigning. We can see that even at the front gates outside the Dáil yesterday; at the Ploughing Championships, if anyone was there; and at events before that. I have a huge concern that this could, in effect, compromise that democratic process. I am all for transparency, but we are now so close to a presidential election that if we discuss the Vote here it will really impact on that election. It is very hard to have demarcation lines in terms of the expenditure in Vote 1 that have nothing to do with President Higgins. We have seen how difficult it can get in respect of these inquiries in other countries. I am very concerned that it can get very highly charged in this room. It can be difficult to stay within the lines. This committee has a hierarchy of needs which includes CervicalCheck and our education sector. We have huge important issues to discuss and now we want to look at a Vote which, first, has an audit committee established for it and which has internal audit procedures-----

**Chairman:** We cannot say that.

**Deputy Peter Burke:** It is stated in the Secretary General's letter. Something either has an internal audit function or it does not. It either has an audit committee or it does not. He states clearly "I have also put in place an Audit Committee and an internal audit function" and the establishment is under budget. If we are trying to pick important issues on which to adjudicate over this term I cannot see why we would immediately pick a Vote when, first, it meets its budget targets and has audit procedures in place and, second, we have such important other issues to discuss outside it. In my opinion it would come across in a very bad light if we were to start trying to adjudicate on this in a highly charged atmosphere here. There are also constitutional issues of which we have to steer clear. Maybe we could do that, I am not saying we could not, but it is very difficult to keep things objective in doing so.

**Deputy Alan Kelly:** I agree with Deputy Burke's points. In general when it comes to 50:50 calls I would always edge towards taking a risk but I do not think this is a 50:50 call. I find it extraordinary that we have not gotten legal advice. I do not think we can move without getting legal advice.

**Deputy Marc MacSharry:** I have the Constitution here. It is in English.

**Deputy Alan Kelly:** I am not a constitutional lawyer. I have a few more things to say.

**Deputy Marc MacSharry:** It is also in Irish.

**Deputy Alan Kelly:** We need to get legal advice before we do anything. That is the first thing. We have gotten legal advice for less. We obviously have to get that. In terms of the work of this committee, the Chair has said that he has been asked to raise this. For the public watching, he might tell us who asked him to.



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**Chairman:** As Chairman of the committee I have received several media requests from journalists who have concerns about not being able to obtain information under freedom of information legislation. A number of members of the public have also asked me to raise this. That is why. I could not say no to the media.

**Deputy Alan Kelly:** When it comes to the priorities of the committee, given that we know that there is an internal audit function and an audit committee in place and that the actual Vote is underspent, one has to wonder why this is being brought forward now. What is the rush to do it now? Anyone who is watching these proceedings and who does not think there is some form of political capital to be gained, maybe outside this room, from this going ahead now is not being realistic.

Of course it will be impossible for the Chairman to unsay things that will be said in here that are linked to a candidate who is currently in office. The Chairman needs to think about that. He will not be able to unsay those things. The media will not be able to unreport those things. As a consequence, this rubbish about doing it before the closing date is irrelevant and insincere. I am not referring to the Chairman, but people are saying this. This campaign is up and running. It is everywhere. It is the most dominant story across the media and has been for weeks and months. I am not finished. The fact is that this is an ongoing campaign. If we are going to jump into this now, it will really say an awful lot about this committee, about its priorities and about the fact that, from a political point of view, while we might leave our jerseys outside the door - I believe that and I share Deputy MacSharry's faith in it - the Chairman will not be able to unsay things said inside here, to unlink them from one candidate or to stop them being reported in the media. That will be damaging to this committee and will have an impact on the presidential election. We damn well better think about this very clearly and we better get legal advice because I do not want to be associated with a committee that goes down that road without its eyes open. Things will happen in that meeting and we will not be able to undo them. I have one last point with regard to this. I do not think there is any way we can move without getting legal advice before next Tuesday.

**Deputy Shane Cassells:** I thank the Chairman. I was open to listening to everyone's opinion on the suggestion put forward. The Comptroller and Auditor General, the person on whom we rely for advice, has advised us what we would be examining is how money is spent, not why it is spent. This sets the parameters for any work that will be done in this room.

This debate has spiralled in other spheres, despite the concise advice given by the Comptroller and Auditor General. I do not agree with Deputies Burke or Kelly that such an examination would compromise the democratic process. I share Deputy MacSharry's point regarding the three and a half page rebuttal from the Secretary General to the Government, Mr. Fraser. I wonder did he run that by the Attorney General, bearing in mind his challenge to this committee as to whether it has sought legal advice. In his summary remarks he states: "I believe your proposal appears to be unconstitutional" but he does not reference whether he ran this three and a half page rebuttal by the Attorney General's Office to see if his own assertions were correct. He references the Constitution. The Constitution references the President as the person not being answerable to either Houses of the Oireachtas. Mr. Fraser draws on Article 13.8.1° in respect of the duties of the President. It does not refer to the moneys of the office. Mr. Fraser also talks about his own role as Accounting Officer and says that his capacity is in obtaining assurance that the office operates properly. If his job is to obtain assurances that the office is operating properly, he obviously is required to set a standard of guidelines in respect of the spend of moneys, which are then subject to audit by the Comptroller and Auditor General and should be open

to discussion and examination.

As I said, I was open to the discussion this morning, as was Deputy Cullinane, but not in regard to the incumbent, President Higgins, in regard to the performance of his duties or how he conducts himself or his office. The examination would be about how the money is spent and not why it is spent. The letter sent to this committee by the Secretary General to the Government, Mr. Fraser, is amazing. He has asked if the committee sought advice and if he can see it. I do not see too much standing from him in that regard. He has cited that it is his belief that the proposal for the meeting is unconstitutional. We are at a stand-off. I refute the point that an examination would in any way compromise the democratic process. I do not believe it would. That is a dangerous assertion. If anything, it is about ensuring we have a democratic process, which is what anyone involved in a campaign would want.

**Deputy Catherine Connolly:** I did not give serious consideration to this issue until now. I was trying to get my head around NAMA, the correspondence and many other items. I was aware that the Chairman had received requests. I have listened carefully to the discussion and I am now moved to say we should have a discussion on this matter because I have not been convinced by the arguments against doing so. The level of argument worries me. I say that reluctantly. As pointed out by Deputy Cassells, the letter from Mr. Fraser mentions that he relies on reassurances. I have tried never to be political in this committee. I would expect the Chairman to reprimand us if we are political because in doing so, we would lose all credibility in terms of our job. We have done a good job, as have previous Committees of Public Accounts. We struggle with the amount of work we have to get through.

On this matter, there are practical questions to be asked, not about any President but how money is spent. Perhaps it should have been done before now and perhaps the committee was negligent in not having examined Chapter 1 more carefully. If it came before us previously and we did not give it enough attention, what is the difficulty in giving it attention now? I do not agree that that work would have to be concluded by Tuesday next. The issues are bigger than the election, the incumbent or candidate. There are issues we should be looking at in terms of value for money. That is the purpose of this committee. If we limit ourselves to that, I am happy to do it.

**Deputy David Cullinane:** My concern is that this could turn into a sideshow and become an issue between the accountable person, Mr. Fraser and members of this committee, which is of Mr. Fraser's making because his letter was over the top and defensive. He could have approached the matter differently. That said, if we are going to do this, we have to frame it in the right context. The context for me is that it is Chapter 1 in the account which we would want to scrutinise anyway. The Comptroller and Auditor General has given us the parameters in terms of the "how" and on the controls that are in place. It would be within the scope of the accounting person to answer for the committee not why the money was spent but how it was spent. I think we should focus on that. I support doing it. I agree with the concerns around the upcoming Presidential election. I said publicly when asked about this that I have a concern in that regard. I do not think the Committee of Public Accounts should put itself in a position whereby it could be seen that we are doing this for political reasons, that there are people outside of this committee who are lobbying us to do it because they want it as a backdrop to the election. That is not the reason we should do this, in my view. We need to be careful, set parameters and do it right. We should not allow that meeting to become a sideshow. It would be remiss of us to do so.

**Deputy Marc MacSharry:** I know that the Chairman is anxious to conclude this matter



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but I would like to make two points. Deputy Connolly's remarks captured it all for me. I might have been relatively indifferent about the timing and so on but this letter has annoyed me. It makes me feel like we should send the work programme over to Merrion Street and see what they are happy for us to do, who we should meet and what questions we should ask and so on.

There was an internal audit function for the Garda training college in Templemore. We all know where that led. That is not to say that the internal audit of the President's Establishment is not exceptionally good. I am sure it is. Another issue is the actions of the Chief State Solicitor's Office in offering as a defence the committee's interventions in a case as a reason for somebody to withdraw from suing the State in the David Hall case about which we were never consulted. Under Standing Order 186, the Committee of Public Accounts is a committee of the Houses of the Oireachtas. With respect to the Secretary General, the Chief State Solicitor's Office and anybody else we set the agenda in this committee in line with our remit.

I am so annoyed about this letter and I want the committee to do the examination. I am hugely proud of the performance of all of our Presidents, including the incumbent. I am only interested in where the money is spent.

**Chairman:** I want to bring this matter to a conclusion.

**Deputy Catherine Connolly:** Mr. Fraser also says in the letter that he has put in place an audit committee and an internal audit function but he has not said when he put that in place.

**Chairman:** We will conclude.

Just to be correct or precise about it, the last published appropriation accounts are the 2016 accounts which were published by the Comptroller and Auditor General at the end of September last year. The ones for 2017 will not be published until Friday week, well into the campaign. We are not waiting beyond that. The last set of figures we are going on are the 2016 audited accounts.

Mr. Martin Fraser comments in a specific paragraph where he confirms the audit committee has not met and the chairman was not there. He goes on to say that once the President's Establishment audit committee is up and running, it is expected an internal audit of the office will be then scheduled.

That is the last written issue on the public record from the Secretary General, the Accounting Officer, of the Department of the Taoiseach. The only reason we are now aware that an audit committee is in place - it must have happened since then - is because this committee indicated it was going to consider this matter. Mr. Martin Fraser has volunteered that information that he has an audit committee in place. That is what he says in his letter. His function is in relation to the audit committee.

**Deputy Catherine Connolly:** He also put in place another committee.

**Mr. Seamus McCarthy:** That was something we had discussed with them and that there was not an audit committee operating. It predates any discussion at this committee. He took the point, or at least the point was taken, that in relation to 2016 we raised the issue that there was a difficulty.

**Deputy Alan Kelly:** That was before it was raised in this forum.

**Chairman:** The point is that the 2016 accounts, which are the last ones we have in front

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of us, refer to the fact that the audit committee is not there. Arising from that, it has been put in place. While the Comptroller and Auditor General and the committee might be aware of it, the public has only been made aware of it through this letter which has come as a result of our indication that we may wish to consider the matter. It is good it is there.

**Deputy Bobby Aylward:** Is that the reason a committee was set up?

**Chairman:** We are not having a discussion about this. When the Accounting Officer is here, the committee can ask him that question.

I am of the view that we will not have any questions in respect of the President at all. This is important and I want to put this in the public arena because it might not be fully appreciated, even though it is a matter on the public record. There is a discussion every year at the Estimates committee on Vote 1. I was the Fianna Fáil spokesperson on public expenditure in the previous Dáil. I attended the committee five years in a row with the Taoiseach and officials. There is a detailed explanation presented by the Civil Service to the Oireachtas as part of that process. I have attended that at least five times in recent times. Deputy Burke knows full well because he attended that meeting on 29 March this year.

At that meeting this year, the Civil Service provided detailed information on expenditure on the office of the President's Establishment. It gave specific details on administration and pay, detailed notes on underspend, detailed notes on travel and subsistence, what trips were taken, not taken, planned and have happened so far this year, detailed notes on training and development and on the centenary bounty for people who reach 100 years of age. All of that was provided year in, year out by the Civil Service for the Oireachtas to discuss in detail. I know from attending the committee, as does Deputy Burke, that the members are free to discuss it in detail or to glance over it. At the meeting, the Taoiseach even made reference to the Vote for the President's Establishment because he was also dealing with the Vote for the Office of the Taoiseach at the same meeting. It was a matter for the committee members that year and every other year how much they wanted to delve into them. Some years they had a detailed discussion about the President's office while other years they did not.

At that meeting on 29 March this year, at which the Taoiseach gave details on this matter, he was accompanied by Mr. Martin Fraser. If it was constitutional for that meeting to happen and for the Taoiseach and Mr. Martin Fraser to discuss expenditure on Vote 1, it is constitutional now. To raise the issue that he thinks it is unconstitutional to discuss expenditure in respect of Vote 1 at an Oireachtas committee, it is obvious what he is suggesting about his attendance. He has raised this issue but his actions have spoken louder than his words by his actual physical attendance at the Taoiseach's side. He talks about the political impartiality of the Civil Service. The Civil Service gave detailed briefings to that Oireachtas committee year in, year out. It is on the record of the House. I do not understand why it could now be a constitutional issue. We have to move on. There is no difference between one Oireachtas committee discussing Vote 1 and another discussing it.

**Deputy David Cullinane:** It is nearly 10 o'clock and we have not got on to CervicalCheck or any of the other issues.

**Deputy Peter Burke:** I have no issue with that aspect. As I said when this issue first came out and when the Chairman made a statement over the summer, I was contacted by "Morning Ireland". I gave my opinion that it was discussed. I am not disputing that the committee on public expenditure and reform discusses it. My major issue is the timing of this. The campaign

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is well under way. No matter what we do or say, we cannot disguise that fact. Discussing this issue in a highly charged atmosphere will have implications for the campaign. Other candidates will take what is said here as having implications.

The Secretary General to the Government raised the fact that he does have to consult the Attorney General. This is in his letter. To say he never mentioned legal advice, is not correct; he did. We should not misquote. The core point here is that we have to be responsible in what we do. We have to look at the needs of this committee. Is this a critical and important issue for us to discuss now or are there more important issues?

**Deputy Alan Kelly:** I put a formal request to the Chairman to get legal advice. I would like a ruling on that. I think it would be prudent to get legal advice before we proceed. I think we should get the Office of the Parliamentary Legal Adviser to give us legal advice. It would be irresponsible of us not to.

If we go ahead as several members have said, why can we not do it once the presidential election is over? If we want to do it, if we feel it is legal and if we get advice to that point, why do we take the risk of having an impact, possibly an unintentional one, when we could do it a few weeks' time when this is over? By God, we have enough of other priorities on the table.

**Chairman:** I am dealing with that and I am bringing the matter to a conclusion now.

**Deputy Catherine Connolly:** The Chairman has let two speakers in already.

The more I listen to this, the more I think there is a patriarchal paternalism coming across that we must protect the electorate in relation to information. It is actually getting worse. There is nothing wrong with information, dealt with properly by ourselves in an open and accountable manner. These types of arguments are actually echoes of what happened with CervicalCheck. We know best; do it later; now is not the time. I despair of this level of argument.

**Chairman:** I am drawing the discussion to a conclusion. This committee has never in the past or will never in the future allow its work to be dictated by timings of elections. In the previous Dáil, the committee met right up until, and including, the day of the dissolution when an election was imminent within weeks. The Committee of Public Accounts does not stop its work because elections are somewhere around the corner.

At this stage, I am proposing that, having considered Mr. Fraser's letter on 17 September, the committee has decided that it does not require legal advice on the matter and will on Tuesday, 25 September, proceed to examine the 2016 Appropriation Accounts - Vote 1 - President's Establishment. Is that agreed?

**Deputy Alan Kelly:** No.

**Chairman:** Is it seconded?

**Deputy Marc MacSharry:** I second it.

**Deputy Catherine Connolly:** I have no difficulty with the meeting but I have a difficulty with the timing on Tuesday.

**Chairman:** We will ask the Secretary General to make the necessary arrangements and the timing as best he can.

## BUSINESS OF COMMITTEE

**Deputy Alan Kelly:** I disagree with that. I still request we get legal advice.

**Deputy David Cullinane:** The reason I do not think the committee needs legal advice at this point is because, if it is going to stick with the controls, I see no reason that is not under our remit.

**Chairman:** The proposal is-----

**Deputy David Cullinane:** I am happy with that.

**Chairman:** I read out the proposal. Having considered Mr. Fraser's letter of 17 September, the committee has decided he does not require legal advice in the matter and will, on Tuesday, 25 September, proceed to examine the 2016 Appropriation Accounts - Vote 1 - President's Establishment. Is that agreed?

**Deputy Alan Kelly:** No.

**Deputy David Cullinane:** No.

**Chairman:** Is that agreed? Agreed. The proposal is carried.

We will write to the Secretary General of the Department of the Taoiseach, in his role as Accounting Officer, to attend the meeting with the committee to discuss the Vote on the President's Establishment for next Tuesday.

The next item relates to CervicalCheck. The committee will deal with the work programme issues and will hold over the rest of the correspondence until next week. Deputy Cullinane has a letter for the committee.

**Deputy David Cullinane:** I do. It is unfortunate that the committee spent 15 minutes on the first issue, although it had to be done, when this issue is much more important.

**Chairman:** Some time will be allowed if people want to talk about CervicalCheck.

**Deputy David Cullinane:** That is my point and I do not want to hog this, but we cannot have 15 minutes of discussion on the first issue when a more important issue, and one that requires a deep dive, is only given a couple of minutes.

My issue is that I have read Dr. Scally's report several times and it shows failures in system, processes, procurement and audit, all of which come under the remit of the Committee of Public Accounts. It is extraordinary that Dr. Scally is still asking questions in the report because he did not have enough information or enough time to further examine some of the issues. There are issues about the labs and the roll-over of contracts. Whether we have a commission of investigation or not has not yet been determined by the Oireachtas. The committee has a responsibility to look at the areas that come under its remit. Procurement and audit are clearly under the committee's remit, as are failures in the system and process.

The HSE and the Department are scheduled to come in next week. That is a little premature. The committee should do a scoping exercise as to what it now wants to do. Is it going to do a report? Are there going to be a number of hearings? Who should attend the hearings? Otherwise these people will come in next week and we will all go through the motions. It will be aimless and there will be no end product. It is more prudent for the committee to agree terms of reference for our work on this issue either today or next Tuesday and get that from the clerk.

## COMMITTEE OF PUBLIC ACCOUNTS

That would be a better way to do justice to the issue. There is much in the Scally report which falls under the remit of the Committee of Public Accounts. The committee needs to examine the report and get a report on the issues that are under our remit and then decide the framework.

Will the Comptroller and Auditor General's office examine the Scally report and look at the issues arising in terms of procurement and auditing and the need for a special report?

**Mr. Seamus McCarthy:** My office will absolutely review the Scally report and we have started that. I have not had an opportunity to look at it yet. If next week's meeting goes ahead, I will look at the report before then. We will be looking to see if there are any systemic issues that require further work. My office has often reported a systemic problem with procurement in the HSE. That is well established. I wonder sometimes what is the point in repeating it, but we do, and I imagine we will be doing more work in that area.

**Deputy Alan Kelly:** I agree with Deputy Cullinane. What he is saying is sensible. I also sit on the Joint Committee on Health and this issue will come to that committee. There is a distinction here and I think we could be quite helpful to the Joint Committee on Health. There will not be that overlap, about which there were arguments previously, because that committee will get into the components of the Scally report relating to happened with the HSE-----

**Deputy David Cullinane:** Non-disclosure.

**Deputy Alan Kelly:** -----non-disclosure, the audit process and the overall screening programme. There are specific issues. I have spoken to Dr. Scally, a very impressive man who has done a huge report, a number of times and I have gone through the report and spoken with Vicky Phelan, Stephen Teap and Lorraine Walsh.

There is a need for the Committee of Public Accounts to look at specific areas that Dr. Scally has identified and aid the work of the health committee and the Oireachtas. Those areas include examining how the money has been spent, issues around screening and labs and process and procurement, and how tenders rolled over and were changed and contractually managed. The key finding of the Scally report was systemic failure. We all could have written the first page of that report before there was any report. There is a need to delve into organisational issues within the HSE. There is a component here which is definitely within the remit of the Committee of Public Accounts and separate from the health committee.

The HSE will be before the Committee of Public Accounts. Dr. Flannelly has offered to come in, and that must be acknowledged. The timing, order and manner in which this is done needs to be thought about. I agree with Deputy Cullinane that we need to put this into a pot and scope it out separately so that we maximise our work.

**Chairman:** What is the proposal for next week's schedule? Where should the committee start?

**Deputy David Cullinane:** There are a number of other issues that need to be examined. The third level sector was mentioned. There are issues around the departure of the head of the Higher Education Authority, HEA. There are issues around reports which we are looking for. There is a lot of work that can be done. My concern relates to next week's meeting. I am not saying it will be an unproductive meeting because there is always something useful. It would be more useful to do the scoping exercise as to what is under our remit. Once the secretariat has time, it could provide a report. The Comptroller and Auditor General has not read the report, but I am sure he will. The committee will then have a plan as to how to examine the issues so



## BUSINESS OF COMMITTEE

that there is no crossover between this committee and the health committee. We will know what we are doing.

That will determine who is invited in. Dr. Flannelly should come in as part of that. The Department and the HSE will be here. Those with responsibility for procurement and auditing would form part of it and whatever else the committee decides.

The plan will determine who comes in and that needs to be done first. That is my proposal. We should hold over next week's meeting with the HSE.

**Chairman:** Another practical reason for holding over next Thursday's meeting is that the director general of the HSE, John Connaghan, must leave by 12 o'clock because he has a meeting in Scotland with the Scottish Minister for Health and the Irish Minister for Health about the implementation of Sláintecare.

**Deputy David Cullinane:** All the more reason to hold it over.

**Chairman:** He would have to leave at 12 o'clock in any event. The chief executive of the State Claims Agency who is handling the case is on leave. He booked it before we set this schedule. There were going to be gaps next Thursday, one way or the other. We will have a detailed discussion. Maybe the secretariat will liaise with Deputy Kelly, because he is on the health committee, to ensure that there is no unnecessary crossover.

**Deputy Alan Kelly:** I think the clerks should have a chat.

**Chairman:** Yes, to ensure the two committees do not duplicate work. We will hold that meeting over for the moment until a precise scoping exercise has been done as to what we will do and let the health committee do its important work as well.

At next Thursday's meeting, there may not be any witnesses. It might be an opportune time to clear all the correspondence that we are not going to do today.

**Deputy Alan Kelly:** That is a great idea.

**Chairman:** There is a couple of hours' work in that. Some of it will be very interesting. There are issues about health and a lot of other things. The public will be very interested in relation to some of the correspondence that has come in over the summer.

**Deputy Alan Kelly:** There is three or four hours' work there.

**Chairman:** The committee has two previous periodic reports. There are detailed responses now from the Minister for Finance and for Public Expenditure and Reform. There is a lot of stuff for public debate in our correspondence. That meeting on health can be held over and the committee can deal with the backlog of correspondence from the summer. That is great.

Staff in the secretariat have been working over the summer and I have told them to try to have some slots filled. I suggested they find a large State agency that has not been before the committee in a while and they have come up with Teagasc. Some members will be interested in Teagasc.

On Thursday, 11 October, we will have the Office of Public Works before the committee. The Comptroller and Auditor General's most recent report will be published at that stage, which means we will be able to raise information from the report with the Office of Public Works.



## COMMITTEE OF PUBLIC ACCOUNTS

On Thursday, 18 October, we will have the Department of Public Expenditure and Reform before the committee for a discussion. We did not meet officials from the Department last year because we ran out of time. We will bring them in early in this session.

On 25 October, we will have a special meeting on housing. I ask members to start putting together specific points of discussion for that meeting. That is the provisional schedule.

**Deputy David Cullinane:** Looking through the work programme, I do not see any reference to the higher education sector, which is an area that we need to come back to.

**Chairman:** There is so much in the work programme that we did not know where to begin.

**Deputy David Cullinane:** I understand that. I merely make the point. The head of the Higher Education Authority, HEA, has resigned. There were some media reports on the reasons for his resignation. I will not repeat them but they are in the public domain. We were working with the HEA to drive reforms in a number of areas. If it is the case that the reforms met resistance from the Department, I want to know why and what was happening. The chair of the HEA should appear to answer some of those questions on the relationship between the authority and the Department. What we found in our work was the level of governance, who was in charge and who was driving the car in terms of the reforms in governance and policy and the distinction between the two.

A secondary important point, which I have raised on several occasions, is that we still have not received the report into Waterford Institute of Technology. Correspondence to the committee, which we will not get to today, includes a letter from a trade union representing dozens of people who were asked to come forward and be part of a report at risk to themselves. We could call them whistleblowers or individuals who have come forward and made their points known. They believe they have been left hanging because there has been no outcome or report. It seems, on the face of it, the HEA made a complete mess of this issue, did not do its work in advance and did not anticipate the legal challenges that could arise. My point is that we had a number of lengthy hearings with the Accounting Officer in-----

**Chairman:** The Department of Education and Skills.

**Deputy David Cullinane:** -----Waterford IT, other institutes of technology and the Department. We have acknowledged that there is an issue in this area. There was a deep dive done but there has not been an outcome, which is unacceptable. It is unfair to leave so many people in Waterford IT hanging. They deserved a product at the end of the process.

The Comptroller and Auditor General was doing his report, which was only a small element of the overall picture in terms of research and development in Waterford IT. By the way, it is a first class institute of technology.

**Chairman:** Of course.

**Deputy David Cullinane:** It is one of the best in the country. There is no difficulty with quality but there are issues and questions around governance that need to be answered. It seemed they were answered in this report but we do not have a copy of it. My point is we need to get the report and apply pressure. We also need to hear from the HEA's board as to what is happening. The media reports on this matter need to be examined. I ask for a response from the Comptroller and Auditor General on the status of his work on that issue.

## BUSINESS OF COMMITTEE

**Deputy Alan Kelly:** I thank Deputy Cullinane for raising this matter as I was about to raise it. I was not aware the Deputy had written in on it.

The resignation of Dr. Graham Love from the Higher Education Authority raises serious concerns because of what he wrote regarding his decision. The HEA and the whole third level education cycle is like the gift that does not stop giving, by which I mean the issues are not being resolved and are still ongoing across the board.

On governance, it is obvious from the structure of the relationship between the Department and the HEA that there is a significant issue between the two organisations. From a governance point of view, I would like to hear from Dr. Love before he leaves the HEA. I would like him to appear in front of the committee.

**Chairman:** I understand he is leaving his position at the end of October.

**Deputy Alan Kelly:** We have time in that case.

**Chairman:** We will make inquiries.

**Deputy Alan Kelly:** We need to delve into all the issues raised by Deputy Cullinane. The committee has dealt with many issues relating to a number of third level institutions, including an issue with Cork Institute of Technology which has been ongoing for years. Some have not been resolved, including issues relating to whistleblowers, their treatment and the processes in place for dealing with them. I have had direct interactions in respect of some of these cases and I find the way in which they are being dealt with incredible.

All in all, we need to address a number of issues related to the third level sector, the Higher Education Authority, Dr. Love and the Department. We should have a meeting in the next few weeks and treat it as a priority. Representatives of the relevant organisations should appear before us and isolate and address the issues before Dr. Love leaves his position. In fairness, Dr. Love has a contribution to make before he leaves his position and it may be difficult getting him to appear after he leaves.

**Deputy Marc MacSharry:** I will not be repetitive. I very much support the call for a meeting on this matter. It would be extremely useful. Given that the boss of the HEA is exiting the organisation, it would be most informative to have him debrief the Committee of Public Accounts. Notwithstanding the issues with whistleblowers, and Deputy Kelly, Deputy McGuinness and I recently raised in the Dáil a specific matter concerning an outstanding issue with whistleblowers, I would like to have an opportunity to raise an issue with Dr. Love.

**Chairman:** For next Thursday, we will try to have-----

**Deputy Alan Kelly:** An agreed topic.

**Chairman:** Agreed. With regard to CervicalCheck, the secretariat will work on a programme for Thursday next. We will not have external witnesses. The meeting will be on our work programme and correspondence related to the third level sector.

**Deputy Alan Kelly:** Agreed.

**Chairman:** The secretariat will contact Dr. Love in the meantime to check his availability before he leaves office.

**Deputy Alan Kelly:** That is perfect.

**Chairman:** We will have that finalised for the next meeting.

**Deputy Alan Kelly:** That would be a good day's work.

**Deputy David Cullinane:** Third level procurement would be another leg of that stool.

**Chairman:** Any member who wants an issue discussed as part of the process next Thursday should contact the secretariat directly in the coming days.

On one final urgent item of business, the OECD is carrying out its accounting framework assessment and officials will be in Ireland next week. They have asked to meet the Committee of Public Accounts to get our views on the move from cash-based accounting to accrual accounting. They will meet other committees and I note the timing is tight. They have meetings with officials from several Departments, the Comptroller and Auditor General and several other persons. It is proposed to meet them somewhere in the House next Wednesday morning. As Chairman, I propose that I will meet them. As there is not sufficient time for the committee to have a detailed discussion on the matter, I ask the members to allow me, as Chairman, and any other member to attend on behalf of the committee.

**Deputy David Cullinane:** Deputy Burke would be a fine ambassador.

**Chairman:** Yes.

**Deputy Bobby Aylward:** What is their role?

**Chairman:** They want to discuss the long-term movement of Government accounts from a cash-based accounting system to an accrual accounting system, as is the norm in the private and commercial sector. They will ask us to make an input to the discussion. I ask members to allow me to use my discretion, as Chairman, to give my views on behalf of the committee. Staff from the secretariat will accompany me to the meeting and will report back.

There is no single national State balance sheet. The Comptroller and Auditor General, Mr. Seamus McCarthy, will make his own point. I believe the Estimates should be cleared before the beginning of each year, not months into the year. I will raise the issue of what is on the State balance sheet, the various semi-State bodies, the universities, the section 38 entities and companies which receive more than 50% of their funding from the public purse but may not be on the State balance sheet. I also want to raise the issue of accounting for public private partnerships. I will also raise the issue of what I describe as contingent liabilities, medical negligence and the accounting policies of the HSE, the biggest State organisation. Some of these policies are set down by the Minister in legislation and do not fully comply with international accounting standards. We exclude contingent liabilities. I intend raising the issue of agencies such as NAMA, which are not on the State balance sheet. I will raise these issues to have them taken into consideration. The final issue is contingent assets. There is money out there that the State does not collect. We all hear about the money the Department of Employment Affairs and Social Protection does not collect from people who - for example - have received a week's dole payment they should not have received. We hear nothing at all about employers who owe money for redundancy refunds. The State does not have a mechanism to account for that. The Department does not have a contingent assets section to deal with the non-principal private residence charge. If someone wants to sell a house ten years from now, the Government will be happy to take the €7,000 then, but the money is due now. There is no mechanism to know what

is due. I will raise those types of issues.

**Deputy David Cullinane:** Is the report written?

**Chairman:** No. I have written some speaking notes.

**Deputy Catherine Connolly:** What is the Chair going to say about NAMA being off the State balance sheet?

**Chairman:** I am going to raise the issue of NAMA-type organisations being off the State balance sheet. I want to put it on the public record. The public does not understand this. As we all know, NAMA was created when the Government took over the banks on behalf of the State and the taxpayer. I will explain this in two sentences. The Government did not want that on the State balance sheet.

**Deputy Catherine Connolly:** It took the Comptroller and Auditor General a big chapter to explain it.

**Chairman:** If I am not 100% right, Mr. McCarthy can correct me down the line. The principle of what I am saying is as follows: the idea of setting up an organisation called the NAMA Group was developed in the Department of Finance. The NAMA Group has a shareholding of €100 million. Some 51% of it is owned by the private sector. One of the insurance companies - Irish Life - owned some of the 51%, but it had to divest some of that. As it happens, quite a lot of the 51% is now owned by trustees on behalf of various Church of Ireland pension funds. The State owns 49% of the shareholding. The State's shareholding gives it some power. The 51% cannot make any decision without the 49%.

**Deputy Bobby Aylward:** Or *vice versa*.

**Chairman:** Yes. The 51% is off the State balance sheet because it is technically in private ownership. It is a great con job. Europe and everyone signed up to that mechanism to get it off the State balance sheet. Logically, it should be part of the State apparatus. It is not on the State balance sheet. I want to raise those types of accounting issues. I know we are about to talk to representatives of NAMA.

**Deputy David Cullinane:** They are outside the door.

**Chairman:** I say all of this to clear up what has to happen next Wednesday. Deputy Burke and I will talk to the nerds from the OECD about boring accounting stuff next Wednesday. We have concluded our discussion on the work programme. People know where we are. An invitation for next Tuesday will be sent to the Accounting Officer, Mr. Martin Fraser. A delegation from the committee will meet representatives of the OECD next Wednesday. Those who want to attend should contact the secretariat. We will not have any external witnesses before us next Thursday. We will deal with specific matters from our work programme - CervicalCheck and third-level education - and, under the business of the committee, we will have a lot of correspondence to catch up on. Before we suspend for five minutes, Deputy Aylward would like to raise a final matter.

**Deputy Bobby Aylward:** I would like to make a request under the work programme. I know it has gone in. I was supposed to send it in yesterday evening.

**Chairman:** We will have it next week.

## COMMITTEE OF PUBLIC ACCOUNTS

**Deputy Bobby Aylward:** The issue of Bus Éireann's school transport service always raises its head at this time of year. Like everyone else around the country, I am hearing about problems with the provision of the service, particularly with regard to concessionary tickets. It causes uproar in rural Ireland at this time of year every year. I know that a report was compiled last year. The Comptroller and Auditor General might comment on this. I wonder whether we have any role to play in this regard. Can we play a role in examining value for money in the system as it is being rolled out at the moment? Could we make any input? Some €195 million in taxpayers' money is being spent on this service every year. I do not think the service is up to scratch. It needs to be reviewed and we should play a role in any such review.

**Chairman:** Deputy Kelly wants to come in on the same issue.

**Deputy Bobby Aylward:** I ask the Comptroller and Auditor General-----

**Chairman:** Everyone could speak on this matter, so I will close it off.

**Deputy Alan Kelly:** I agree with the previous speaker. This is the bane of my life.

**Deputy Bobby Aylward:** It will not be any use talking to the Minister of State, Deputy Halligan. I try to talk to him, but he will not talk to me anyway.

**Deputy Alan Kelly:** This is the bane of my life at this time of year.

**Chairman:** We all know it.

**Deputy Alan Kelly:** It is very regrettable that a Fianna Fáil Minister brought in this scheme in 2010.

**Deputy Bobby Aylward:** Hold on. If the Deputy wants to know, it was implemented by the Labour Party in 2011.

**Deputy Alan Kelly:** It was the Deputy's party, but we will leave politics outside the door.

**Deputy Bobby Aylward:** The Deputy mentioned Fianna Fáil. It was the Labour Party that implemented it.

**Deputy Alan Kelly:** I am only hopping the ball. Will the Deputy take a joke? The point is that a value for money issue potentially arises in this context. Maybe we should stick it on the programme somewhere.

**Chairman:** We will ask for it to be considered on the work programme.

**Deputy Bobby Aylward:** I thought my request would have been in sooner. It might not have been in until this morning.

**Chairman:** We will discuss it next Thursday.

**Deputy Bobby Aylward:** Okay.

**Chairman:** I will suspend the sitting briefly while the witnesses take their seats.

*Sitting suspended at 10.15 a.m. and resumed at 10.20 a.m.*



## Comptroller and Auditor General Special Report No. 102: National Asset Management Agency Second Progress Report

**Mr. Brendan McDonagh** (*Chief Executive Officer, National Asset Management Agency*), **Mr. Frank Daly** (*Chairman, National Asset Management Agency*) and **Mr. Des Carville** (*Department of Finance*), called and examined.

**Chairman:** Our meeting today will deal with NAMA's financial statements for 2016 and 2017 and the Comptroller and Auditor General's special report No. 102 on the National Asset Management Agency second progress report, which was published during the course of the summer. We are joined by Mr. Frank Daly, chairman of NAMA, Mr. Brendan McDonagh, chief executive, Mr. Alan Stewart, chief legal officer and Ms Noelle Condon, chief financial officer. From the Department of Finance we are joined by Mr. Des Carville, head of shareholding and the financial advisory division. I welcome our witnesses to the meeting.

I remind members, witnesses and those in the Public Gallery to turn off their mobile phones completely. 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 the committee. If they are directed by the committee to cease giving evidence on a particular matter and they continue to do so, they are entitled thereafter only to qualified privilege in respect of that evidence. They are directed that only evidence concerning 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 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 of the committee are reminded of the provisions of Standing Order 186 to the effect 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 a policy. While we expect witnesses to answer questions clearly and with candour, witnesses can and should expect to be treated fairly and with respect and consideration at all times, in accordance with the witness protocol.

We will start with a statement from the Comptroller and Auditor General, to be followed by a statement by Mr. McDonagh.

**Mr. Seamus McCarthy:** I am joined for this part of the meeting by Ms Patricia Devlin, deputy director of audit.

The National Asset Management Agency Act 2009 defines the purposes which NAMA is statutorily designed to serve, and requires the board of NAMA to set strategic objectives and targets to guide its activities. Under section 226 of the Act, I am required to carry out periodic reviews of the extent to which NAMA has made progress towards achieving its overall strategic objectives. The report on the findings of the second progress review is before the committee today and covers the period to the end of 2016. I propose in these comments to outline the report's findings in just a few key areas, updating where relevant to incorporate information from the 2017 audited financial statements.

NAMA is a complex organisation, comprising a group of interrelated companies. At group level, NAMA has returned a surplus each year since 2011, following a significant loss incurred in 2010, its first year of operation. The strongest surpluses were returned in 2015 and 2016. This is reflected in NAMA's retained earnings of €3.4 billion by the end of 2017, as indicated in the figure now on screen. As at the end of 2017, the board expected NAMA will return a surplus



of between €3 billion and €3.5 billion to the Exchequer upon completion of its work, assuming property market conditions remain favourable while the remaining assets are worked out.

NAMA's primary purpose was to acquire property related loans and related collateral from distressed banks, to hold and manage those assets, and ultimately to dispose of them within the ten-year timeframe in a manner that protects the State's interests. Members will recall from earlier reports that NAMA paid the banks participating in the rescue a total of €31.8 billion for loans that had a par value of €74.4 billion. Because the average prices paid for the loans exceeded their assessed November 2009 market value and the property market continued to fall, NAMA subsequently recognised significant loan impairment charges.

After acquiring the loans, NAMA developed strategies for dealing with debtors on an individual so-called debtor connection basis. Sales of loan assets commenced early on, and additional loans were provided to certain co-operating debtors to fund agreed work-out plans. The net effect of these changes, including impairment, is reflected in the value of NAMA's stock of loans and receivables, which reduced from €27.9 billion at the end of 2010 to €3.2 billion at the end of 2017, a reduction of 89%, as indicated in the figure now on screen. On this basis, the disposal by NAMA of its loan assets is substantially completed.

By the end of 2017, NAMA had generated proceeds of €34.1 billion from the sale of loans and receivables. This comprised €23.5 billion realised through the sale of underlying collateral and €10.6 billion realised through loan sales. Almost €22 billion, or 64%, of the proceeds were generated in the three years 2014 to 2016, when NAMA loan sales peaked, as shown in the figure on screen now.

The 2009 Act requires NAMA to obtain the best achievable financial return for the State in carrying out its statutory functions. How that return is to be measured is not defined in the Act. Following examination by this committee in 2014 of the first progress report, the NAMA board set an entity return on investment, EROI, target to be achieved over its projected lifetime. This measure was designed to relate NAMA's projected final surplus in 2020 to its initial investment, less an estimated €5.6 billion paid to the banks in excess of the loan market values. The board agreed in 2014 on a target EROI value of 20%. The final surplus of €3 billion projected by the board as at the end of 2016 would result in an EROI of 33%, that is 1.6 times the target.

The key shortcoming of NAMA's EROI as a performance measure is that it ignores the time value of money, which relates to how long it will take to receive the return. A better, and market-standard, performance metric for property related investments is the internal rate of return, or IRR. However, NAMA has not set targets in that regard. Based on what NAMA paid for its loans and its projected cashflows as at the end of 2016 for each of its loans, the examination team estimated NAMA's projected IRR on all loans to be around 6.2%. This is the estimated return available to cover NAMA's expenses, including annual interest payments on its borrowing, which were in the range 1.5% to 2.25% between 2010 and 2016, as well as its other operating costs.

A key objective set by the NAMA board was that, by the time the agency was due to be wound up in 2020, it would have generated enough cash to redeem all of the €30.2 billion of senior debt issued. The board also set intermediate targets for redemption of debt. NAMA significantly exceeded the intermediate targets and all the senior debt was redeemed by October 2017. The only debt outstanding at end 2017 was subordinated debt of €1.59 billion.

The NAMA board adopted two secondary objectives in 2014 in respect of facilitation of

the delivery of residential units and office accommodation in the Dublin docklands strategic development zone, SDZ. NAMA initially committed to delivering 4,500 new residential units to service the Dublin market over the three years to the end of 2016. In 2015, that initial target was replaced with a national target of 20,000 units to be delivered up to the end of 2020. NAMA has reported that by the end of 2016, it had delivered 4,647 units nationally, including just under 3,400 in Dublin. It was forecasting the delivery of 3,500 units in 2017 and a further 14,000 units between 2018 and 2020. With regard to the docklands SDZ, the board approved initial strategies for the NAMA-controlled sites in 2014. NAMA has reported that by the end of 2016, construction had commenced on projects in the SDZ comprising some 166,000 sq. m of commercial and office space and 231 residential units. There is considerably more detail in the report which I am happy to outline further if the committee requires.

**Chairman:** I thank Mr. McCarthy for that extensive opening statement. He had a special report over and above what we normally have here. I invite Mr. McDonagh to make his opening statement. He is very welcome. It has been quite a while since he was here so it is good to have him back.

**Deputy Alan Kelly:** He missed us.

**Mr. Brendan McDonagh:** The committee has invited us to discuss NAMA's 2016 and 2017 financial statements and the Comptroller and Auditor General's second progress report on NAMA, which was published in July 2018. The key financial results set out in the 2016 and 2017 financial statements represent significant progress for NAMA in terms of achieving its objectives. We recorded an aggregate profit of close to €2 billion over the two years: €1.503 billion in 2016 and €481 million in 2017. We generated a total of €8 billion in cash in 2016 and 2017 and this was used to redeem €8.1 billion of senior Government-guaranteed debt, the last tranche of which was paid in October 2017, some three years ahead of schedule. The carrying value of our loan portfolio, which was €7.8 billion at the end of 2015, fell to €3.2 billion by the end of 2017 and further to €2.7 billion by the end of June 2018.

We now project that we will deliver a terminal surplus of €3.5 billion to the Exchequer assuming that we can extract full value from the residual loan portfolio and that economic and property market conditions in Ireland remain relatively benign over the next two or three years. In addition, based on payments to date and projected payments, we estimate that NAMA's cumulative tax contribution to the Exchequer could ultimately be of the order of €400 million, which would bring NAMA's overall contribution close to €4 billion. This is a long way from the doomsday scenario painted by some commentators back in 2009 that NAMA could lose €10 billion or more.

Much of the portfolio that is left is secured by residual assets which have been retained so that we can maximise their value, either by funding their development or by funding their progression through the planning system and thereby enhancing their ultimate disposal value. Part of the residual portfolio is also secured by assets which are of relatively low value but which, in many cases, involve legal and other complications which will take time to resolve and which will require careful management if we are to extract maximum value. Maximising value is an obligation imposed on us by section 10 of the National Asset Management Act, which requires us to get the best financial return for taxpayers. At this stage, the residual portfolio is almost exclusively secured by assets located in Ireland. As of now, the value of residual assets located in foreign jurisdictions is less than €100 million. By comparison, the loan portfolio that we originally acquired was secured by some €15 billion of assets located outside of Ireland.

I now turn to the progress that has been made on the achievement of NAMA's principal objectives. This is the subject of the Comptroller and Auditor General's second progress report. The report was prepared under section 226 of the National Asset Management Agency Act, which requires the Comptroller and Auditor General, on a triennial basis, to assess the extent to which NAMA has made progress towards achieving its overall objectives. The first Comptroller and Auditor General progress report, which was published in 2014, concluded that, overall, taking account of NAMA's performance to date and its operating cash flow estimates for the period to 2020, it appears that unless there is a further significant economic downturn in the next few years, NAMA will generate sufficient cash to meet its minimum key objective of redeeming the senior debt. Fortunately, there has been no significant economic downturn in the intervening four years. This second progress report notes that the key senior debt redemption objective has been achieved and also records progress on a number of other major objectives. It is clear from the report that NAMA is well on course to achieve what it was set up to do and also to deliver a substantial surplus to the Exchequer. It has also made a number of other valuable collateral contributions, particularly in funding the provision of much-needed commercial and residential accommodation.

The principal objective set by NAMA in its early years was to redeem the debt of almost €32 billion which it issued to the participating institutions in 2010 and 2011 to acquire a large portion of their property related loans. The senior debt of €30.2 billion, which was a contingent liability - Government-guaranteed - on taxpayers, was repaid in full by October 2017. In addition, we have now repaid a third of the €1.6 billion subordinated debt and expect to redeem the rest of it by its first call date of 1 March 2020. Earlier this year, we made an offer to holders of our subordinated debt to indicate terms at which they were prepared to sell some or all of their holdings to us. In the intervening period, we have bought back €529 million of the subordinated debt at prices which will achieve future savings for taxpayers. We will continue to avail of any opportunities to redeem subordinated debt in advance of the March 2020 call date, but it is quite possible that some of the holders will wish to retain the debt until then. The NAMA private investors will be paid after the subordinated debt has been redeemed. Only then can NAMA's terminal surplus be transferred to the Exchequer.

In addition to the redemption of the senior debt, much progress has also been made on a number of other objectives set by the board and mentioned in the Comptroller and Auditor General's second progress report. I will refer to two in particular, namely, the development of the Dublin docklands SDZ and the residential delivery programme. These initiatives were launched by NAMA in 2014 and 2015, respectively.

As regards the Dublin docklands SDZ, the 15 sites in which NAMA initially had an involvement had the capacity to deliver 4.2 million sq. ft of office and other commercial space and 2,200 residential units. The NAMA board approved its Dublin docklands strategy and business plan four years ago and, at that stage, only 1% of the delivery capacity of the docklands sites had progressed beyond the pre-planning stage. NAMA undertook to generate activity in the docklands to bring coherence, direction and drive to its regeneration and development. We said that we would work closely with Dublin City Council and others to bring that about and that we would provide the entire funding if that proved necessary. Today, four years later, 61% of the 4.2 million sq. ft capacity is at the construction stage, another 18% has been completed or sold and planning permission has been achieved for the development of the remaining 21%. We are pleased that we have been able to act as a catalyst for the development of the docklands area without putting taxpayer funds at risk. Much of the funding for the area's development has come from private investors and financial institutions. The development of the Dublin dock-

lands has substantially improved Dublin's capacity to attract investment, including businesses which may be considering moving out of Great Britain over the coming years in response to the impact of Brexit.

One of our other major objectives is to facilitate the delivery of housing from sites controlled by our debtors and receivers. Under EU law, we are required to operate on the same basis as private market operators. This means that we can fund the development of residential projects only if they are commercially viable. Otherwise, we could be deemed to be in breach of state aid rules. Deputies may be aware that in January of this year, further to a complaint made in late 2015, the European Commission undertook an extensive review over a period of two years and concluded that NAMA's residential funding programme was not in breach of EU state aid rules. Judging by some of the public discussion on housing, I am not sure that it is widely understood that the State has limited room for manoeuvre when it comes to funding private residential development. If a State body is in the business of funding the delivery of private housing, it is required to operate on the same commercial basis as a market operator. That means that under state aid rules, a State body cannot fund the development of sites that are not commercially viable to develop for private housing regardless of the scale of the supply shortfall in Ireland nor can it subsidise residential development by means of low interest rates or other special concessions that the market would not countenance. Accordingly, the ability of any State body, including NAMA, to fund the delivery of housing is limited to those sites which are commercially viable at any particular time.

Despite the strong growth in sales prices in recent years, commercial viability is still a constraint on residential development. Two years ago, the Society of Chartered Surveyors Ireland, SCSi, estimated that the total cost of delivering a three-bedroom semi-detached house in the Dublin area was of the order of €330,000, including a site cost of €57,500. In the period since the SCSi published its report, the rise in sales prices has been matched by increases in development land prices and, as a result, achieving commercial viability on many sites remains challenging. Rising sales prices mean that affordability has become a major issue, especially in the context of the macro-prudential loan-to-income, LTI, and loan-to-value, LTV, restrictions.

Some of the recent public and media discussion on housing delivery has tended to be overly simplistic in its analysis. There seems to be a widespread but fallacious assumption that any land with residential planning permission which is not actually being developed is thereby being hoarded. I can only speak on behalf of NAMA but the point applies to others also. The reality is that one cannot fund the development of a residential site if it is not commercially viable to do so. Does that mean that we are supporting the hoarding of land? We are not. I can assure the committee that as soon as a site becomes commercially viable, there is no hesitation on NAMA's part to fund its development.

There are other complications to be considered also. Each site has its own unique aspects. Some large sites require rezoning decisions by local authorities if they are to be developed. Others require revised planning approval if they are to become viable. Others still cannot be developed in advance of the provision of infrastructure such as roads, water, sewerage and other services. All of these issues can be resolved over time but they require extensive and patient engagement with planning authorities and other stakeholders. The prolonged effort that is often required to bring sites to the shovel-ready stage is not widely appreciated; it can often involve detailed preparation for two or three years in advance.

If there is to be a well-informed public discussion on housing supply, it needs to be recognised that not all of the sites which are zoned or have planning permission for residential de-



velopment are in fact commercially viable to develop at prevailing prices. In my view, the more pertinent issue is whether all of the sites which are commercially viable are in fact being developed and, if not, why. Only in those cases would it be reasonable to claim that sites were being hoarded. In respect of any sites which have viable planning permissions but are not being developed, I would fully support the use it or lose it principle.

There has been much talk recently of the emergence of private rented sector, PRS, opportunities. PRS involves the commitment of capital by investors to the development of apartments which are then rented in the market thereby creating an income stream for the investors. PRS is a relatively new asset class and, to the extent that it contributes to an expansion of residential supply, it is to be welcomed. There is no doubt that some apartment sites would not be developed without PRS capital. However, I would caution against the view of PRS as some kind of panacea which will make a major contribution to long-term supply. Funds directed towards PRS seek higher returns than are currently available from money and bond market investments and, as long as bond yields are low, PRS will be an attractive asset class to those investors. It will be interesting to see, however, whether PRS will retain its appeal to investors in an environment of rising interest rates as quantitative easing tapers off.

We remain focused on maximising the delivery of housing from sites controlled by our debtors and receivers. I believe that the almost 8,000 units that NAMA has directly funded since 2014 represent a significant contribution to housing supply. Another 2,500 units have been indirectly delivered on sites that we facilitated and supported. Our target is to facilitate the delivery of 20,000 units by the end of 2020. We will fund much of this delivery directly but in some cases, where sites are at the shovel-ready stage, it is possible to transfer the development risk to licensees or through sales to private developers.

Some of our debtors have refinanced their loans and have now made the transition to bank funding or to other sources of capital. Others will do so over the next two to three years. In funding residential development, our primary goal is to recover as much as we can from the loans. The ability of some debtors to refinance their loans on terms that also make commercial sense is a clear sign that the market is reverting to more normal conditions.

One site which has the capacity to make a major contribution to housing supply in central Dublin is the Poolbeg west strategic development zone, SDZ, in Ringsend. This site, which is under the control of a receiver, is one of the few large development opportunities still available in Dublin. It has the capacity to potentially provide up to 3,500 residential units and 860,000 sq. ft. of commercial development as well as school sites and community space.

This site provides a good illustration of the lead-in time and effort involved in bringing a major residential project to the point at which construction can actually begin. It was designated as an SDZ by the Government in May 2016. Dublin City Council, acting as the development agency, published the draft Poolbeg west planning scheme in January 2017. More than 100 submissions were received from various parties and had to be considered by the council before it approved the plan in October 2017. There was an oral hearing held by An Bord Pleanála in April 2018 and final adoption of the Poolbeg planning scheme by An Bord Pleanála is expected to occur over the coming months. It will then be necessary to submit planning applications to the council for the development of site infrastructure such as roads and for the first phase of the project. From the design stage to final planning approval, each phase approval process is expected to each take about 12 months. It is unlikely that construction of the first phase of apartments will begin before 2020, some four years after the Government designated the site as an SDZ.

Clearly, development of this strategic site will be a massive undertaking in terms of the capital expenditure required, the significant risks involved and the envisaged seven to ten year time-frame. The receiver is currently engaged in negotiations with Dublin City Council with a view to reaching a commercial agreement on the funding of the 900 social and affordable units - out of a total 3,500 units - which are required under the plan approved by the council. If agreement can be reached between the receiver and the council, it will then be possible, after adoption of the scheme by An Bord Pleanála, to proceed with implementation of the delivery strategy.

Overall, the market is responding, albeit slowly, to the shortfall in residential supply. The Central Statistics Office estimates that almost 14,500 new dwellings were completed in 2017, an increase of 46% on the output for 2016. Projections suggest that output in 2018 will be of the order of 18,000 units. This is still well short of the annual requirement of 30,000 to 35,000 units but things are moving in the right direction. Funding is now more readily available, particularly from non-bank sources, and the proposed establishment of Home building finance Ireland, HBFI, should help to expand further the supply of residential funding. Capacity is also an issue and there is clearly a shortage of some key house-building skills. Against that background, I believe that the gap between annual private housing supply and demand is unlikely to close for three or four years. The more difficult issue is how the demand for social and affordable housing will be met in the near term. Resolving this will be crucial if we are to have a more orderly market for renters and purchasers.

To sum up, I believe that NAMA has made major progress towards achieving its objectives. Its principal objective - redeeming the €30 billion in senior debt which was a contingent liability for taxpayers – has been achieved. There is still a great deal of work to be done by NAMA. Our focus now is twofold. We have to extract as much value as possible from our residual portfolio with a view to maximising the terminal surplus that we ultimately hand back to the Exchequer; and, second, we have to fund or facilitate the delivery of as much housing as is commercially feasible from the loans attached to our debtors and receivers

**Chairman:** I thank Mr. McDonagh for another extensive and comprehensive opening statement. The lead speakers today are Deputies Peter Burke, who has 20 minutes, and David Cullinane, who has 15 minutes. All other members will have ten minutes and they have indicated in the following sequence: Deputies Alan Kelly, Catherine Connolly, Marc MacSharry and Catherine Murphy.

**Deputy Peter Burke:** I welcome the comprehensive opening statement from Mr. McDonagh and thank the witnesses for attending. The opening statement was very detailed in setting out the €30.2 billion, the task in respect of the senior debt and the contingent liability that was hanging over our Exchequer, which has now been repaid. I also refer to the repayment date of March 2020. Could Mr. McDonagh give me a brief overview of the geographical location of the overseas assets NAMA holds now, and the strategy employed in disposing of them?

**Mr. Brendan McDonagh:** As I said in my opening statement, when we started out we had €15 billion worth of assets overseas, which is a substantial amount in any portfolio. It was certainly very important that we had overseas assets in the early days, when Ireland had gone into a troika programme. The whole commercial and residential property and land market here had just died; there were no buyers and prices were dropping rapidly. We used that period to look at our overseas portfolio and to generate cash. Thankfully at the time, we caught a bit of a wave.

After the 2008-2009 crisis, most of our overseas assets were based in London, to the value of about €10.5 billion. We sold mainly from 2010 to 2016 into a rising market and we did very



well with the London portfolio particularly. We had about €2 billion of assets in the US and about €2.5 billion of assets in other locations in Europe. The sale of those assets in the UK was pretty straightforward because it is the same legal system as in Ireland by and large. Certainly the sale of assets in other overseas jurisdictions was sometimes quite difficult because we had a lot of local vagaries in law which we had to take account of. Thankfully, we go out of the overseas market. It was always our objective to be out of it as much as possible by the end of 2016 and we achieved that. As of today, what we have left is only about €3 million in London. In regional UK we have about €40 million and in the rest of the world including the US and continental Europe we have about another €40 million. It is less than €100 million, as I said in my statement. As of today, all our portfolios are effectively Irish-centric. Some 70% of the portfolio is in Dublin. Dublin and the contiguous counties, or what we call the commuter belt, and Cork, Limerick and Galway account for about 98% of the portfolio. We have only about 2% in what we would call regional Ireland. It is a good place to be at this point.

**Deputy Peter Burke:** I thank Mr. McDonagh. It obviously shows a huge amount of progress on our overseas property and loan portfolio. Obviously, when an organisation such as NAMA is acquiring in excess of 12,000 loans, there will always be public commentary and debate on aspects that people deem controversial. It was very clear from the NAMA Act, however, that assets were to be disposed of judiciously and that the aim was to try to get rid of the contingent debt.

I would like Mr. McDonagh to comment on some of the newspaper speculation and sales without getting into significant detail in each case. I have written down details of reports on sales I have seen in newspapers. Dock Mill, Barrow Street, sold for €1.3 million and within a year it was resold for €13 million. A site on Sir John Rogerson's Quay was sold for €7.5 million. It flipped two years later for €17.5 million. New Century House in the IFSC was sold for €28 million and was sold six months later for €47 million. What really got us into trouble in this country was speculation on property. Sometimes the metric the media and others use to adjudicate on NAMA is that of speculation. It is asked why the agency does not take advantage immediately of market values that may or may not rise in the future. It is asked why the agency is not more commercially sensitive or sharp, for want of a better word, but this does not take cognisance of the way it was set up and its remit in legislation, and also its remit to reduce the sovereign debt. How does Mr. McDonagh feel about this commentary? Does he believe it is unfair when sales such as the ones I have mentioned are picked out?

**Mr. Brendan McDonagh:** There are a few points I would make about that. First, the Irish market was dead. We had to get the Irish market moving. People invested capital in the early days before Ireland got into bailout. We got the best price we could get for the assets at the time. We had to generate some cash flow in Ireland and get some activity going to get some investors into the Irish market. It always amuses me when people pick out examples and ask whether I wish I had held onto certain properties to get more money from them. Of course I do but at the time we were trying to generate cash. We had a troika target of paying off €7.5 billion by the end of 2013. That was non-negotiable. I used to attend meetings every six months with the troika, with 40 people in the room, including representatives of the IMF, European Commission and the European Central Bank. They would be shouting across the table at me asking why NAMA was not selling more and generating more cash. They said they wanted NAMA to generate more cash and that it was too slow generating it. That happened. We said we would reach the target of €7.5 billion, and we achieved that.

People do not comment on the other sales in respect of which we have done spectacularly

well. Nobody talks about that because it does not suit anybody to talk about that. Let me give an example. I am not saying this is right either but it just shows the other side, about which nobody talks. Eighteen months ago, when we put on the market an asset that we just sold recently, people were offering us €10 million for it. We did not sell it then. We have just completed a sale for €30 million. Therefore, we got three times the value that would have been realised 18 months ago by changing our minds and saying we would not sell at that point in time. The buyer is the buyer. It is a very expensive asset for him — good luck to him for buying it. That is a big change in 18 months. We benefit from that.

**Chairman:** On that case, did the State recover the full par value of the loan?

**Mr. Brendan McDonagh:** On that particular case, no, but that-----

**Chairman:** That is all I am asking. There was no surplus-----

**Mr. Brendan McDonagh:** The reality is that I am not responsible for the bank that lent the money in the first place.

**Chairman:** Correct.

**Mr. Brendan McDonagh:** Maybe €40 million was lent to buy the piece of land.

**Chairman:** I am just making the point that if more than the bank debt had been cleared, some of it might have gone back, but it did not. It is just an example of how bad the first loan was-----

**Mr. Brendan McDonagh:** Yes, exactly. Some €74 billion was loaned by the banks. We took over those loans. There was over-lending. We bought the loans for what they were and we had to sell some of them. As the Deputy outlined, some are disputed. The values achieved were the best available at the time, when people invested capital but, as I said, on the other side there are examples of assets regarding which we have achieved a huge amount. Nobody talks about them, however.

**Deputy Peter Burke:** It often amuses me when somebody uses the original par value of the loan as a single metric, based on figures at the height of a boom when there was irresponsible lending, and tries to judge the agency exclusively on that. One sees this in media commentary. I genuinely believe this is harsh because, when the agency took over, the property was only worth the value it took in terms of the haircut that was given.

Mr. McDonagh said that when the troika was involved, there were 40 people in the room. Did he feel real pressure was being applied to the agency in that regard? Does he believe the Act was too narrowly focused in its use of the word “expeditiously” and in terms of the pressure put on the agency under a short timeframe?

**Mr. Brendan McDonagh:** The Act is the Act. People can say many things about the legislation but I believe section 10, which refers to the best achievable financial return, has been a very good guide and a very good standard bearer for the NAMA board in terms of setting out its job and what it is supposed to do. The word “expeditiously” was inserted by the legislators. The legislation passed through the Oireachtas. We had to take account of that. Bearing in mind the word “expeditiously”, it is not stated that everything must be sold on day one; it just means that one does not hang around. Ireland was heading into bailout territory even when the NAMA legislation was being dealt with in 2009. The debt was spiralling very quickly. When the legis-

lation was passed, I was called in by the then Minister for Finance, the late Brian Lenihan, and he said to me that there was a big problem, that the legislation was passed and that the Oireachtas expected NAMA to get on with it. He said, “Just do the job properly and do not make the problem worse.” That was his direction to me at the time. He said, “Do not make the problem worse; there are enough problems in this country. Get on with it.” I have tried to live by that in terms of trying to make sure we come out the right side.

**Mr. Frank Daly:** Let me comment on the Act. I have been around many Acts in my time. One of the great strengths of the NAMA Act is the focus it gave to the board and the organisation. There are all sorts of other solutions talked about from time to time and it is said that perhaps we should have done other things with the loans, but the fact that NAMA was set up and had a very focused remit, reflected throughout the Act, has comprised much of the reason we are where we are today, with a successful outcome, rather than where we could have been. I know that is based on hindsight but-----

**Deputy Peter Burke:** Could Mr. McDonagh elaborate on the pressure from the troika at the meetings?

**Mr. Brendan McDonagh:** I recall one particular meeting in July 2011, which was in the early stages of the troika process. It was a very tense meeting. Obviously, there were three groups that came together: the European Commission-----

**Chairman:** May I interrupt for a moment? I have to leave for 20 minutes or so, and the Vice Chairman has to leave. The next speaker scheduled after Deputy Peter Burke is Deputy David Cullinane, who is to be followed by Deputy Catherine Connolly. In light of that, and with the committee’s agreement, I ask Deputy Shane Cassells to chair the meeting for the short period during which we are away. Is that agreed? Agreed.

*Deputy Shane Cassells took the Chair.*

**Mr. Brendan McDonagh:** To answer Deputy Peter Burke’s question on the meeting in July 2011, it was very tense. It was one of the first meetings. I suppose the troika was being very tough on everybody at the early stage in terms of the programme. I remember, in particular, that the ECB was particularly vociferous in asking why we did not just sell everything. If we had sold everything at that point, we would not have got back €32 billion, which was what we paid. Since the market was plummeting, we might have got back €18 billion or €20 billion, and another €12 billion or €14 billion would have been added to the national debt to cover that loss. I resisted that and held my ground and I remember the representative from the ECB walking out of that particular meeting. In fairness to the other two parties, the European Commission and the IMF, they said that they understood my position and that I had a job to do and a target to meet. They agreed that I should get on with trying to reach that target, which was €7.5 billion

**Deputy Peter Burke:** Would Mr. McDonagh say that there was little solidarity shown by the ECB at that time, in terms of the mood music and the pressure it was exerting?

**Mr. Brendan McDonagh:** The issue was that NAMA was another contingent liability. The NAMA bonds were being used by the banks to go to the ECB to get cash. The ECB felt that the Irish banks were overly reliant on it.

**Deputy Peter Burke:** There was not much consideration given to the collateral damage to Ireland’s economy and prospects for growth.

**Mr. Brendan McDonagh:** My position was that I would not be party to a sell-off of the portfolio that would involve huge losses when I believed that there would be longer-term value in the portfolio if we kept our cool and rode it out. That was the right thing to do and I stand by that decision to this day. People talk about NAMA selling off assets in 2010 or 2011 and argue that we got very bad value. They point out that the buyers of those assets made lots of money afterwards but they must remember that at that time there was very little capital around in terms of people who were prepared to invest in Ireland. People also forget that most of our portfolio was in Ireland and we had only sold €1 billion of that portfolio by the end of 2012. That was a very strategic decision made by the NAMA board to sell a certain amount into the market to get the market going. Every time we sold property we were getting the best possible value at the time. We knew that the people who bought that property would probably make a substantial profit on it in the future but what could we do? We needed to generate cash to reach the €7.5 billion target.

**Deputy Peter Burke:** Mr. McDonagh refers to “extensive and patient engagement” in the context of local authorities and getting sites ready. The take-up by local authorities of NAMA properties for social housing was only 40%. In terms of the jigsaw that is the housing crisis, what is Mr. McDonagh’s view of how the local authorities are dealing with the issue in the context of NAMA’s engagement with them?

**Mr. Brendan McDonagh:** People must understand that NAMA did not own the properties involved. Our debtors or receivers owned them. We only held the loans. We told our debtors and receivers that there were potential buyers of their assets in the form of local authorities. We pointed out that there was an opportunity for them to sell unsold stock. We also worked with the Housing Agency and the Department of Housing, Planning and Local Government. We gave them information on the properties that were available, their locations and so forth and asked if they were interested in them. The Housing Agency then engaged with the local authorities. Approximately 7,500 properties were offered to the local authorities and confirmed demand stands currently at 2,700. Some local authorities were very quick off the mark. They expressed an interest in buying units in certain locations, agreed a price and the debtors or receivers were happy to sell. We were happy to approve sales on that basis, as long as market value was achieved. Other local authorities, however, took a very long time to consider the matter. As the housing crisis has worsened, some local authorities are now regretting having rejected properties offered to them between 2012 and 2015 when the housing crisis was not so acute. Unfortunately, however, the debtors or receivers have sold them into the market at this stage.

At this point, NAMA has about 2,900 units left in its portfolio, approximately 1,400 of which are in National Asset Residential Property Services, NARPS, our special purpose vehicle, SPV, which means they have been provided for social housing. They have been leased to approved housing bodies and local authorities. The remaining 1,500 are effectively rented. I looked at the figures yesterday and of that 1,500, approximately 190 are unoccupied. I asked why 190 were unoccupied. I found that 90 have been sold but the new owners have not yet moved in and the others are being remediated because there are fire safety issues with them. We are spending a lot of money on remediation so that those units will become available again. They cannot be occupied at the moment because if something happened, we would be vicariously responsible. We cannot let people into units when we know that they do not have a fire certificate or that there are other structural issues that render them unsafe. We have very little stock left at this stage. Every unit that has not been sold and that can be rented and used is available. The only additional units that will become available for social and affordable housing will become avail-

able through two mechanisms. The first is Part V, which makes 10% of developments available so that out of every 50 units built, for example, five will go to the local authority. The other significant mechanism is the deal that will hopefully be concluded with Dublin City Council on the Poolbeg site. If An Bord Pleanála approves the 3,500 unit scheme, 10% will be social housing, amounting to 350 units and another 15% or 550 units will be affordable housing which will be sold to Dublin City Council. Hopefully a deal can be concluded. That is the situation with NAMA at this point. We offered up what we had over a number of years. By the time some local authorities came back to us the debtors or receivers had sold the properties on or in some cases the debtor had paid off his or her par debt and had moved out of NAMA, in which case we could not offer the properties any more.

I will refer briefly to the issue of unfinished housing estates. There were many examples of estates of around 35 houses, with ten houses sold and occupied and 15 only half built. NAMA was very successful in reducing the number of such estates by funding the completion of the remaining houses and making some or all of them available to approved housing bodies or local authorities for social housing. That solved two problems - the social housing shortage and the problem of unfinished housing estates. In 2010 there were approximately 1,500 unfinished housing estates in the country, of which 335 were in NAMA. As of today, there are only three such estates remaining. A lot of that is down to NAMA making funding available to complete the estates, which has been to the benefit of everybody.

**Deputy Peter Burke:** I am never one to challenge ambition but does Mr. McDonagh believe the 2017 target of 18,000 units is realistic in the context of NAMA's termination cycle?

**Mr. Brendan McDonagh:** We have been always been careful to say that we will fund and facilitate up to 20,000 units because we believe we can do that. We will probably fund up to 14,000 directly. The other 6,000 are effectively attached to debtors who were in NAMA and who, due to increases in both house and land prices, are in a position to pay off all of their debts. They still have sites which they will build on because they have new lenders who must be paid back but we would have given them funding to bring their sites all the way through the planning process. The sites are shovel ready because NAMA gave them money and supported them. Fair dues to them for paying off their debts, which is the right thing to do but the units will still be delivered. It is in that context that we believe that the 20,000 units will be delivered by the end of 2020.

**Deputy Peter Burke:** Thank you.

**Deputy David Cullinane:** Go raibh maith agat. I welcome Mr. McDonagh, Mr. Daly and the other witnesses to the meeting. I wish to focus on a number of different topics. Notwithstanding the interesting anecdotes of meetings with the troika and Ministers for Finance, I want to first get some context on the performance of NAMA. I have no doubt a lot of good work was done and a lot of good decisions, it seems, were made. Other decisions were questionable and we have scrutinised them in the past, although I will not go back on any of that. I want to put a question to the Comptroller and Auditor General on the overall context and the macro figures as to how much the State put into the banks in terms of the par value of these loans *vis-à-vis* what NAMA got back. What was the overall contribution by the State and how much did NAMA recover? What was the loss, to use that word, given the word "profit" was used a number of times in Mr. McDonagh's opening statement? Before we start talking about profit, we have to put the context out there. Perhaps the Comptroller and Auditor General can do that for us.

**Mr. Seamus McCarthy:** The par value of the loans acquired by NAMA was €74.4 billion.



NAMA paid €31.8 billion for those. A point has been made that, within that payment of €31.8 billion, €5.6 billion was state aid. Effectively, it was the premium that NAMA paid over the current market value of the houses. The fact is that, having paid that €31.8 billion and having covered its costs over a ten-year period, for NAMA to yield a surplus is a kind of contribution back towards the difference between the par value and the acquisition value.

**Deputy David Cullinane:** On the difference between the par value and the acquisition value, those losses would have been crystallised by the banks. Who paid for that?

**Mr. Seamus McCarthy:** Obviously, the State supported the banks. I have reported separately about bank stabilisation. Subject to a final figure from NAMA, we are looking at a figure of about €38 billion to €40 billion.

**Deputy David Cullinane:** If we are talking about profit, we are talking about it in the context of the €31.8 billion and the €5.6 billion of state aid. Whatever is recovered above that figure but short of the €74 billion-----

**Mr. Seamus McCarthy:** Yes. It is reducing the cost of the bank stabilisation.

**Deputy David Cullinane:** I wanted to put that context out there first, as I thought it important.

With regard to housing, and I want to stay with the Comptroller and Auditor General, chart 7.1 gives a breakdown of how many units were completed by NAMA and delivered up to 2016. Is that correct?

**Mr. Seamus McCarthy:** Yes, it initially had a target for the period 2014-16 but it was in 2015, I think, that it revised the targets and took a longer perspective.

**Deputy David Cullinane:** Has Mr. McDonagh the up-to-date figures for how many units were completed and delivered?

**Mr. Brendan McDonagh:** Yes. The latest figures are that we have close to 8,000 funded directly and about another 2,500 built on land which was in NAMA on which former debtors who have existed NAMA have built. It is about 10,500 in total.

**Deputy David Cullinane:** Does Mr. McDonagh have a breakdown of what type of units they are in terms of social, affordable and private?

**Mr. Brendan McDonagh:** Those 10,500 units are mainly private and built according to whatever the Part V aspect of the planning permission was. If it was a new planning permission, 10% would be social housing.

**Deputy David Cullinane:** Is there a percentage breakdown for the 10,500 units? To stick with the 8,000 units, is there a breakdown of how many of those were social and affordable and how many were private?

**Mr. Brendan McDonagh:** They would either be private or would follow whatever the planning permission was. I do not have the figure with me but I can get it and write to the committee with it. If we were to assume it was 10%, and I do not believe it was 10% because some of these were based on older planning permissions from before the mandatory 10% housing provision, of the 8,000 it would be 800 social units and 7,200 private units.



**Deputy David Cullinane:** The reason I ask is that there was very interesting commentary from Mr. McDonagh at the end of his opening contribution about the housing situation, and I will come to that shortly. To understand that and to link his contribution on the housing market and housing problem or crisis, whatever way one wants to describe it, with what NAMA did, one would need to have some sense of who owns those 8,000 properties. For example, how many are owned by corporate landlords and how many by families?

**Mr. Brendan McDonagh:** The majority of the 8,000 units we funded are owned by families - people who bought houses in the private market as private residential buyers.

**Deputy David Cullinane:** Do we have any hard figures on that?

**Mr. Brendan McDonagh:** I do not have them with me. I can go back to the office, get somebody to trawl through the data and then write to the committee. I have no problem doing that.

**Deputy David Cullinane:** Has NAMA done that analysis and Mr. McDonagh just does not have the data with him, or is it something NAMA would not have done?

**Mr. Brendan McDonagh:** I do not have that analysis with me. I would have to get somebody in the office who deals with my MIS, management information system, to go back and dig that out. For any of the units we are funding, we have the loans and the debtor owns the assets. We fund the debtor to build houses but the majority of those houses and apartments are being sold to individual buyers.

**Mr. Frank Daly:** If I may, at the beginning of his contribution, Deputy Cullinane talked about putting some context on the performance of NAMA. On housing, without getting into who is living in them, there are people living in every one of those 10,500 houses. It is no harm to remember that, in the past four years, NAMA has delivered roughly 25% of all of the housing that was delivered in this country, even though we were not set up as a housing agency. In terms of overall performance and overall context, if we go back to the number of houses being delivered each year since 2014, one will find that the percentage directly and indirectly delivered by NAMA is approaching 25%. That percentage, thankfully, is going to reduce as the number of houses being built in the private sector and elsewhere increases. In overall terms, in regard to NAMA's performance-----

**Deputy David Cullinane:** I accept that and I am very interested in learning lessons from the past. Therefore, when I look at the supply of houses now, I am conscious of what happened before, where there might have been an oversupply to speculators who bought houses to make money and speculated on the price of houses. I would much prefer if properties were being sold and given to families who need them and will own them, rather than having huge swathes of homes bought by speculators and companies which are being established to buy up some of these properties. I am interested in the breakdown of that figure. Once I get that, it will give me the answer. Unfortunately, we do not have it today, although I appreciate the points made.

**Mr. Brendan McDonagh:** Just in terms of something I saw-----

**Deputy David Cullinane:** I want to move on to Mr. McDonagh's opening statement.

**Mr. Brendan McDonagh:** I have a bit of generic information that might be helpful to the Deputy, which is not just about NAMA but about the whole market. The Deputy is talking about these funds coming in and buying up apartment blocks. Somebody mentioned to me re-

cently that there are nearly 2.25 million residential properties in the country. If we add together all of what these major funds have bought in Ireland to rent out in what we call the private rental sector, it is probably about 5,000 units, or 2% of the housing population.

**Deputy David Cullinane:** How many residential properties did NAMA sell to Cerberus?

**Mr. Brendan McDonagh:** Residential properties? They were assets that were securities for the loans that we sold to Cerberus.

**Deputy David Cullinane:** While I do not always believe everything I read in the newspapers, a very interesting column in *The Times*, Ireland edition, was headlined “State buys back homes sold to US equity firm”, that firm being Cerberus. Essentially, NAMA sold houses to Cerberus and Cerberus then sold them back to the State’s Housing Agency. I can only surmise that they bought the properties at an attractive price, perhaps made money on them, and then they sold them back to the State.

**Mr. Brendan McDonagh:** I am not responsible for what the Housing Agency does. Some weeks ago, there was a story in a particular newspaper. First it said that it was 26, then it corrected it to say that it was 23 properties which had been bought back by the Housing Agency that were sold as part of a loan sale. When one analyses this further, only four of those 23 were available at that time.

**Deputy David Cullinane:** That is why I put the caveat at the start of my comment, that it was according to one newspaper. Mr. McDonagh might give us a note on that.

**Mr. Brendan McDonagh:** Yes, I will go back.

**Deputy David Cullinane:** I return to Mr. McDonagh’s opening statement. In it he said that the CSO estimates that about 14,500 new units were completed in 2017 and that will increase to 18,000 units in 2018. That is far short of the 30,000 or 35,000 units that were estimated would be required. Mr. McDonagh continued by saying that the gap between the annual private housing supply and demand is unlikely to be bridged for three or four years. Is that a bit optimistic when one considers those figures? If one looks at figures of 14,500 rising to 18,000, that falls far short of the 30,000 or 35,000. Why did he say three or four years? On what was that based?

**Mr. Brendan McDonagh:** If demand is there, there are more and more people building and securing funding to build, because the prices they get makes it viable to develop. If one gets the 18,000 this year and one can increase the units delivered by 3,000 year on year, then that rises to 30,000 in four years. That is what I base it on. I believe that as demand is there, people will build more houses if they believe they can sell them. One can see that in the increases coming through in planning permissions.

**Deputy David Cullinane:** Mr. McDonagh then continued by saying that the more difficult issue was the demand for social and affordable housing, and that resolving that will have an impact on renters and the rental sector. Almost everyone is now in the private rental sector, including many social housing applicants through the rental accommodation scheme, RAS, and similar options. We need to build more social and affordable housing. That brings me to my point, namely, if NAMA is not putting enough social and affordable housing stock into the system through what it does, then NAMA becomes part of the problem itself. That is why I am interested in that breakdown. Will Mr. McDonagh give that to me? Does he understand the point that I am making?

**Mr. Brendan McDonagh:** The law says that a person who has been granted planning permission must provide 10% social housing.

**Deputy David Cullinane:** That is at a minimum. They can go higher.

**Mr. Brendan McDonagh:** No, but the local authority sets down the planning conditions, not NAMA.

**Deputy David Cullinane:** I know that.

**Mr. Brendan McDonagh:** If a local authority has a site, there is planning permission for 100 units, ten units will be social housing.

**Deputy David Cullinane:** That is the floor, not the ceiling.

**Mr. Brendan McDonagh:** Yes, but if that is the planning permission, the debtor will provide ten social houses. He will build the other 90 houses and he will sell them to the private sector. That is the reality of what will happen. Some of these debtors are getting into a position where they are moving because of increases in values. Two years ago they had no chance of paying off all their debt to NAMA and now they are in a position where, because they are building houses and making reasonable profit on them and their landbank has increased in value, they have the opportunity to get banks to refinance them out of NAMA and pay off their debt. Just because someone is a NAMA debtor, they cannot be treated differently from another guy down the road who has similar planning permission. It cannot be that he only gives ten houses where the NAMA debtor is supposed to give 20.

**Deputy David Cullinane:** I have two more questions and will be as quick as I can. I am intrigued in who names all these portfolios and loan sales. I refer to the Orange portfolio which has 761 apartments. A Canadian-backed investment company bought it. Will Mr. McDonagh give a quick overview of what that was and what that firm did with the properties?

**Mr. Brendan McDonagh:** Regarding that portfolio and the others that we sold, people were in those schemes. They were mostly sold with people living in units they were renting. When we put them on the market, they were openly marketed. A number of bidders looked at the portfolio. The winner was the one who would pay the most for it, and they bought it as is.

**Deputy David Cullinane:** They are now seen as one of the State's largest private sector landlord companies. Arguments were made at the time that these apartments ought to have been sold individually. Was NAMA aware of those arguments? Were they considered?

**Mr. Brendan McDonagh:** Yes, it was considered. In some of schemes, we have been approached by people who want to buy them, and that is something that happens to this day. People have the option of making an approach to the debtor or receiver and making an offer to buy the unit if they wish.

**Deputy David Cullinane:** This sale crystalises an approach and a mindset of whether we really understood what was going on in the market, the housing crisis and how it can be resolved. Many would argue that socially it would have been much better had the properties been sold to individuals rather than selling them on to an entity that would become a huge private landlord which would make money on the back of people. Essentially, people are stuck in private rented accommodation and this is driving up the price of rents rather than selling the units off as individual apartments.

**Mr. Brendan McDonagh:** People were living in those apartments when they were sold. It has always been the case that we try to accommodate a situation where someone was renting and they wanted to make an approach to buy the property at whatever it was valued at. Many occupiers made no approach to buy. It is not as though these units were vacant and we were kicking people out. That is not what we do. They were sold as is with people inside, with leases, and paying rents.

**Deputy David Cullinane:** That is fine, but it does not address the point I made. I know that people were living in them. The point is that they were sold and the matter of who purchases them has an impact on the overall housing situation.

**Mr. Brendan McDonagh:** I fully accept the Deputy's point.

**Deputy David Cullinane:** NAMA has choices.

**Mr. Brendan McDonagh:** No, the Deputy should listen. Fair is fair. If the local authority or an approved housing body had approached us to buy the portfolio we would have made every effort to try to accommodate them, but in many of the portfolios that were offered, no approach to buy them was made by the local authority or the approved housing bodies. Our obligation under the legislation passed by the Oireachtas is to get the money back to pay off the debt that was hanging over taxpayers, which is what we did. We had to sell assets. That is what we have to do, and we have to force debtors to sell assets, and they are assets that debtors do not want to sell, but we tell them that they must sell them.

**Deputy David Cullinane:** I appreciate NAMA's remit, its role and that it has a job to do. However, there was an intervention by the State. Ministers were very clear that NAMA needed to play a part in addressing the overall housing crisis and looking at where the market was at and playing a role in that. There are choices. It was not all about getting a profit or what might be the best price. Part of it then had to be about what was in the best interests of the State and in the best interests of resolving the housing situation. It is unfair to say that there was no commentary around that because there was. There was direct intervention from Ministers on NAMA having a role to play.

**Mr. Brendan McDonagh:** We did play a role but we are bound by legislation. As the Chairman mentioned, 10,500 units have been facilitated and funded by NAMA. Over that, there are another 2,500 units, making a total of 13,000 units. During the period between 2002 and 2010, the number of units delivered under Part V, before NAMA existed, was 5,700. We have delivered 13,000. We have played our part and we have done so in the context of the legislation passed by these Houses that we have to respect fully.

**Deputy David Cullinane:** I have one final question. What is project Nantes? Who names all these projects?

**Mr. Brendan McDonagh:** It was the sale of a particular part of a debtor's loans. I do not want to talk about specifics, because I am bound to confidentiality under the legislation. It is a part of a wider collection of loans which we-----

**Deputy David Cullinane:** What was the par value of those loans at the time?

**Mr. Brendan McDonagh:** Par value?

**Deputy David Cullinane:** What was the par value of the loans in that project?

**Mr. Brendan McDonagh:** That is only a part of a collection. I have to be careful in what I say here because there are confidentiality provisions. However, it was a figure of hundreds of millions.

**Deputy David Cullinane:** How does confidentiality apply?

**Mr. Brendan McDonagh:** The debtors are identifiable. I have to be careful. I am subject to confidentiality provisions set down by the Oireachtas in sections 99 and 202. I have to respect that.

**Deputy David Cullinane:** I would like more clarification as to why. We got answers about other loan sales and projects. What is the issue with getting answers on this one?

**Mr. Brendan McDonagh:** I have to be very careful that I do not say anything about individual debtors.

**Chairman:** Just to clarify, is it an individual debtor or a group?

**Mr. Brendan McDonagh:** There is a group of individual debtors who are-----

**Chairman:** Is it a large group or a small group?

**Mr. Brendan McDonagh:** It is a relatively small group of debtors who are readily identifiable.

**Chairman:** Can Mr. McDonagh describe the location?

**Mr. Brendan McDonagh:** I do not want to talk about individual debtors here.

**Deputy David Cullinane:** I am asking questions about value, what it was sold for and whether it was an off-market transaction. Those are process questions and systems questions.

**Mr. Brendan McDonagh:** Let me put it this way. When every debtor came into NAMA, we asked them to produce a business plan. These business plans were reviewed by a third party independent reviewer. We looked at the business plan ourselves and presented it. In some cases it went all the way to the board. We know what we paid for the loans. In some cases the board set a repayment target based on the value of the assets. In all cases the value was much less than the target set by the board. If the debtor was able to hit the target, that was the target set by the board.

**Deputy David Cullinane:** Did any conflict of interest issues arise from that transaction?

**Mr. Brendan McDonagh:** What does the Deputy mean by conflict of interest?

**Deputy David Cullinane:** Conflicts of interest can happen. If there are any conflicts of interest in a sale, they are declared. Conflicts of interest can be anything. Were any conflicts of interest at all brought to Mr. McDonagh's attention in this regard?

**Mr. Brendan McDonagh:** No. A statutory declaration is made to NAMA under section 172. If that statutory declaration is found not to be correct, consequences arise.

**Deputy David Cullinane:** I know. I am asking whether, to Mr. McDonagh's knowledge, declarations of any conflicts interests were made concerning any element of that sale.

**Deputy David Cullinane:** A statutory declaration was made, which is standard under sec-



**Deputy David Cullinane:** Did that involve any declared conflicts of interest?

**Mr. Brendan McDonagh:** No. The declaration is in the affirmative, stating that there is no conflict. Effectively, when people sign the section 172 declaration, they affirm that there is no connection.

**Deputy David Cullinane:** Some commentary held that for that loan sale NAMA waived a requirement that the purchaser must not be connected to a relevant debtor.

**Mr. Brendan McDonagh:** No. That is not true.

**Deputy David Cullinane:** That is not true?

**Mr. Brendan McDonagh:** That is not true.

**Chairman:** Deputy Cullinane will get another opportunity to speak.

**Deputy Alan Kelly:** I welcome the witnesses back. I am sure they missed us. It has been a long time. I have four questions. My first question is a generic one. For how much longer do the witnesses think NAMA is going to exist?

**Mr. Frank Daly:** For how long are we going to exist?

**Deputy Alan Kelly:** Yes. What is the plan in discussions with the Department of Finance? I see the work that has gone on in the past year or two, and in fairness I compliment a lot of it in terms of the value NAMA has generated for the taxpayer. However, Mr. Daly did say in previous hearings that as an organisation, NAMA would not be around forever? What is the work-out plan, or is there one?

**Mr. Frank Daly:** We have a couple of main objectives. The one that is foremost in our minds all the time is to deliver the promised surplus of €3.5 billion. That depends on working out the remaining assets which we have, which are €2.7 billion in loans. We have to work those out. Our current projections are that most of those will be worked out by 2020 or 2021. In that, we also have a target of delivering 20,000 houses. We always said that was a target for 2020.

**Deputy Alan Kelly:** I remember. Mr. Daly sat across from me and told me.

**Mr. Frank Daly:** We are going to do that. The imponderable issue is that we have some pretty strategic sites in the remaining assets and loan portfolios. We have mentioned these in public. The Irish Glass Bottle Company site is a case in point. That will not be delivered by 2020. We also have sites around metro north and places like that. The value of those sites now is a fraction of what it will be when local area plans and infrastructure are in place. The question is what to do with them. Our view, which we stated at the annual report launch this year, is that it would be short-sighted to dispose of those sites now because NAMA will get better value for them after 2020. Not only will NAMA get better value for them, that will help to ensure that they are utilised in the best way for housing. This is a personal view and it is probably the view of the board. Some continued involvement of the State would be beneficial. That is the debate. We have a clear trajectory to 2020 regarding housing and the €3.5 billion in assets. Beyond that, there is probably more value to be got, but how to do it needs to be debated.

**Deputy Alan Kelly:** That leads me to my second question on the new proposed Land De-

velopment Agency, LDA. Were there any discussions with NAMA regarding its creation? If so, by whom, when and how? Was there any suggestion of coming together with this agency after the 2020 milestone, to which I have seen Mr. Daly refer? I agree with his sentiments concerning the future value of those strategic development zones, SDZs, and other locations when infrastructure becomes available. Was there any discussion of the creation of this agency with NAMA? If so, how far back and in what context? With whom, why and how?

Second, was there a suggestion at any point that NAMA could be combined with other components to create this agency?

**Mr. Frank Daly:** We have not had any formal discussions with-----

**Deputy Alan Kelly:** I note Mr. Daly said “formal”.

**Mr. Frank Daly:** We have not really had discussions with the LDA, except-----

**Deputy Alan Kelly:** I am sorry to pick out one word. Mr. Daly said “formal” and then said “really”.

**Mr. Frank Daly:** We have not had any discussions-----

**Deputy Alan Kelly:** NAMA has not had any discussions at all?

**Mr. Frank Daly:** -----concerning the formation of the LDA, except to the extent that the project manager for the LDA was NAMA’s chief financial officer, as Deputy Kelly knows. I would not say that we have had discussions about the LDA. I can see a possible synergy in the future. From what I have seen about the LDA and the discussions the announcement around it, it has a very challenging remit at which it will no doubt be successful. It concerns sites that are not really NAMA sites or sites in which NAMA is interested. It has an extensive focus besides NAMA. If there is something that we can do by working together in the future, we will certainly be open to that.

**Deputy Alan Kelly:** I ask the witness to clarify that. I appreciate he is speaking from his own knowledge. I would not say we have had any discussions. I notice that Mr. McDonagh is writing Mr. Daly a note. Will Mr. Daly clarify-----

**Mr. Frank Daly:** I cannot read the note.

**Deputy Alan Kelly:** He might as well just tell Mr. Daly, then. I am looking for transparency. According to Mr. Daly, he would not say that NAMA had had any discussion. He can correct me if I am wrong, but I take it from that that no one in NAMA had any discussion with any Government representative in any way, shape or form regarding the LDA’s creation.

**Mr. Brendan McDonagh:** Will the Deputy let me----

**Deputy Alan Kelly:** That is the construct-----

**Mr. Frank Daly:** Not with the Government, but Mr. McDonagh had discussions with someone in the Department of Housing, Planning and Local Government.

**Deputy Alan Kelly:** I asked that question at the beginning, but Mr. Daly said that there had been no discussions.

**Mr. Frank Daly:** I am sorry. I thought that, as the Deputy just repeated, he asked whether

we had had any discussion with the Government. We did not have any discussion with the Government.

**Deputy Alan Kelly:** Just for clarity so that the witnesses can answer fully, did NAMA have any discussion with any human being on the Earth regarding this matter? I am not being facetious. I just need to cover this. Information is provided to us as Deputies, we hear things and so on. We come in here and ask questions because we sometimes get misinformation and people have agendas. I just want clarity. Who, when, why and how did anyone in NAMA have discussions with anyone regarding the creation of the new agency that has been announced in recent weeks?

**Mr. Frank Daly:** That one is easy.

**Mr. Brendan McDonagh:** In spring of this year, two officials from the Department of Housing, Planning and Local Government - an assistant secretary and a principal officer - came to discuss with me, not the LDA, but a high-level concept that I believe was called "NRDA" at the time.

**Deputy Alan Kelly:** What did that stand for?

**Mr. Brendan McDonagh:** The national regeneration development agency. They came to us as a courtesy visit - we have a good relationship with their Department - to say that it was mulling around the NRDA concept. They outlined it in high-level terms. That was the extent of the discussion. I had no involvement or discussion with the Department's officials after that point. I will be upfront with the Deputy about what I said to the Housing Agency officials. I said-----

**Deputy Alan Kelly:** Does Mr. McDonagh mean Housing Agency or departmental officials?

**Mr. Brendan McDonagh:** Departmental. I told them that, from my view of how they were describing it, they were confusing their existing policy mandate and local authorities' planning mandate and intermingling those with what they said the NRDA would be. My advice to them was to set out clearly the responsibilities of the Department and the local authorities so that everyone knew and that the Department should not say that the NRDA would be doing things that the Department was doing from a policy perspective or local authorities were doing from a planning perspective.

**Deputy Alan Kelly:** Agreed.

**Mr. Brendan McDonagh:** If the NRDA was going to do the job of examining the issue from a national perspective - I am in favour of the concept of a centre of expertise that local authorities or other State bodies could join if they had unused State lands - my final piece of advice was that legislation would be needed that clearly set out what the agency would do. My view was that it should not be done in a big bang approach and that the Department should undertake a proof of concept first and, for example, take two or three sites and see what could be done with them. That was my advice to the officials. I heard no more about it. We exchanged niceties and thanked one another after the discussion, and then they went off. I had no further discussions or involvement after that.

**Deputy Alan Kelly:** On what date was that?

**Mr. Brendan McDonagh:** As far as I recall, it was probably in late March or early April.

COMMITTEE OF PUBLIC ACCOUNTS

**Deputy Alan Kelly:** I do not expect Mr. McDonagh to know off the top of his head, but he might furnish the committee with information on the date, who attended, its duration and so on.

**Mr. Brendan McDonagh:** Yes.

**Chairman:** Mr. McDonagh might send it to the committee directly.

**Mr. Brendan McDonagh:** No problem.

**Deputy Alan Kelly:** I thank Mr. McDonagh. His answer has been helpful. Was that the only discussion that anyone in NAMA had with anyone on what was potentially to happen? I presume that the NRDA gravitated towards what became-----

**Mr. Brendan McDonagh:** It seems to have. In fairness, it probably became more refined as it went along.

**Deputy Alan Kelly:** I agree.

**Mr. Brendan McDonagh:** Perhaps the Department took on board what I suggested. I do not expect anyone to listen to what I suggest.

**Deputy Alan Kelly:** Speaking as a former Minister, I believe that what Mr. McDonagh suggested was deadly accurate. It is almost certain that the NRDA gravitated towards what has since been announced. Can I take it as a given that no one in NAMA had any other discussion on this matter?

**Mr. Brendan McDonagh:** Absolutely.

**Mr. Frank Daly:** There were certainly no discussions at the board.

**Deputy Alan Kelly:** I thank the witnesses. That was helpful.

I have two final questions. Strategic development zones, SDZs, have been mentioned and were outlined in NAMA's letter. Regarding a number of other sites, it is inexplicable that NAMA hit certain roadblocks getting them to the development stage. The example of the Dublin docklands was given. It has pushed on to 61%. The Poolbeg site situation will go on for some time. Are there roadblocks in the process with local authorities and other agencies or is there a lack of legislation to help NAMA push on and develop other sites? Of the blockages NAMA is hitting, which do the witnesses feel are unreasonable? Let us forget about statutory planning requirements and so on. We all know those rules. This is an opportunity to express whether NAMA has hit any other unreasonable and unnecessary roadblock.

**Mr. Brendan McDonagh:** We have a good relationship with local authorities. Our in-house planning team meets them to discuss, for example, key sites over which we have security and that are within their remit. Most local authorities want housing in their areas. If those areas have been zoned as residential, local authorities will try to work with us to resolve issues. Strange things have happened in some local authority areas, for example, an access issue. We have been able to work with them on resolving these. Authorities probably take longer than they should sometimes, but they have their own processes, which they-----

**Deputy Alan Kelly:** I do not want to take up too much time, as I have a further question. I just want to isolate whether there has been anything unreasonable.

**Mr. Brendan McDonagh:** No.

**Deputy Alan Kelly:** This is Mr. McDonagh's opportunity to say if there has been. Otherwise, everyone is behaving reasonably.

**Mr. Brendan McDonagh:** Nothing has been unreasonable, but I believe that local authorities are choked for funding. Although they might agree that some sites are ripe for residential development, they say that they do not have the necessary funding.

**Deputy Alan Kelly:** That is an interesting observation and many people watching will take much from it. Will Mr. McDonagh give examples?

**Mr. Brendan McDonagh:** Yes. There were some sites within the commuter belt that required planning permission, and we had to revert to local authorities to have the conditions attached to those permissions changed. I will give one example that we have since resolved by working with the local authority, but it took a while. Fair dues to the local authority; it resolved it. One of the planning conditions attached to the site was that, although 200 houses could be built on it, none of them could be sold until we funded the delivery of a traffic light system 1 km away from the site on land we did not own.

**Deputy Alan Kelly:** Mr. McDonagh specifically stated that local authorities did not have the funding.

**Mr. Brendan McDonagh:** Yes.

**Deputy Alan Kelly:** Could he provide an example? It is not a traffic light issue.

**Mr. Brendan McDonagh:** Initiatives have been announced, for example, the local infrastructure housing activation fund, LIHAF, and, more recently, the urban regeneration and development fund, URDF. In respect of some of the sites that we have been working on with debtors, local authorities have said that infrastructure was required. They make applications for money to the LIHAF.

**Deputy Alan Kelly:** I notice that Mr. McDonagh is reticent to name a site or local authority.

**Mr. Brendan McDonagh:** Yes.

**Deputy Alan Kelly:** Why is that?

**Mr. Brendan McDonagh:** In fairness, local authorities are trying to get activity going. Sometimes, however, they are constrained by a lack of funding.

**Deputy Alan Kelly:** As Mr. McDonagh is reticent to name a site or local authority, I will. What about the Player Wills site? It is an incredible site that I know well. It covers 4.32 ha and has been vacant for more than a decade.

I know NAMA's remit, I explain it to people from time to time and I know how strict its mandate is, but to the public leaving that acreage in a prime location with access to facilities and the potential for between 600 and 700 houses idle for ten years is a disgrace. A motion tabled by my colleague, Councillor Rebecca Moynihan, was passed unanimously by Dublin City Council last night. It called for negotiations between the council and NAMA on the sale of that site. NAMA has its mandate but it also has access to the site along with housing, flats and sports facilities, etc. For want of a better phrase, there are "economies" that make sense here. I understand that NAMA was doing a joint venture, JV, on this that has fallen through and now that it is on the open market, given its mandate, the agency has to pursue it. Surely there has to



be a coming together in this regard whereby NAMA can fulfil its mandate and the council can use the natural economies that exist by developing that site. Surely the Department of Housing, Planning and Local Government will not say that it cannot purchase this site at a commercial rate due to a lack of funding. If that is not the case, then it is robbing Peter to pay Paul because DCC is looking for sites to develop. This site is available with its economies and the council will end up spending money in other ways, which will not give the taxpayers as much bang for their buck because it will cost more. This site creates huge economies. What is the status of the site? Are there any negotiations with DCC? Has the JV fallen through? Will NAMA talk to DCC based on the motion that was passed last night? I want answers.

**Mr. Brendan McDonagh:** That site is in receivership. We looked at the possibility of trying to do a JV but the big problem that happened here is that land values have increased dramatically over the past 12 months so the valuation of that site has also gone up dramatically. The situation on that site now is that the valuation could be in excess of the debtor's par debt and the debtor could have equity in the site. Having said that, that means that whoever buys that site would clearly have to work with DCC on St. Teresa's Gardens on the back of it. I am aware of the site and the need for a master plan for working together. Anybody who wishes to approach the receiver and make an offer for the site must be aware that the receiver will consider it but, equally, that the receiver has a legal obligation to the debtor.

**Deputy Alan Kelly:** I respect the legal obligations and the situation NAMA is left in. I know NAMA's mandate off by heart. Having said that, it is robbing Peter to pay Paul from the public's perspective because of the economies that would be created by DCC having this site for affordable and cost-rental housing. It will cost the State more by going down this route. I know state aid rules well. I went through them a lot in my two years as an MEP and I even helped amend them years ago in respect of the percentages allowed in different parts of the country, but there has to be some format whereby the mandate of NAMA can be fulfilled and the commerciality of it can be respected in order that the economies of Dublin City Council taking this site and developing it either in conjunction with someone or by itself can be realised. This is a test case given where we are in the housing crisis. The council unanimously decided last night to go down this route and we will have to find a way to deal with this within the rules.

**Chairman:** On that point, Mr. McDonagh mentioned the increased valuation of the site and he made a big play in his opening remarks about the Poolbeg West project. He says that NAMA got its designation in 2016 and it will be 2020 before a house has been started on. It will, therefore, be at least 2022 before somebody moves into a house there all going well. That is a time lag of six years. It dawned on me during his opening statement that if the value of that increases substantially over that period, the receiver might have a very different view on what can be achieved. Is that possible?

**Mr. Brendan McDonagh:** Not in relation to that site. I cannot mention specifics but the debt is a multiple of the valuation.

**Chairman:** It will not happen there but it could happen on the Player Wills site?

**Deputy Alan Kelly:** Definitely not on that site.

**Chairman:** But it could happen on the Player Wills site?

**Mr. Brendan McDonagh:** Yes.

**Chairman:** Are there many other major sites because Mr. McDonagh said in his opening

remarks that two thirds of all of NAMA's property assets are in Dublin now?

**Mr. Brendan McDonagh:** Yes, it is 70%.

**Chairman:** Some 70% of the assets NAMA is sitting on now are in Dublin.

**Mr. Brendan McDonagh:** Yes, where inflation is rampant, particularly in land.

**Chairman:** Out of the sites and loans in that 70% under NAMA's stewardship in the Dublin area, how many major or well known sites are there? How many have that kind of risk attached? Mr. McDonagh is clear that Poolbeg West will not be problematic so he must have information on others. Are there many risks out there?

**Mr. Brendan McDonagh:** As I said earlier, a number of our debtors whom it was thought would never pay off their par debt are now in a position to do so. If they pay off their par debt, they can take their loans and assets out of NAMA and we cannot do anything about it because they have paid their debt and they have somebody new to finance them.

**Chairman:** In one way that is good news because the taxpayer gets all of its money back.

**Mr. Brendan McDonagh:** Yes, but it means then, on the other hand, that the debtor can do whatever he or she wants with the site with the new lender or whoever is providing the money. Once the debt is paid off then, I would say "fair dues". The debt to the State has been paid off and no more money is owed to the State.

**Chairman:** Without identifying any sites, out of the 70% of the landbank under NAMA's control in Dublin, on approximately how many of those could that happen? Mr. McDonagh is saying that some cannot-----

**Mr. Brendan McDonagh:** Some cannot but the way-----

**Chairman:** Is there a risk that half of them might just pay back the money and go?

**Mr. Brendan McDonagh:** As of today, approximately 30 developers are building residential units and working with NAMA and fair dues to them. They are getting on with it and doing their jobs properly, but six to seven of them are telling us that they are close to getting funded by somebody else and that they could then come in and repay all of their debt to the State.

**Chairman:** What percentage of the 70% would that be?

**Mr. Brendan McDonagh:** They would be some of the biggest landowners.

**Chairman:** Would it be half?

**Mr. Brendan McDonagh:** It could be. The way I would describe it is that ,currently, if it all had planning, we have a landbank that could deliver 42,000 units. We estimate that by the end of 2020 with the way that things are going as people paying off their debt and some run out of sites etc., there will be 9,000 units left on long-term strategic sites.

**Chairman:** Out of the 32,000-----

**Mr. Brendan McDonagh:** Out of the 42,000 units, we would potentially be down to 9,000. We might have none but if land values keep increasing, the value of the assets many of these debtors will increase to such an extent that they will be able to come in and write a cheque and

walk away from NAMA.

**Chairman:** On the land NAMA has control over, Mr. McDonagh estimates that the figure will be down from 42,000 potential units to 9,000 by 2020. The change from 42,000 to 9,000 is 33,000 units, how many of those does he think NAMA will build or does he think the private sector will write a cheque and walk away? The reason I ask that is that everyone thinks that NAMA might be the solution given that 42,000 housing units might be built on the land under its control. Mr. McDonagh must have a good idea. It is quite probable that two thirds of them might not be under NAMA's control.

**Mr. Brendan McDonagh:** We estimate around 20,000 of that 42,000 will be guys who will probably come in and write the cheque.

**Chairman:** In other words, it is far more realistic to say - if that happens, and it could well happen - that of the 42,000 houses that could potentially be built on NAMA land, only half that amount would be under the control of NAMA in a couple of years time.

**Mr. Frank Daly:** Beyond 2020.

**Chairman:** That is only two years away. Mr. McDonagh understands my asking about the bigger picture.

**Mr. Brendan McDonagh:** Yes. The Chairman is right to go for the big picture in terms of analysing this because as the prices improve in the market, if one is a debtor and one can afford to pay off all of one's debts one is probably better to be with a bank or other financial institution rather than NAMA.

**Chairman:** NAMA is not good for their credit rating.

**Mr. Brendan McDonagh:** I do not know about that.

**Mr. Frank Daly:** We are more intrusive in their business, probably, than a bank would be.

**Chairman:** The point I am making is that people thought NAMA was potentially a panacea for large housing developments in the Dublin area. On the positive side, it is great that the people paid back their par debt and the taxpayer gets all of this money back from those loans. That is great news. On the other side, it means the State will have lost control of the sites in terms of State development but hopefully the private developer will build.

**Mr. Brendan McDonagh:** The builder would have no choice but to build because the debt will have to be repaid to somebody else.

**Deputy Catherine Connolly:** I am not sure what world I live in, but it is a different world if NAMA is celebrating the continuous rise of property values. Is Mr. McDonagh doing that?

**Mr. Brendan McDonagh:** I am not. I am stating the reality of what is happening in the market.

**Deputy Catherine Connolly:** Does Mr. McDonagh have a view on that?

**Mr. Brendan McDonagh:** I will give an example of a particular site on which there is planning permission. The value per housing unit on this site not too long ago was about €25,000. It is now €84,000.

**Deputy Catherine Connolly:** Does Mr. McDonagh think it is good that the price of land and houses continues to rise in Ireland?

**Mr. Brendan McDonagh:** No, I do not.

**Deputy Catherine Connolly:** Good. Does he acknowledge that there is an acute housing crisis and emergency?

**Mr. Brendan McDonagh:** Absolutely.

**Deputy Catherine Connolly:** Good. In Galway people city, there are people waiting 16 years - since 2002 - for a social house. The last time social housing was built was 2009, although we are now in the process of building again. Does Mr. McDonagh agree that that is the reality?

**Mr. Brendan McDonagh:** Yes.

**Deputy Catherine Connolly:** I am trying to get my head around all of the terminology used. I thank the witnesses for their opening statements and the Comptroller and Auditor General for his chapter. Earlier, my colleague, tried to put the situation into perspective. In 2009, the banks were overwhelmed with debts that were not based on reality. Am I correct that those debts amount to approximately €74 billion?

**Mr. Brendan McDonagh:** Yes.

**Deputy Catherine Connolly:** Under pressure from Europe, the Government was forced to buy the debt and so it bought approximately €31 billion of that debt.

**Mr. Brendan McDonagh:** We bought all of the debt, for which we paid €31.8 billion.

**Deputy Catherine Connolly:** Sorry.

**Mr. Brendan McDonagh:** We bought the €74 billion debt for €31.8 billion.

**Deputy Catherine Connolly:** The Government guaranteed all of that debt.

**Mr. Brendan McDonagh:** The assets were worth only €31.8 billion. The banks had loaned €74 billion, which was crazy.

**Deputy Catherine Connolly:** I spent time looking at this and I am trying to understand it. NAMA was set up to buy some of that debt from the banks.

**Mr. Brendan McDonagh:** No, we bought all of the €74 billion debt from the banks.

**Deputy Catherine Connolly:** NAMA bought it for €31.8 billion.

**Mr. Brendan McDonagh:** We bought it for, say, €32 billion.

**Deputy Catherine Connolly:** Okay, we will not argue over the exact amount. The market value of the debt was lower, such that NAMA paid €5 billion plus more for it-----

**Mr. Brendan McDonagh:** Yes, €5.8 billion.

**Deputy Catherine Connolly:** -----which was considered State aid.

**Mr. Brendan McDonagh:** Yes.

**Deputy Catherine Connolly:** NAMA took on that debt under the Act, with a number of objectives, including to protect the taxpayer and to provide some socioeconomic return.

**Mr. Brendan McDonagh:** Yes, that is set out in section 2 of the Act.

**Deputy Catherine Connolly:** Is Mr. McDonagh familiar with that section?

**Mr. Brendan McDonagh:** Yes.

**Deputy Catherine Connolly:** What was the objective relating to the common good?

**Mr. Brendan McDonagh:** First, we do not own the underlying properties.

**Deputy Catherine Connolly:** That is not my question. My question is about the purposes of NAMA and, in particular, the one about which Mr. McDonagh did not tell me. Will he tell me about it?

**Mr. Brendan McDonagh:** The Deputy is asking about the purpose of the Act as set out in section 2.

**Deputy Catherine Connolly:** Let us look at it. The objective under paragraph (a) is to address the serious threat to the economy. We have heard a lot about that. The objective under paragraph (b) is to facilitate the availability of credit. The section also refers to protecting the interests of the taxpayers and contributing to the social and economic development of the State. On the last objective, how many times has NAMA received directions from the Minister in that regard?

**Mr. Brendan McDonagh:** We have never received a direction from the Minister in that regard.

**Deputy Catherine Connolly:** Never.

**Mr. Brendan McDonagh:** No.

**Deputy Catherine Connolly:** NAMA has never received a direction from the Minister in regard to the social and economic development of the State.

**Mr. Brendan McDonagh:** No.

**Deputy Catherine Connolly:** Would Mr. McDonagh like to comment on that?

**Mr. Brendan McDonagh:** I cannot comment on it.

**Deputy Catherine Connolly:** Okay. Sometimes, Mr. McDonagh comments and other times he does not. He should not be commenting, really. NAMA believes it has done really well. It is clapping itself on the back for having made a profit and it is going to return €3 billion plus to the Exchequer in 2020. Is that correct?

**Mr. Brendan McDonagh:** Yes, in financial terms. We are not clapping ourselves on the back, we just feel we did-----

**Deputy Catherine Connolly:** Is that the figure NAMA is expected to-----



**Mr. Brendan McDonagh:** Once we have everything sold, we can give €3.5 billion back to the Exchequer.

**Deputy Catherine Connolly:** Okay. At the end of 2016, there was a €3 billion plus gain as well. Is that correct?

**Mr. Brendan McDonagh:** There are reserves, as the Comptroller and Auditor General outlined.

**Deputy Catherine Connolly:** Is that the same money that NAMA will give back to the State in 2020? In other words, is the figure referenced at the end of 2016 as a gain-profit-----

**Mr. Brendan McDonagh:** At the end of 2016, we said we expected to give back about €3 billion. We are now saying the amount will be €3.5 billion.

**Deputy Catherine Connolly:** Between 2016 and 2020, the return increased to €0.5 billion. Is that correct?

**Mr. Brendan McDonagh:** Yes.

**Deputy Catherine Connolly:** I thank Mr. McDonagh for clarifying that.

On accounts, it is our job to examine processes, procedures and governance. Let us look at the Comptroller and Auditor General's report. On salaries paid to debtors, where can I find details of the salaries paid to debtors?

**Mr. Brendan McDonagh:** They are paid out of the assets of the debtors. They are part of the overheads of him running his business whether he is building houses or a commercial building. As of now-----

**Deputy Catherine Connolly:** Is there a central record of salaries paid to debtors?

**Mr. Brendan McDonagh:** Yes, I have a central record.

**Deputy Catherine Connolly:** Good. Can I have access to it?

**Mr. Brendan McDonagh:** The Deputy cannot have access to the individual names because of confidentiality provisions.

**Deputy Catherine Connolly:** Forget the names, why not?

**Mr. Brendan McDonagh:** There are 23 people who are currently receiving a salary from the overheads of the business, which is €2.3 million or on average €100,000 per head. These people are mainly involved in helping us to maximise the value on the portfolio, building houses, building commercial property.

**Deputy Catherine Connolly:** Mr. McDonagh said 23 people are getting a salary now.

**Mr. Brendan McDonagh:** Yes.

**Deputy Catherine Connolly:** What is the total figure in that regard?

**Mr. Brendan McDonagh:** It is €2.3 million.

**Deputy Catherine Connolly:** What is the range of salary?

**Mr. Brendan McDonagh:** It is on average €100,000. It ranges from about €40,000 or €50,000. It depends on the type of assets they are managing and the scale of the operation.

**Deputy Catherine Connolly:** I just want to know the range, please.

**Mr. Brendan McDonagh:** I think it is €40,000 to €170,000.

**Deputy Catherine Connolly:** What would be the average time that a developer is in receipt of that salary?

**Mr. Brendan McDonagh:** It depends. If he is still with NAMA then he has probably been on that since he has worked with us since the loan scheme came in in 2010.

**Deputy Catherine Connolly:** What was the maximum number of developers on salaries?

**Mr. Brendan McDonagh:** Back in 2012, I think we had 174 debtors who were in receipt of salaries.

**Deputy Catherine Connolly:** Does Mr. McDonagh have the range of salaries in that regard?

**Mr. Brendan McDonagh:** No. The average at that stage was about €94,000.

**Deputy Catherine Connolly:** What did it increase to?

**Mr. Brendan McDonagh:** Currently, it is €100,000. We do not have the same debtors. It depends on the complexity of assets.

**Deputy Catherine Connolly:** On matters reported to the Garda, the Comptroller and Auditor General states at section of his report that NAMA has made three formal complaints to the Garda National Economic Crime Bureau. Where are we in relation to that?

**Mr. Brendan McDonagh:** My colleague, our chief legal officer Mr. Alan Stewart, checked with gardaí and as far as we can ascertain - because gardaí are careful about keeping to their remit - they have submitted files to the DPP.

**Deputy Catherine Connolly:** In three cases?

**Mr. Brendan McDonagh:** We understand that to be the case.

**Deputy Catherine Connolly:** How did NAMA identify those debtors?

**Mr. Brendan McDonagh:** We identified them mainly through inconsistencies in their statements of affairs and by finding out that they had other assets which they had not declared to us.

**Deputy Catherine Connolly:** They made a statement and swore an affidavit on what they owned and did not own.

**Mr. Brendan McDonagh:** They made a sworn statement of affairs but we later found out that they had other assets.

**Deputy Catherine Connolly:** How did you find that out?

**Mr. Brendan McDonagh:** We do asset searches on them. Their names turn up in places and we have to ask them to explain why they did not tell us. They should have told us but did

not.

**Deputy Catherine Connolly:** This has happened on just three occasions.

**Mr. Brendan McDonagh:** There are three cases currently.

**Deputy Catherine Connolly:** What does that mean?

**Mr. Brendan McDonagh:** Usually, when we find out somebody has not given us something we ask them to give the assets back to us. It has happened on a number of occasions that we identified assets which had been transferred to family members. We asked them to give them back to us and they have done so.

**Deputy Catherine Connolly:** Three cases are currently with the gardaí.

**Mr. Brendan McDonagh:** Yes.

**Deputy Catherine Connolly:** Have other cases been sent to the gardaí in the past?

**Mr. Alan Stewart:** Not relating to this issue. These things require a degree of investigation on our part too.

**Deputy Catherine Connolly:** I am not trying to get numbers as such. There are three cases with the gardaí and other cases have been sorted out between NAMA and the debtors in question.

**Mr. Alan Stewart:** There are other cases where we have reason to believe something may be the case but we have to query it or examine it further.

**Deputy Catherine Connolly:** Of the banks whose debts we took, AIB and Bank of Ireland are the two dominant ones that have survived. NAMA pays service charges to them.

**Mr. Brendan McDonagh:** They are called primary services or special services.

**Deputy Catherine Connolly:** They are part of the administration costs.

**Mr. Brendan McDonagh:** Yes.

**Deputy Catherine Connolly:** The money goes back to the banks.

**Mr. Brendan McDonagh:** Yes. There is a certain fee, set by the European Commission, which we can pay to the banks as part of the overall state aid approval of NAMA in 2010. It is a maximum of ten basis points on the value of the loans but we have been able to negotiate a figure with the banks which amounts to the lower of the cost recovery figure or six basis points.

**Deputy Catherine Connolly:** What is the figure for 2016?

**Mr. Brendan McDonagh:** Primary service fees for 2016 were €15.2 million but AIB is the only bank continuing to do this for us and it got €3.3 million. The rest was paid to a third-party service provider which took over from the Bank of Ireland and from IBRC after its liquidation.

**Deputy Catherine Connolly:** The banks did it up to a certain point.

**Mr. Brendan McDonagh:** Yes.

**Deputy Catherine Connolly:** The only bank left now is AIB.

**Mr. Brendan McDonagh:** The only bank from which we acquired loans and which is still doing work for us is AIB.

**Deputy Catherine Connolly:** In 2016 it got €3.3 million.

**Mr. Brendan McDonagh:** Yes.

**Deputy Catherine Connolly:** Who is the primary service provider now?

**Mr. Brendan McDonagh:** It is a company called Link, which used to be part of Capita.

**Deputy Catherine Connolly:** That company is administering the fee.

**Mr. Brendan McDonagh:** It charges a fee for providing the service. After the liquidation of IBRC in 2013, IBRC no longer provided the service and we had to administer the loans so we transferred them to Capita.

**Deputy Catherine Connolly:** I will come back to the breakdown of social housing in a minute. NAMA is talking about the success it has had in being able to give money back to the State but that applies if one draws a circle. If one draws an inner circle, in which NAMA is making a surplus, and an outer circle the space between the inner and outer circle is what the taxpayer has borne in addition, through recapitalising the banks, the costs of NAMA etc. Is that right?

**Mr. Brendan McDonagh:** Absolutely. The taxpayer bailed out the banks.

**Mr. Frank Daly:** The important point is that NAMA is the inner circle. We never were or could be responsible for the piece between the inner circle and the outer circle.

**Deputy Catherine Connolly:** NAMA is doing its job in terms of the Act. In my opinion, the Act has a separate part. NAMA has not received one directive from any Minister relating to its duty under the Act.

**Mr. Frank Daly:** The overriding part of the Act, which is what is important for the board and the directors, is section 10 which requires us to get the best financial return for the State. Regardless of the Deputy's views, which I appreciate and understand, that is our overriding mandate as directors. We would be irresponsible to ignore it.

**Deputy Catherine Connolly:** That is Mr. Daly's understanding of what his job is. I am not finding fault with that but I am pointing out that no Minister has given directions under the other objectives, which are very important to me.

The next thing is value for money. There is a tribunal as we speak, a commission of inquiry relating to a particular project from NAMA and its costs. I see NAMA as inadvertently part of the problem, whether the witnesses like it or not. In the context of the mandate they have been given, property prices have to keep rising to make NAMA worthwhile and ensure a return. Is that not right?

**Mr. Frank Daly:** We did not give ourselves the mandate. The Oireachtas gave us the mandate.

**Deputy Catherine Connolly:** Absolutely, but I am trying to tease out what is happening.

On the question of value for money, if property prices keep rising as they are, NAMA is getting a return and it looks good on paper. In the meantime we have a housing emergency. We are paying €300 million in housing assistance payments this year alone to private developers. These things are the implications of having no social housing and not enough other housing being built, leading to property prices rising. I have a duty to look at value for money in a different way from the way the inner circle might look at it.

**Mr. Frank Daly:** Absolutely, but nobody should lose sight of the point that if we get a return, it will go straight back to the taxpayer.

**Deputy Catherine Connolly:** Let us look at the return as highlighted by the report of the Comptroller and Auditor General. It uses a new phrase, “entity return” and mentions the different ways of measuring the return. Can the witnesses comment on what he has highlighted here? He states that you do not use the standard method of confirming the return. He refers to an entity return on investment, EROI, and an internal rate of return. I understand that NAMA is making its assessment on the basis of the market value which it did not pay.

**Mr. Brendan McDonagh:** We did pay. We paid €6 billion more than what the assets were worth.

**Deputy Catherine Connolly:** It was not the market value.

**Mr. Brendan McDonagh:** It was the market value. The market value was only €26 billion for the loans with a par value of €74.4 billion. We paid €32 billion for them.

**Deputy Catherine Connolly:** There are two ways of measuring this. The Comptroller and Auditor General has highlighted the fact that NAMA does not use the standard way of doing this.

**Mr. Brendan McDonagh:** In fairness to the Comptroller and Auditor General-----

**Deputy Catherine Connolly:** I will ask him to comment on this.

**Mr. Brendan McDonagh:** -----he is saying that the board set an entity return target of 20%, which we have exceeded. He is saying we have not taken account of the time value of money but our view is that, with interest rates so low, the time value of money does not make much difference. We inherited a distressed assets portfolio and had to sell some because we had no long-term mandate to hold onto them. We have an internal rate of return target for our residential housebuilding business which, because it is subject to a state aid investigation, is 15% and we are exceeding that. As such, we take account of the time value of money, which is the biggest part of our residual portfolio.

**Deputy Catherine Connolly:** I am left now not understanding this. I put my hands up. I am being told by the Comptroller and Auditor General that NAMA is not taking the time value into account in the metric-----

**Mr. Brendan McDonagh:** No.

**Deputy Catherine Connolly:** Let me finish. I am not an economist or a financial. That is what I read in the summary and it is repeated in the report. It says the Act requires NAMA to obtain the best achievable financial return. In 2014, and only in that year, NAMA set an entity return on investment target of 20% and on that it achieved 33%. The report says that this measure does not take account of the time value of the money and that the standard performance



metric is an internal rate of return. There is a clear conflict between the two.

**Mr. Brendan McDonagh:** Yes.

**Deputy Catherine Connolly:** The Comptroller and Auditor General's report says one thing and the witnesses are saying another. In the simplest English, I ask Mr. McDonagh to clarify why NAMA is adopting that metric as opposed to the standard metric.

**Mr. Brendan McDonagh:** No. Well, the board is entitled to adopt the metric it wishes to adopt.

**Deputy Catherine Connolly:** I asked Mr. McDonagh to explain why it has done so.

**Mr. Brendan McDonagh:** We inherited assets and we have to sell them. We had to get rid of the contingent liability as quickly as possible. We are not a long-term investment fund. The Comptroller and Auditor General is absolutely entitled to his view and to say one should take account of the time value of money, but the board has said the type of assets we have across three different portfolios causes it to believe an entity rate return is more appropriate for NAMA. It is a difference in professional opinion. I do not think the Comptroller and Auditor General is saying we are wrong. He is just saying it is a different way of doing it. What I am saying to the Deputy is that the biggest part of our residual business is the funding of residential house building. We have a target in generated return of 15%, which takes account of the time value of money, and we are exceeding that.

**Deputy Catherine Connolly:** I did not say anything about the Comptroller and Auditor General saying whether NAMA was wrong or right. He highlighted the different metrics.

**Mr. Brendan McDonagh:** Yes.

**Deputy Catherine Connolly:** NAMA is using one and the standard metric is different. Using NAMA's metric, there is a better outcome. Is that right? It looks better on paper using NAMA's metric.

**Mr. Brendan McDonagh:** That is one view, yes.

**Deputy Catherine Connolly:** Yes. I have two final things. One relates to property management. The Comptroller and Auditor General highlights a register that was not updated while property was being sold. Six apartments had already been sold and the purchaser pointed that out to NAMA. What is the status of the property register now?

**Mr. Brendan McDonagh:** We spent a lot of money and effort to get the register right.

**Deputy Catherine Connolly:** Did Mr. McDonagh hear my question?

**Mr. Brendan McDonagh:** I understand the Deputy's question.

**Deputy Catherine Connolly:** Just give me the status of the update now. Are mistakes still being made?

**Mr. Brendan McDonagh:** In that transaction, assets were included which were previously sold. They were not marked on the register. We have gone through the register and we believe it is absolutely correct as of today.

**Deputy Catherine Connolly:** Has NAMA made changes then?

**Mr. Brendan McDonagh:** Yes. We went back and we reviewed all-----

**Deputy Catherine Connolly:** What changes were made to ensure the property management register is now correct?

**Mr. Brendan McDonagh:** Every case manager has assets for which he is responsible. We got the case managers to go through their portfolios and look at the residual assets left to be sold to ensure they were reflected correctly on our MIS system register. We believe the register is correct.

**Deputy Catherine Connolly:** My final question is on the Nantes project that has been mentioned. I presume my pronunciation is correct. It is slightly easier in Irish than French. What is the reluctance to comment on this? It is a loan sale project, I presume, which went ahead in 2012. NAMA has had ample time to reflect on it. It is 2018. Was it sold for much less than its par value?

**Mr. Brendan McDonagh:** It was, but we-----

**Deputy Catherine Connolly:** No, just stay with me. It was. What was the difference between the par value and what it was sold for?

**Mr. Brendan McDonagh:** No. I have seen the newspaper reports. That is not a reflection of the value we achieved. We look at the loans we acquired and the total amount of consideration got versus what we paid the banks for the loans. We achieved 33% more than we paid the banks when one takes account of all the asset sales and the residual loan sale.

**Deputy Catherine Connolly:** In the overall scheme of things, we are looking here at accountability, governance and engendering trust. Here is a project. What was the difference between what it was sold for and what it was acquired for, even in percentage terms if Mr. McDonagh does not want to give me the precise figures?

**Mr. Brendan McDonagh:** If the Deputy lets me explain the context, I will-----

**Deputy Catherine Connolly:** As long as the Chairman gives Mr. McDonagh time to explain.

**Mr. Brendan McDonagh:** I have to explain the context because this is something that is misunderstood.

**Deputy Catherine Connolly:** My time is nearly finished and I want my questions answered. On the context, the Chairman can give Mr. McDonagh ample time. I do not want to take him short. However, it engenders confidence if we get responses when we ask questions. One thinks of Project Eagle and all the other questions we have asked. I am asking questions about this project in Nantes. What was it sold for and what was the difference? There are many other questions, but I have run out of time.

**Mr. Brendan McDonagh:** That is misunderstanding the thing. When that par debt was sold, a number of assets were sold where there was a residual debt to which no assets attached. However, there were still loans.

**Chairman:** Mr. McDonagh will have to say that again. He lost people there.

**Mr. Brendan McDonagh:** Hypothetically, to explain this right, if one has €200 million

worth of par debt on the loans and three assets, of which two are sold for €80 million, there will still be €120 million worth of par debt outstanding with one asset left. If the last asset is only worth €10 million, one will only have got €90 million for €200 million worth of loans. If one says one only got €10 million for selling €120 million worth of loans, it looks like a very small percentage. However, that ignores the fact that the other assets were sold to which unpaid par debt was attached. That is the context and explains it in as simple terms as possible. We look at this in terms of the overall connection because there were asset sales and a residual loan sale. If one combines the asset sales and the loan sales and looks at it against the unpaid debt, it looks like small amount if one looks only at the loan sale in relation to the unpaid par debt. However, there is a reasonable explanation for it, which is what I am saying to Deputy Connolly. We look at this in the round. We are not looking at it in the context of just-----

**Deputy Catherine Connolly:** That is the context. What is the answer to my question in relation to this project, six years later? What was the difference, please? Mr. McDonagh has given the context.

**Mr. Brendan McDonagh:** I will give the context. If one just looks at it in terms of loan sales and the par debt, it is less than 10%, but that does not reflect the true picture because there were asset sales where we got money where there was unpaid par debt which was sold as part of the loan sale. It was just residual loans with no assets attached.

**Deputy Catherine Connolly:** I will come back to it. My time is gone.

**Deputy Marc MacSharry:** I welcome the witnesses. In terms of its headline performance, there is no doubt that NAMA has been a huge success. In terms of the Act that was provided, I say "Well done". We are going to make the money. The question is, however, as Deputy Connolly asked. At what cost has that come? It is a regret for me personally as a former finance spokesman in the Seanad when the Act went through in 60 hours that we did not have a NAMA No. 2 or No. 3 Bill to provide additional oversight and transparency through the process. However, with the tools NAMA was given, we are going to make the money, which is great, but at what cost?

I was watching on the monitor earlier as I had to pop out and Deputy Kelly was speaking to the witnesses about the potential disposal of the Player site. Mr. McDonagh made the point that it is likely, or at least possible, the debtor will have equity in the site and may well get to pay off all the debts and have some money left over, which is great. If I was Joe Bloggs, a NAMA debtor whose assets were disposed of in 2012, I might take the justifiable view that I was unlucky. If it had been the Player site, I might have ended up with money because a decision was taken to keep that asset while disposing of mine. That will be a question. As politicians, we have all had representations at our clinics over the years from people who felt they did not get optimum treatment in the NAMA process. Those questions will always linger. However, that is not the witnesses' fault. Section 10 was the overarching provision and Ministers of the day had the potential to give directions. The fact is that they did not. For me that was a failing all along, in terms of some of the points Deputy Connolly made.

On a personal level, I would like to put on record that, notwithstanding that it is great money will be there, we will always look back and wonder if we could have done this so much differently and so much better, in terms of a social dividend and in terms of Ministers of whatever colour or creed displaying a level of agility and an interest to adjust the process along the way that could have given as good a return in the context of the financial payback to the Exchequer when that time came, and in the context of the cost, whether to developers, to small businesses

or to the social dividend, social housing being addressed to a greater extent. The Player site debtor is in the lucky position where they may have a dividend at the end. In the case of the person where, for whatever reasons, although perfectly legitimate at the time, a decision was made to dispose of their assets at an earlier stage, there is probably going to be debt following them to their graves.

Earlier Mr. McDonagh made a reference to a meeting with the ECB, which made demands on him which were resisted and its representative ran out of the room. Fair play to Mr. McDonagh for doing that. It is an awful shame we did not do that on the sale of loan books by the pillar banks, where the ECB was applying extraordinary pressure for all of these things to be sold off. NAMA, the State and everybody else no longer have these problematic debts, some of which are performing. They have been sold off to third party organisations that are not even regulated in this country. It is a shame Governments, officials and decision-makers did not resist European pressure in that way, as Mr. McDonagh did back then, when he said he was not selling everything and that he was going to try to get the best he could. It is a shame we did not have that level of leadership in other quarters of this State, as was outlined earlier, that he showed when it came to standing up to the ECB at that time. As a former member of the banking inquiry committee which had to go down to Dublin Castle, or wherever that charade of an event was, to ask questions of Mr. Trichet, it was crystal clear that he threw us under the bus.

Can I ask Mr. McCarthy, given the complexities of NAMA and the number of different companies or whatever - we were given a good organisational chart - has he the diversity of resources and expertise at his disposal to give a really clear audit opinion on all those entities?

**Mr. Seamus McCarthy:** I believe we have.

**Deputy Marc MacSharry:** Considering the demands on his office?

**Mr. Seamus McCarthy:** Yes, absolutely.

**Deputy Marc MacSharry:** I wish to make a couple of small points. In regard to the Nantes situation, and I am aware the witness cannot talk about individual situations, some of the press reporting over the last couple of days - if any of these issues were covered when I was out, please stop me - suggest all sorts of conflicts of interests of individuals. I know that the witnesses cannot talk about individuals and that is fine. Can NAMA give us an assurance that the issues that are raised in the press today are false and that no such conflicts of interest exist?

**Mr. Brendan McDonagh:** As I said earlier in response to a question, when we do any asset or loan sale, there is a section 172 declaration, which is a statutory declaration, to say that there are no connections. We have this signed statutory declaration and that is all that I am going to say. If anybody signs a statutory declaration which is incorrect, that is a matter we would refer to the relevant Garda authorities.

**Deputy Marc MacSharry:** What level of investigation has been carried out? Was Mr. McDonagh aware of the accusations before their appearance in the media today?

**Mr. Brendan McDonagh:** No.

**Deputy Marc MacSharry:** Mr. McDonagh was not. On the back of those, would Mr. McDonagh consider some further investigation?

**Mr. Brendan McDonagh:** We are constantly looking at things-----

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**Deputy Marc MacSharry:** Will Mr. McDonagh be looking at that specific one, due to it being in the media today? A Deputy who is not a member of this committee raised this matter.

**Mr. Brendan McDonagh:** Absolutely, Deputy-----

**Deputy Marc MacSharry:** We can take it that Mr. Stewart will be going back to look in detail at these particular-----

**Mr. Brendan McDonagh:** Absolutely. Many people, who do not go to the newspapers, contact us and advise us about things. We always go back to try to check things out and establish if there is any basis to them. We do that quite regularly.

**Deputy Marc MacSharry:** We can take it that on the back of these revelations, Mr. Stewart, or whatever appropriate people within NAMA, will now be examining specifically those declarations and applying some level of investigation to put the public at ease that they do not exist.

**Mr. Brendan McDonagh:** Absolutely. I do not want to talk about individuals, but I would say that if someone has made a statutory declaration and if it turns out, after us having investigated it, that it is not the case, then there are consequences arising from that.

**Deputy Marc MacSharry:** I appreciate that and the consequences are clear in the Act. We know the processes. If I can put it another way, in a number of weeks, in a months' time, or whenever is appropriate, can NAMA drop a note to this committee saying that in the light of revelations to the media, which came up at the meeting with this committee where it was asked questions, it looked into this matter and can now tell the committee that the matter is resolved to the point that it is satisfied that no conflicts exist, that there are no issues or that it has referred the matter to the Garda? Is that possible?

**Mr. Brendan McDonagh:** That is not a problem.

**Deputy Marc MacSharry:** We look forward to receiving that.

**Chairman:** We cannot put a time on it today, but it will be in due course.

**Deputy Marc MacSharry:** If we do not hear from NAMA in a month, we might ask it what is going on.

**Mr. Brendan McDonagh:** We are not going to wait a month.

**Deputy Marc MacSharry:** How about we give NAMA a month?

**Mr. Brendan McDonagh:** It would be completely unfair of me to say anything. An issue has been raised, and we only heard about it this morning. We are going to look into it. I cannot say if there is an issue or not at this stage. When we look into it, we will revert to the committee.

**Deputy Marc MacSharry:** That is great and that is all we need to know.

In January, NAMA tendered for and hired a media relations and reputation firm. How much was the tender for?

**Mr. Brendan McDonagh:** We had a tender. There were parties tendering. I am not sure that I can give the specific amount to the Deputy but we ran a tender process.



**Deputy Marc MacSharry:** Why can Mr. McDonagh not tell me?

**Mr. Brendan McDonagh:** I cannot tell the Deputy because people tender and place stipulations around the price.

**Deputy Marc MacSharry:** Have they not been paid by now? Is it not a matter of public record?

**Mr. Brendan McDonagh:** It is an ongoing contract. It is a monthly contract for a number of years.

**Deputy Marc MacSharry:** Can Mr. McDonagh give a ballpark figure? Is it €1 million or €200,000?

**Mr. Brendan McDonagh:** It is disclosed regularly as part of parliamentary questions. It is less than €100,000 per annum.

**Deputy Marc MacSharry:** What kind of PR or media relations would they need to involve themselves in? What was NAMA looking for?

**Mr. Brendan McDonagh:** We were looking for somebody who could be a conduit with the press, address media queries that come to NAMA and help us with the launch of the annual report or presentations that we give. It was set out in the tender documents.

**Deputy Marc MacSharry:** Is it to apply a positive complexion to the work of NAMA?

**Mr. Brendan McDonagh:** No, unfortunately, the media never really want to talk about a lot of the positive things associated with NAMA. They usually talk about-----

**Deputy Marc MacSharry:** I started by saying a lot of positive things.

**Mr. Brendan McDonagh:** Absolutely, I appreciate that. We do not hear that very often. A lot of the queries to NAMA are asking for information. There are various media queries about things and we try to do our best to facilitate as much as possible.

**Deputy Marc MacSharry:** Okay, I am not going to get the answer there.

**Chairman:** Okay, I am sorry-----

**Deputy Marc MacSharry:** I am not finished, Chairman. We had a nice bit of leniency earlier on. I am capitalising on it and being a bit opportunistic here as I am conscious that Mr. Carville from the Department of Finance is here. I am going to go a little bit off the reservation, because we might not have him here again. Did Mr. Carville or the Department have a role in instructing the Chief State Solicitor's office to offer the work of this committee as a conduit to a party suing the State to seek them to withdraw their case?

**Mr. Des Carville:** Sorry, but this is a completely different topic and has nothing to do with NAMA.

**Deputy Marc MacSharry:** Absolutely, it is yes. Mr. Carville is responsible for the IBRC liquidation on behalf of the Department. We had him here before.

**Mr. Des Carville:** With respect, Chairman, I am not here to discuss IBRC.

**Deputy Marc MacSharry:** Yes, but does Mr. Carville have any problem answering the

question?

**Mr. Des Carville:** We are not here to discuss IBRC. If the Chairman wants to turn this into an IBRC session-----

**Deputy Marc MacSharry:** The Chairman is not responsible for directing my questions. I am just trying to use the time efficiently and because Mr. Carville is before the committee. I have seen correspondence that shows the Chief State Solicitor's office wrote to a third party who is taking action against the State to try to gain oversight of the IBRC liquidation, which is a matter I have raised many times here before, and in that the offer was made that the case would be withdrawn if the Department deferred to the Committee of Public Accounts. The Committee of Public Accounts, being a House committee set up under Standing Order 186, does not have its agenda set by the Department of Finance or even by the Taoiseach. I might have supported the idea of the Department deferring to the Committee of Public Accounts because it could not answer any questions previously about the liquidation because of the case taking place. However, I do have a problem with the Department offering this committee as a tool to facilitate the Department's ends, as opposed to a process determined by the committee members, without it consulting the committee. Was Mr. Carville involved in that or could he confirm that the Department was, because I have seen a letter from the Chief State Solicitor's Office to the effect? I was just wondering if Mr. Carville had any hand in the preparation of that letter or in advising the Chief State Solicitor's office?

**Mr. Des Carville:** Deputy MacSharry is asking me to comment on something which, first of all, is not relevant to NAMA. Second, he is asking me to comment on a matter of litigation before the High Court.

**Deputy Marc MacSharry:** No, I am asking Mr. Carville to comment about his Department's use of this committee without consulting this committee, in a way that one of his colleagues, namely, the Secretary General of the Department of the Taoiseach, today tried to direct the agenda of this committee today.

**Mr. Des Carville:** I am not going to comment

**Deputy Marc MacSharry:** I know Mr. Carville is not here specifically for this but I have no doubt that he knows the answer to the question and I am using the time of the State efficiently to ask him to answer it please.

**Mr. Des Carville:** Deputy MacSharry is perfectly entitled to ask the question but this is a matter which is subject to litigation and I am not going to comment on it.

**Deputy Marc MacSharry:** The use by Mr. Carville of this committee as a tool is not a subject of litigation but it is a subject that interests me as a member of this committee. Mr. Carville is not entitled to offer this committee to anybody, for anything, at any time. That is the gift of the members of this committee and the Houses of the Oireachtas. Could I ask Mr. Carville again, was he aware that happened? As I said, I might well agree with the Department withdrawing its case and deferring to the Committee of Public Accounts because I think it would be more in the public interest, but as a matter of courtesy, never mind actual procedures of the House, the Department might have had the manners to contact the clerk to the committee, the Chair of the committee or any one of the other 12 members to ask if it was okay.

**Chairman:** Is Mr. Carville in a position to answer the question?

**Mr. Des Carville:** I am not, Chairman.

**Deputy Marc MacSharry:** Why not?

**Mr. Des Carville:** Because this is a subject that is subject to litigation.

**Deputy Marc MacSharry:** No, that has nothing to do with litigation. It is the Department thinking it owns this committee, just like the Secretary General of the Department of the Taoiseach this morning.

**Chairman:** Will Mr. Carville be in a position to answer the question? I do not mean today.

**Mr. Des Carville:** Not today.

**Deputy David Cullinane:** I think the rest of us should have the opportunity to say that Deputy MacSharry speaks for himself.

**Deputy Marc MacSharry:** Sure.

**Deputy David Cullinane:** A number of accusations have been made about a number of Accounting Officers and they are well able to defend themselves, but I would not want the perception to be that Deputy MacSharry's opinion is one shared by all members. To be fair to them, the witnesses are brought before the committee to deal with certain issues. I do not have a difficulty in Mr. Carville answering the question depending on whether he wants to answer it, but we do not have access to all the information to which Deputy MacSharry says he has access, so we cannot form opinions.

**Deputy Marc MacSharry:** You do.

**Deputy David Cullinane:** No, we do not.

**Deputy Marc MacSharry:** Yes, you do. I gave it to you. It is on the record of the committee.

**Chairman:** Mr. Carville said he cannot answer the question today. Is he in a position to answer it in writing?

**Mr. Des Carville:** It is no different to when I was before this committee back in December last year to specifically discuss IBRC. If I remember correctly, litigation commenced a couple of days before my committee appearance. You will recall that, Chairman.

**Chairman:** Yes, that is correct.

**Mr. Des Carville:** You will recall that I expressed in the strongest possible terms that the Department wished to discuss the subject but the very clear legal advice we had from the Attorney General's office was unequivocal and is that because it was a matter before the courts, we were advised not to discuss it. That advice still stands and therefore my hands are tied. I would love to engage on this topic but I cannot.

**Deputy Marc MacSharry:** I have one final question.

**Chairman:** The one thing of relevance to this committee is that Mr. Carville would come back in writing, if he is in a position to do so, on any suggestion in respect to the role of the Committee of Public Accounts.

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**Mr. Des Carville:** Could I take the question away, because this is a litigious matter? Rather than giving an answer on the hoof which would be on the transcript, I would be more comfortable considering the Deputy's question. In consultation with the Department's legal advisers, to the extent that I can, I will come back to the committee.

**Chairman:** That is fine. The issue is relevant to the Committee of Public Accounts because it appears that while there may be litigation, somewhere along the line the Committee of Public Accounts was mentioned somewhere without our knowledge or consultation. If that happened we are entitled to know and we ask Mr. Carville to put in writing that aspect of the matter. It is nothing to do with the legal case. The issue relates to the involvement of the Committee of Public Accounts in an issue without the knowledge of the committee or any consultation with it. We are entitled to know that much.

**Mr. Des Carville:** I understand that.

**Chairman:** Mr. Carville can come back to us on the matter. We have to leave it now.

**Deputy Marc MacSharry:** If you do not mind, Chairman. The previous speaker had a good bit of time. I have two last questions. First, I wish to clarify something.

**Chairman:** No.

**Deputy Marc MacSharry:** I have one last question, but before I ask it I wish to clarify something. I put all these matters on the record at previous meetings when we decided on a course of action. It is all there, so it is not new. Yes, of course I speak for myself. One thirteenth of the view of this committee is mine and I put it out there.

The last report of this committee was published in January and one of its recommendations was the establishment of a committee of inspection for the liquidation of IBRC. What is the Department's position on that recommendation from this committee?

**Mr. Des Carville:** We are still tied up in the same topic.

**Deputy Marc MacSharry:** We are not.

**Chairman:** Could Mr. Carville reply to that in writing when he has had time to consider the matter?

**Mr. Des Carville:** Yes.

**Chairman:** Okay. Mr. Carville will reply. We have asked for responses to those two questions in writing rather than to be answered here today.

**Deputy Catherine Murphy:** I have a memory of Mr. McDonagh being quite critical of some of the people who were sold assets sitting on those assets. They would probably fall into the category he describes in his opening statement when he stated in his view "the more pertinent issue is whether all of the sites which are commercially viable are in fact being developed and, if not, why". He referred to sites that had planning permission and if they were commercially viable among other issues. I remember him being quite critical that there were some examples of that. Am I correct in that view?

**Mr. Brendan McDonagh:** Yes, there are some landbanks of which I am aware and I do not understand why they are not being built on by the people who acquired them.

**Deputy Catherine Murphy:** What is the scale of that?

**Mr. Brendan McDonagh:** Over the years we have sold landbanks that could potentially deliver more than 50,000 units. Approximately 2,700 units are being built and in my estimation there are probably at least 7,000 additional units that could be built that are not being built. I do not say I am fully correct but that is my estimation.

**Deputy Catherine Murphy:** When NAMA was selling assets or loans, did it put any conditions on how they were to be worked out, given that they were sold possibly with planning permissions, and there were fully serviced sites? Serviced sites are so valuable because there is a double cost for those who have to repeat the servicing of sites and that is a further call on the public purse. Did NAMA put conditions on any of the assets so that they could fall into the category of “use it or lose it”?

**Mr. Brendan McDonagh:** Those sites are ones that are already sold. Since this has become an issue, we have started a new process of selling sites under licence, generally trying to help the smaller developer to get access to sites. The developer does not have to pay the full amount upfront but pays a small amount and then pays a certain amount as he or she builds and sells houses on sites. We have introduced that as a condition of those sales. It encourages developers to make sure that they build. Once the house is sold, certain proceeds come back to NAMA, which will go towards the site payment.

**Deputy Catherine Murphy:** With regard to the profile of those who may be sitting on those assets, were they involved in large portfolios? It seems they are the kind of people who have the capacity to sit on an asset. Would that be the case?

**Mr. Brendan McDonagh:** The Deputy is talking about the big loan sales purchasers who came in here. Many of these debtors who had better sites and who were attached to those loans have refinanced themselves out of those US funds. The debtor is now being refinanced by another bank. Something which NAMA is prevented from doing which the funds are not prevented from doing is cutting a deal with the debtor to say, for example, that a debtor owes €100 million, the assets are only worth €50 million, and to give the fund €52 million and walk away. We cannot do that. The big US funds which bought many of the loan sales from NAMA and others do not want to hang around. They have been selling those portfolios and that landbank. Much of that landbank has been bought by investment funds and plcs which are into house building.

**Deputy Catherine Murphy:** So they have been selling it at a profit.

**Mr. Brendan McDonagh:** Like anybody who buys anything on the market, they hope to sell something on at a profit.

**Deputy Catherine Murphy:** Would where they are refinanced come across Mr. McDonagh's radar? Would it be the Irish pillar banks, for example?

**Mr. Brendan McDonagh:** The pillar banks are more back in business for such matters but most of these are smaller investment funds which set up vehicles for refinancing. They might have €200 million each. There are approximately ten in the market at present which are helping debtors to refinance, not just ex-NAMA debtors but debtors attached to small and medium enterprises, SMEs, who were funded through the pillar banks. They fund these people to refinance their loans.



**Deputy Catherine Murphy:** When Mr. McDonagh talks about par value and somebody writing a cheque for par value, that is the ideal situation. When he talks about par value, is he including the cost of administration and financing?

**Mr. Brendan McDonagh:** The contractual position is that if the debtor is paying off his par debt, he or she pays off all his or her par debt and all the interest that is due. The interest cost of the loan is supposed to cover the administration of whoever made that loan in the first place. That is part of the recovery.

**Chairman:** If a loan comes in with a par value of €100 million, is interest charged on that for five or six years? What way is interest handled?

**Mr. Brendan McDonagh:** We have usually inherited a contractual loan agreement. There is a three-month EURIBOR rate, plus a 3% margin.

**Chairman:** That is the original contract?

**Mr. Brendan McDonagh:** Yes, unless we restructure the loan. If we restructure the loan, they have to pay back that amount.

**Deputy Catherine Murphy:** I want to clarify a couple of issues of language. One is that Mr. McDonagh was asked if the Minister had given him any direction. He said the Minister had not.

**Mr. Brendan McDonagh:** On section 2?

**Deputy Catherine Murphy:** Yes.

**Mr. Brendan McDonagh:** Yes.

**Deputy Catherine Murphy:** Is there a difference in language with regard to direction and encouragement?

**Mr. Brendan McDonagh:** If a direction is issued to NAMA, it has to be published and lodged in the Oireachtas. Everybody can see it. We publish it on our website. There are a number of directions on our website and the Oireachtas website. They revolve around technical matters relating to NAMA. The Chairman has more engagement with the Minister than I do. The Minister, as with all Ministers we have dealt with, has always encouraged NAMA to do what it can with regard to social remit without compromising the section 10 obligations. We have made sites available to the Department of Education and Skills for schools in many locations.

**Deputy Catherine Murphy:** So there is a dialogue, not a direction.

**Mr. Brendan McDonagh:** We live in the real world and try to do what we can to facilitate it. If a local authority expresses interest in houses for social housing, we try to facilitate that. In the first business plan of the NAMA board in 2010, we published that we will engage with State authorities at market value.

**Chairman:** There is a vote in the Chamber. We will suspend now. There are probably five or six votes. We will suspend until 2.30 p.m.

**Deputy Bobby Aylward:** Who is left to speak?

**Chairman:** Those who have not spoken yet are Deputies Cassells, Aylward, Cullinane and Connolly.

*Sitting suspended at 12.55 p.m. and resumed at 2.30 p.m.*

**Chairman:** We are resuming our discussion in respect of the financial statements for the National Asset Management Agency. Before the break Deputy Murphy was speaking. Members have indicated a wish to contribute in the following sequence after Deputy Murphy - Deputies Cassells, Aylward, Cullinane and Connolly. Deputy Murphy has a few minutes remaining.

**Deputy Catherine Murphy:** Will the Chairman give me a little leeway? I was speaking about language and addressing whether there is a difference between having a dialogue and getting direction from the Minister. There was talk of schools and possible housing, etc., but was there any encouragement or anything other than a specific direction dealing with how assets should be disposed of? Was it something that would have been routinely spoken of? There was originally a longer timeline and it was pulled back. What was the dialogue that led to this? Was it something considered by the witnesses?

**Mr. Frank Daly:** There would be regular dialogue between the Minister and us, mainly with me, as the chief executive officer indicated earlier. It would have ranged over the whole performance of NAMA, where we were going, the timeline, debt repayment and all of that. Perhaps 2014 is a good example as at that stage we were evaluating in particular the pace at which we were monetising the portfolio. At that stage things were happening in the market that gave us more confidence that we could get good value for assets and loans. We would have had that conversation with the Minister. I go back to the point made earlier by Deputy Connolly as no directions were given to us in that regard. These are things we would be continuously evaluating ourselves. I remember we had a fairly extensive strategy discussion in 2014, with various options as to where we could go. We also had a section 227 report around that time, which was an evaluation by the Department of Finance about where NAMA was going and all of that. From this emerged a view that we would accelerate the monetisation of the portfolio while the market was good.

Also arising from that came the housing element. As I said earlier, NAMA was not set up to be a housing agency or anything like that and one would not find any reference in the Act to housing. However, from 2014, we began to fund the building of houses quite extensively. The outcome of that was that in the past four years, as mentioned earlier, we have delivered something like 10,500 houses and another 2,500 units of social housing. I made the point earlier that in that period, despite NAMA not being the housing agency or anything like it, NAMA delivered approximately 25% of all housing that was developed.

**Deputy Catherine Murphy:** NAMA would have had a major amount of land in its portfolio. That is its nature.

**Mr. Frank Daly:** Yes, but not all land is ready or suitable for building.

**Deputy Catherine Murphy:** I want to follow up a few issues with the very short amount of time available to me. Housing is clearly not something isolated from the economy and the cost of housing has a direct bearing on disposable incomes. In turn, it has an impact on the real economy and people's purchasing power, etc. Mr. McDonagh describes the housing market in his opening statement as "benign", and the word crops up a couple of times. Mr. McDonagh's definition may come from a different place from where many people now find themselves.

They may find it impossible to find somewhere to rent or buy at an appropriate price. How did Mr. McDonagh reach the conclusion that the market is benign?

**Mr. Brendan McDonagh:** I said property markets are benign, meaning that prices are not falling. We have €2.7 billion of the portfolio that still must be converted into cash. If the market falls, the €2.7 billion could become €2 billion or €1.5 billion but currently we are saying we can get €2.7 billion for the portfolio. It is its fair value.

**Deputy Catherine Murphy:** Deputy Connolly made a point earlier and the witnesses might have a personal view on it that is different from that of the organisation. It relates to whether there is a benefit in having property prices rising. From a NAMA perspective, it is clearly seen as beneficial that property prices would rise and certainly do not fall. The witnesses would speak of the impact that would have on the amount returned to the Exchequer. This is not a siloed argument, however, as there will be a cost in housing assistance payments for the real economy, for example. There are other aspects to consider and I do not see where the social dividend lies. There was mention of 10,000 houses from the portfolio. While I accept the portfolio is not completely residential or available for use, a sizeable amount is available. The number seems very small and there is a social dividend aspect. It certainly does not seem to have played out in housing. Does Mr. McDonagh accept that is a valid argument?

**Mr. Brendan McDonagh:** I accept that is Deputy Catherine Murphy's view. The position that we are in is that we have to follow the legislation, as enacted by the Oireachtas, to get the maximum amount for the assets. On the other side, we cannot give the assets away for free because we do not own the underlying properties. They are owned by debtors. If we did give them away, the Deputy would be saying we were not chasing the debtors to repay all of their loans. What we do is if somebody has a loan and they have property, and the value of that property is set by the market and the market pays that, that is the amount that will go towards repayment of the loan. In most instances it will not repay all of the loan but in some instances it will. We have to operate the way that we are set up. I have my personal views on housing. It is very expensive. I was looking at some statistics yesterday with one of my colleagues. If we look at the last two years, in 2016, based on statistics from the CSO, the income ratio to buy a house in Dublin was 3.2. In 2018, it has gone up to 3.4.

**Deputy Catherine Murphy:** Did NAMA have a dialogue with the Department of Finance about being on the wrong track, given that we were heading into a housing crisis? I started raising the issue of housing mainly because there was a big investment in a multinational in the area where I live and we were seeing the upturn before other places. There was a big hire of 4,500 people and it sucked up whatever was available in the rental market before the recovery became visible. This was obvious in 2012 and 2013 in some places, but certainly in 2014. It seems, however, that many of these assets were bundled and there was a kind of a rush to sell in a rising market. They were being sold to particular funds that really were not dedicated to building houses. Was there any serious dialogue about changing course and did NAMA feed into that?

**Mr. Brendan McDonagh:** As Mr. Daly outlined, the Department of Finance did a review of NAMA in 2014. It was like a Comptroller and Auditor General's section 226 report. A review must be undertaken by the Minister under section 227 and he did one in 2014. It said that NAMA was a big contingent liability for the State, a huge debt was still overhanging it, the national debt was up to €200 million and NAMA should move as expeditiously as possible towards extinguishing that contingent liability by selling assets. That is what we did. The Minister concurred with NAMA's strategy but that strategy was informed by what the Minister and the Government thought we should be doing.

There are many different people with different responsibilities. The primary responsibility for housing sits with the Department of Housing, Planning and Local Government. Do I see that there is a big housing crisis? I certainly do. Do I agree with Deputy Murphy that we could see the property market beginning to recover in 2012 and 2013? I certainly did see that as I outlined during previous committee appearances. There is a finite point to what people can pay. If we look at the CSO statistics, which I am happy to provide to the committee if members do not have them to hand, we can see that the Central Bank's limits for mortgages is 3.5. We are at 3.4 in Dublin as of 2018. If people cannot get a mortgage at more than 3.5, house prices cannot go above that because people will not get mortgages to buy them. That does not mean that people will not build stock-----

**Chairman:** That is on the assumption that it is all borrowed. People might have other means of accessing to money.

**Mr. Brendan McDonagh:** I accept that but I am talking about people who-----

**Deputy Catherine Murphy:** It would be a limited number.

**Mr. Brendan McDonagh:** -----I am talking about people who-----

**Chairman:** We still have borrowers.

**Mr. Brendan McDonagh:** We still have borrowers but there is still an income cap under the Central Bank rules. The issue here really boils down to the fact that that does not solve the housing crisis. It can only be solved, in my view, by having more stock available in the market. We funded the building, as Mr. Daly said, directly and indirectly of about 10,500 units in the last four years. There are, however, plenty of other people in the market who have land banks. They are beginning to build houses now but the issue is that we need more housing stock. The whole system is choked up. If we do not have enough housing stock, there will be people renting who would like to buy. There is also the issue - another Deputy expressed a view on this earlier - that there should be more social housing stock available. If there was more social housing stock, then those people would not be trying to rent against other people in the system. This is a fundamental problem and my point is that it can only be solved by increased supply. We are doing our best to deliver as much housing as we can but we have a limited mandate, our timeframe will probably finish at the end of 2020 and the market is the market. I ask the Deputy to believe me when I say that we have sites, even in her own constituency, that we would like to develop but for different reasons we cannot get on and develop them. Those are sites that have good infrastructure. There are all sorts of complications around this. It is not straightforward.

**Deputy Catherine Murphy:** Can I ask a final question?

**Mr. Frank Daly:** May I make three quick points? I want to be clear with the committee. Nobody in NAMA is cheerleading for price increases in housing. Increasing prices have a positive effect for us in respect of our return and, ultimately, the €3.5 billion that we will return to the State. There is nobody in NAMA, however, saying that it is great for us that house prices are increasing. There was a time when returns were going the other way and we had to grin and bear it back in 2010 and 2011.

I reiterate a point made this morning. Under our mandate, as a board and as directors, we cannot fund projects that are not viable and many of them are still not viable. There is also a capacity issue in the house building sector.

There is a dearth of skills and a dearth of people with the capacity to build. The committee should look at the 10,500 units that we have delivered in that context. That is 25% of all of the building that was done in this country over those years.

**Deputy Catherine Murphy:** I have one final question. According to a newspaper article published in the summer, NAMA offered the Housing Agency some properties - I could be wrong on what entity was involved - and the offer was not taken up. The properties were later disposed of to Cerberus and have since been purchased for market value. Are there other examples of that or was that a one-off case that resulted in the public purse picking up a cost that was not value for money?

**Mr. Brendan McDonagh:** We have had our loan portfolio sales and we trawled through those sales. As I explained, that sale involved 23 properties and, effectively, only four of those would have been potentially available. They were not taken up or were not going to be delivered at the time. We had subsequent loan sales in Project Emerald and Project Ruby. We went through those portfolios before they were sold and we went to the Housing Agency. We took almost 200 properties out of one portfolio and offered them to the Housing Agency. I think about 180 of them were taken up. In the other portfolio, which I think amounted to close to 300 units, we delivered about 250 units to the Housing Agency. We trawled through the portfolio and informed the agency that certain properties were available. These were properties that were unoccupied. Some of the properties we sold in the loan sales were already occupied. We cannot just kick people out of a property because they will have no place to go. They are sold with tenants in possession. We are certainly not going to make the problem worse. We trawled through the portfolios and pulled out as much as we could. The Housing Agency talked to local authorities and approved housing bodies and took up a certain amount. We are not blind to what is going on and we do our best to do as much as we can. We did that in two subsequent loan sales.

**Chairman:** I call Deputy Cassells.

**Deputy Shane Cassells:** I thank the representatives for their time, reports and engagement. The information gleaned from the exchange so far has been beneficial. I appreciate the frank offer of information.

I wish to begin with Mr. McDonagh's remarks in respect of the social housing engagement NAMA had with local authorities and the offer of 7,000 residential units to them by the agency, of which only 2,717 were taken up. He stated that many local authorities retrospectively contacted NAMA to indicate regret that they had not availed of those units. Given the current housing crisis, I also regret that they did not accept the offer. I wish to explore that because it is a scandal that our local authorities, which often refer to the crisis facing them and the pressure they are under, did not engage with those offers. How many local authorities retrospectively indicated to NAMA that they regretted not taking up the offer when it was on the table?

**Mr. Brendan McDonagh:** I do not have the specific numbers, as one of my colleagues deals with that aspect. We do not engage directly with local authorities but, rather, through the Housing Agency. Some local authorities have expressed the view that it would be great if those units were available now or if more units were available in their areas. They were speaking in generalities rather than specifics.

**Deputy Shane Cassells:** Of the 7,000 units made available, 2,717 were taken up. That was a poor rate of take-up by the local authorities. Many elected members of local authorities are very critical of NAMA but this was a situation where the local authorities had the opportunity



to take up units it was making available. Where were the majority of the units? Were they concentrated in particular counties? Were they in commuter counties or spread throughout the country?

**Mr. Brendan McDonagh:** They were all over the country. I do not have the exact information to hand but can dig it out and provide it to the committee.

**Deputy Shane Cassells:** That information would provide significant insight.

**Mr. Brendan McDonagh:** I have previously provided it to the committee and have no problem doing so again. Some local authorities believed the housing mix was not right. Others stated that there was 20% social housing in relevant areas and if they took the offered units, that would be pushed up to 30%. As the Deputy will be aware, local authorities have parameters in terms of housing mix, such as having a maximum of 20% social housing in an area not wanting an over-concentration of social housing. That is the reality for them. They are dealing with the issue on the ground. All NAMA can do is make such units available through the Housing Agency. The decision to take them up is for the local authorities.

**Deputy Shane Cassells:** I appreciate that. Mr. McDonagh is providing us with the information.

**Mr. Brendan McDonagh:** I have seen it reported that some of the units offered by NAMA were not compliant and some were on unfinished estates. No local authority or approved housing body has agreed to take on an unfinished estate or one where there was a compliance issue. We have put in the money to finish such estates and offer them to local authorities in a fully compliant state. We have spent €130 million on remediation issues and will probably spend another €70 million on them. NAMA is not afraid to commit money to a project if we believe the end product will be commercially justifiable.

**Deputy Shane Cassells:** I refer to the parameters referenced by Mr. McDonagh. The situation is ridiculous. Local authorities have thousands of people on housing waiting lists. As Deputy Connolly said, some have been on the waiting list in Galway for 16 years, while others in my county have been on the list there for ten or 12 years. In spite of that, local authorities are talking about parameters. I delved into this issue at a meeting of a housing strategic policy committee in Meath last week. We do not have any public land on which to build social homes. When the Secretary General of the Department of Housing, Planning and Local Government appeared before the committee, he was not prepared to address land acquisition programmes. In spite of all that, there was only a 40% take-up of the completed units being offered by NAMA through the Housing Agency, which is a scandal. The approach of our local authorities to this issue during the housing crisis is scandalous.

In terms of the process, Mr. McDonagh stated that NAMA went through the Housing Agency. Did the Housing Agency then go directly to the CEOs of the 31 local authorities or did it go through the Custom House?

**Mr. Brendan McDonagh:** I presume it went to the local authorities.

**Deputy Shane Cassells:** To the local authorities.

**Mr. Brendan McDonagh:** Yes. To return to a point raised by the Deputy, page 43 of our annual report contains a map of where the 2,400 properties we had delivered by March 2018 are located. We did not have any property in some counties. Pages 40 and 41 contain examples of

before and after and detail the money we put in to improve the units and turn them into quality developments in which people could live.

**Deputy Shane Cassells:** I discussed the parameters and so forth with the CEOs of many local authorities. At times, the Housing Agency focuses more on parameters than county councils or, certainly, elected members. I presume the Housing Agency reported back to NAMA in regard to the take-up.

**Mr. Brendan McDonagh:** Yes, the Housing Agency reverted to NAMA. For example, as one can see from the map on the screen, 39 properties in Meath were taken up. I do not know how many we offered in Meath. If we offered 100 there, the Housing Agency may have come back to say it would take 39, including ten in Navan, five in Trim and five in Kells or whatever part of Meath it may be. NAMA may have had another 20 units in Navan that the Housing Agency did not want. We accepted such decisions. The owner of such properties probably rented the units on the private market or put them up for sale. We now have approximately 1,500 properties in our portfolio which we have yet to sell. However, approximately 190 are vacant. Approximately 90 are in the process of being sold and will soon have new occupants. The other 90 properties cannot be occupied because they have remediation and fire issues.

**Deputy Shane Cassells:** I want to delve into that issue. I am trying to understand the reasoning behind these decisions. Mr. McDonagh stated that the properties were subsequently sold, so they were commercially viable properties. Did the local authorities indicate that the properties were not suitable for them?

**Mr. Brendan McDonagh:** We might have had a three-bedroom house in an area but the local authority only wanted a one-bedroom apartment in that area. There are all sorts of reasons the local authorities did not take them. The local authorities and the Housing Agency are best placed to explain those reasons.

**Deputy Shane Cassells:** I will pose these questions to them but I am trying to get Mr. McDonagh's take on it.

**Mr. Brendan McDonagh:** We outlined the types of units we had and where they were located. We gave that information to the Housing Agency, which discussed it with the local authority. It might come back to indicate there was too high a concentration of social housing in a particular town and that the local authority did not wish to have any more social housing there. It might indicate that a one-bedroom apartment was required but we were only offering a three-bedroom house. What could NAMA do in such a situation?

**Deputy Shane Cassells:** I acknowledge that difficulty. If I put the list of what NAMA was offering up on my social media account tonight, those properties would be snapped up quickly. The reasoning behind the decisions is key. In some instances, did the Housing Agency indicate it did not have the funds to purchase the units? It was earlier stated that it was short of funds. Was there a funding issue?

**Mr. Brendan McDonagh:** No. If a local authority wanted the units but did not have the money to buy them, NAMA would buy the units and lease them to the local authority. We have a special purpose vehicle that holds almost 1,400 properties, which are being leased to local authorities and approved housing bodies all over the country. In such cases, we stated that the capital was not needed upfront and that we would take a long-term income stream. We created a vehicle for that. It is on NAMA's balance sheet and will have to be sold or something will

have to be done with it when NAMA is wound up in 2020 but that is a decision for another day. We told the local authorities and approved housing bodies that they did not have to have the money upfront. If they wanted the units, we would find a mechanism to deliver them.

**Deputy Shane Cassells:** It makes the scenario even worse that no capital was needed upfront to avail of the offer, yet only 2,700 out of 7,000 units were taken up by our local authorities during a housing crisis. It makes the picture being painted this afternoon even worse. Representatives from the Department of Housing, Planning and Local Government will be before the committee in a number of weeks specifically to discuss the issue of housing. It will be the sole item on the agenda. It will make for an interesting conversation on that day. Mr. McDonagh said the local authority said it had enough in certain areas. When there are 4,000 people on a housing list in one town, a director of housing or a CEO would have a brass neck to come back and say there is enough of anything in one area because we do not have enough housing. The fact that NAMA had that number of units on the books and was offering the capital upfront makes the response by the local authorities even more bizarre and scandalous.

Was the poor take-up communicated to NAMA by the Housing Agency? Did it go back to the Department and outline what had transpired? Was the Minister alerted to it?

**Mr. Brendan McDonagh:** The chairman and I had ongoing meetings with the Minister and we told him and the officials what was going on. I have no doubt they were fully aware of it before we went into the meeting because the Housing Agency is under the remit of the Department. I cannot say what was-----

**Deputy Shane Cassells:** That is fine.

**Mr. Brendan McDonagh:** We are quite upfront. We do not play any games. We just say what we did and what the result was.

**Deputy Shane Cassells:** I appreciate Mr. McDonagh can only answer from his perspective. Given the funding was not an issue because NAMA would have taken care of the capital upfront, were the so-called parameters which meant they did not want an over-concentration of so many social housing units in a particular area their guiding rule for the refusal?

**Mr. Brendan McDonagh:** That seemed to be the main reason coming back to us.

**Deputy Shane Cassells:** It is unreal. It is unbelievable to think we are in here week in, week out and that there will be a vote of no-confidence in the Minister next Tuesday night, yet we have a situation where only 2,700 of 7,000 units which were going to be paid for upfront and leased back were not taken. It goes back to the discussion on the Housing Agency. I have made this point here before about the so-called parameters, who is running the show and whether local authorities have the gumption to stand up and deal with this issue properly. There are plenty of blame games being played with the Minister blaming the local authorities and local authorities saying the Minister is to blame. However, homes were on the table, as Mr. McDonagh said, and three-bed semi-detached houses were being offered but that is not what the local authorities wanted. It is scandalous. Does Mr. McDonagh agree the local authorities were remiss in that respect?

**Mr. Brendan McDonagh:** I am reluctant to criticise anybody.

**Deputy Shane Cassells:** These units were subsequently taken up by the private market.

**Mr. Brendan McDonagh:** These units were occupied by the private sector and bought by the private sector afterwards. There was clearly demand there. All I will say is it has to be looked at in the context of the point of time when it happened. The crisis has gotten acutely worse-----

**Deputy Shane Cassells:** It was an issue before the crash. I was a councillor for 17 years.

**Mr. Brendan McDonagh:** The Deputy is closer than I am and I respect that. All I am saying is all we can do is offer them and if they are not taken up, then our debtors and receivers turn around and say it is great and they can move on and rent them to the private market or sell them. That is what happened.

**Deputy Shane Cassells:** To finish on that, I want to be perfectly clear that we are talking about completed units. This was not the case of land banks with a potential yield for-----

**Mr. Brendan McDonagh:** It was a mixture. Some of these were completed houses that were vacant. Some of them were half-built houses in unfinished housing estates where we said we would put the money in to finish them.

**Deputy Shane Cassells:** It was not a case that they had to-----

**Mr. Brendan McDonagh:** No. If they wanted to buy them and finish it off themselves that was also fine. We did not care. We said that whatever way they wanted to cut it, we could find a solution.

**Deputy Shane Cassells:** NAMA was offering solutions.

**Mr. Brendan McDonagh:** NAMA had to offer solutions to many things whether we wanted to. It is just the business we are in.

**Deputy Shane Cassells:** NAMA was offering more and they said, "No." Mr. McDonagh went on to say they were choked of funds. Will Mr. McDonagh explain that? I am trying to square that circle. Was it in the context of the development of land banks? What was it in respect of?

**Mr. Brendan McDonagh:** There is probably a need for more social housing to be built for all sorts of reasons. Unfortunately, there is only one funder of that, which is the State, no matter how it is done, whether through long-term PPP or upfront payments. We were in a bailout and the country was operating within strict fiscal parameters and it continues to be that way. We have assets and if whoever buys those assets, whether a local authority or the private sector, has planning and can build houses, somebody's capital has to be used. All I am saying is there clearly was a shortage of capital in the public system.

**Deputy Shane Cassells:** Mr. McDonagh referred to SDZs. There is a limited number of SDZs in the country. Was NAMA involved in the SDZ in Navan?

**Mr. Brendan McDonagh:** No.

**Deputy Shane Cassells:** Approximately 70% of the land that remains on NAMA's books is in the Dublin area. With regard to the other 30%, is there engagement with local authorities on the potential scope for those areas?

**Mr. Brendan McDonagh:** We are talking to all the local authorities where the land is lo-

cated. Most of the other-----

**Deputy Shane Cassells:** May I ask about their attitude? The mind boggles when one considers their attitude towards completed units. They did not have the wherewithal to grasp that potential. What is their attitude now to dealing with NAMA at the height of a crisis and given the fact that the tenure of NAMA is coming to an end?

**Mr. Brendan McDonagh:** We deal with local authorities at many different levels. We have an in-house planning team, which talks to local authority planning departments all the time about the sites we have, whether there is an local area plan coming up and whether something is to be zoned or unzoned. When we are in pre-consultation discussions with receivers and debtors around specific sites, we discuss how many houses could be built on a site and what type of houses they could be. We do all the pre-planning discussions that everybody else on the market does. That goes on the whole time. We also have ongoing discussions with local authorities, sometimes directly and sometimes through the Department of Education and Skills, where the Department will say there is land in a particular town and a new school is needed. We talk to the planners and they say, "Yes." Part of that will be designated for a school site and then we engage with local authorities on a mechanism to sell the site to the Department of Education and Skills or a local authority. In fairness to the local authorities, we have good engagement with them, particularly on the planning side with the directors of planning.

**Deputy Shane Cassells:** On the planning side, with the in-house consultation team NAMA has, what are the implications of the new planning framework for the agency's land? Mr. McDonagh talked about whether it is zoned or unzoned. We have the new regional economic strategies coming down the line, which will lead to significant dezoning in commuter belts where land was potentially overzoned. The impact of these strategies will be dezoning in development plans. Has NAMA conducted an assessment on the implications of that for its debtors?

**Mr. Brendan McDonagh:** Yes. We have looked at it. The term the Department of Housing, Planning and Local Government uses is "disruptive strategy".

**Deputy Shane Cassells:** What is the "disruptive strategy"?

**Mr. Brendan McDonagh:** It is a disruptive strategy to force population growth outside of Dublin. We certainly have land in Meath where effectively-----

**Deputy Shane Cassells:** Land will have to be dezoned in Meath.

**Mr. Brendan McDonagh:** There is land right beside infrastructure, which we know from talking to local authorities is in their plans to be zoned for residential use because all the roads are beside it and there are facilities such as train stations so it makes absolute sense. Now we are being told that under these regional strategies it probably will not be zoned in the first place, or if part of it is zoned it is likely to be unzoned. NAMA is not the only landowner affected by that. Other landowners who are not in NAMA are affected by it also. This is part of the strategy in Ireland 2040, but we are not the only people affected. We cannot make a special plea as it affects other people also. There will always be consequences arising from these policies.

**Deputy Shane Cassells:** In terms of that good relationship, I assume NAMA has a good relationship with the senior planners who scripted that plan and that NAMA conveyed those thoughts to the planners.

**Mr. Brendan McDonagh:** We are not shy about conveying our thoughts.



**Deputy Shane Cassells:** Good

**Mr. Brendan McDonagh:** At the end of the day we like giving our input and we like to be consulted. We do not always agree but as with everything we always try to make our views known in a sensible way. We are not pushing a debtor agenda----

**Deputy Shane Cassells:** No.

**Mr. Brendan McDonagh:** We are not trying to push it and we say what we believe to be reasonable. Sometimes there are sites, absolutely, that have to be unzoned, which would never be unzoned. We totally agree with that. The sites may be on a flood plain and we would say absolutely that we would not waste any money on that.

**Deputy Shane Cassells:** Disruptive strategy is a good name for it. Mr. McDonagh spoke of problems with regard to the local infrastructure housing activation fund, LIHAF, and I understand he will address this with Deputy Kelly. Perhaps Mr. McDonagh will elaborate on that.

**Mr. Brendan McDonagh:** It is difficult. We engaged with local authorities, we worked with them and there were certain sites that were in the NAMA debtors' portfolio. There was an expectation that there would be a certain amount of LIHAF funding coming for it, but now we hear that actually there will not be LIHAF funding available and that LIHAF funding may now morph into the urban regeneration and development fund, URDF. There are different parameters around URDF than had been around LIHAF so there is a bit of confusion out there about what is going on. There are certain key sites we would see in Dublin and its border counties that have serious infrastructure deficits, but not insurmountable infrastructure deficits, that will cost money to resolve. If it was available LIHAF would certainly be helpful to provide the infrastructure. These issues are not just to do with NAMA and they affect other landowners who are not in NAMA who we know also. It is not about special pleadings, it is just the reality of what is going on.

**Deputy Shane Cassells:** As I said earlier, the information that has been discussed illustrates the absolute scandal that is facing the State.

**Chairman:** Will the representatives from the Department of Finance comment on the situation whereby local authorities say they have no money to do it and that they want to acquire houses but they do not have not the clearance from the Department? I presume that the Department of Finance holds the purse strings for the Department of Housing, Planning and Local Government. Who or where is the block with the finance? Is it in the Department of Finance or the Department of Public Expenditure and Reform?

**Mr. Des Carville:** It is not an issue for the Department of Finance.

**Chairman:** Is it the Department of Public Expenditure and Reform?

**Mr. Des Carville:** Yes, it is. The Department of Public Expenditure and Reform holds the purse strings, not us.

**Chairman:** Mr. Carville is here just representing the Department of Finance.

**Deputy David Cullinane:** I was hoping I would see-----

**Mr. Des Carville:** I am just telling the truth.

**Deputy Shane Cassells:** We are told by the Department of Housing, Planning and Local Government that money is not a problem. We were told by NAMA that there was going to be upfront capital provided and a leasing arrangement with regard to working collaboratively with local authorities to try to realise the potential of 7,000 units, and they took up 2,717.

**Deputy Bobby Aylward:** They did not need the money, NAMA was going to give it.

I welcome the witnesses. Today we are complimenting them for a change; usually we are condemning and scrutinising them over projects-----

**Deputy David Cullinane:** Speak for yourself.

**Deputy Bobby Aylward:** Well some of us are.

**Chairman:** We have not finished yet.

**Deputy Bobby Aylward:** This is on a good news story and all I can say is fair play to the people who thought up NAMA in the very beginning. They have proved their worth and NAMA has come through a lot. I hope the profit of €3.5 billion will be realised for the Exchequer over the eight years, which is no mean feat. One of the originators of the idea for NAMA was the late Brian Lenihan, Lord have mercy on him.

I shall now turn to the issue of housing. It shows where we are now in the State that we have moved on to the sale of portfolios to housing and social housing especially. The provision of housing is the word out there now at the moment and this is the problem of the day. Along with health, housing is the problem.

The Comptroller and Auditor General's report refers to the property management system. Assets were sold and they came back again. How and why did that happen and what action is being taken to address this? The later update shows that assets were put up for sale and then were put in for sale again. The Attorney General examines which assets were offered for sale, which had already been sold and how many others were involved. Will the witnesses explain why this is so?

**Mr. Brendan McDonagh:** There was no excuse for it. It was human error.

**Deputy Bobby Aylward:** Where is the breakdown?

**Mr. Brendan McDonagh:** The breakdown is that we have case managers who are responsible for a certain amount of debtors and assets. They are supposed to update the system when an asset is sold. For whatever reason, in those instances the system did not get updated. We went through all the assets with all of the case managers, we asked them to recheck and we are now confident that the system is right.

**Deputy Bobby Aylward:** How many instances were there?

**Mr. Brendan McDonagh:** That was the only instance that we-----

**Deputy Bobby Aylward:** Only one.

**Mr. Brendan McDonagh:** Yes.

**Deputy Bobby Aylward:** So NAMA learned from the one mistake.

**Mr. Brendan McDonagh:** I will tell the Deputy that it was uncomfortable for everybody when it arose so we-----

**Deputy Bobby Aylward:** Is that a major development?

**Mr. Brendan McDonagh:** It was a human error. What can I say to the Deputy? People make mistakes but they do not do it intentionally. It just happened. I cannot excuse it. All I can say is that it happened and we took action to try to make sure it does not happen again. We looked at it and there was no loss to the taxpayer, which is the important thing.

**Deputy Bobby Aylward:** Under the public body heading I see that 34 assets were sold or partly sold to State bodies. What is the procedure with State bodies? Does NAMA approach them or do they approach NAMA? Does NAMA advertise for interest and how do State bodies get involved?

**Mr. Brendan McDonagh:** Most of the stuff comes through from the local authorities. They would be aware that we are having discussions about housing sites and so on with regard to developing them. The local authorities would then indicate if they knew, for example, that the Department of Education and Skills was looking for a piece of land in the area, or perhaps another colleague in another department may be looking for amenity land and so on.

**Deputy Bobby Aylward:** Does NAMA approach the public bodies?

**Mr. Brendan McDonagh:** Yes. We have engaged with them the whole time. We engage with senior people and the chief executives all the time and we are always talking to them. In my experience and that of my colleagues, any chief executive in any local authority is very interested in the areas in his or her own local authority and what is going on there, as he or she should be. They would ask NAMA if we are involved in a particular piece of land in a town or if we are not. Sometimes everybody believes that NAMA owns all the land in the county and we would then have to say that certain land is not in our ownership at all. If we are asked if we have any idea who owns certain land we would put the local authority right by trying to find out if we could and let them know if Mr. X or Ms X owns a piece of land. Our policy from the start has been that if a local authority or a public body expresses an interest in any asset in NAMA we would get an independent valuation. We would let the local authority know that the independent valuation for a site is, for example, €2.6 million and ask the local authority if it wants to buy the site at that value. If it wants to buy the site the local authority or public body must close on it within three months. That is the type of deal we do. We always try to accommodate that aspect. NAMA does not own the loans or asset completely and we must go to the debtor to get him or her to agree to the sale. We must also go to the receiver for his or her agreement, but we have been able to accommodate this process.

**Deputy Bobby Aylward:** I might be asking some questions that were already asked, I was not able to be here before as I had two other meetings. I apologise if my questions cross over.

**Mr. Brendan McDonagh:** That is fine.

**Deputy Bobby Aylward:** When NAMA was asked by the Government to get involved in housing and to provide land, where did NAMA envisage its role in the provision of social, affordable and private housing? Had NAMA earmarked land for social, affordable and private housing where a profit might be made? Did NAMA conduct an analysis on how much land should be for social, affordable housing and private housing or did NAMA just see what came out of it?

**Mr. Brendan McDonagh:** No. We just looked at what we had in our portfolio and we then filtered it down into what might be commercially viable. It has to be commercially viable because to provide funding for the building of houses we have to provide State aid. For social housing it would be 10%, or whatever the Part 5 obligation is. If we get planning permission for 500 units then we know ten units would be for social housing.

**Deputy Bobby Aylward:** Ten units is only 10% of 100.

**Mr. Brendan McDonagh:** The 10% obligation is the law and that applies to everybody. It is not my personal asset. There is a debtor who owes and who has borrowed the money to buy the asset. The debtor may be able to build those houses. Let us say a debtor has a €10 million loan and we lend him another €10 million to build the houses, and he can sell them for €25 million, then he might be in a position that he can pay off his loan of €22 million or whatever the case is. He is only complying with his legal obligation which is to provide 10%. If the local authority gives him planning permission that stipulates he must provide 10% of the units for social housing then that is what he has got to do.

**Deputy Bobby Aylward:** Does the same apply to the affordable housing bracket? I mean houses valued at €180,000, which means I am talking about prices for houses in country areas and not in the Dublin region.

**Mr. Brendan McDonagh:** Yes.

**Deputy Bobby Aylward:** Did NAMA emphasise that they should be-----

**Mr. Brendan McDonagh:** No.

**Deputy Bobby Aylward:** I am talking about instances where there is no limit. Did NAMA tell people to set aside 15% of the land to affordable houses and then cater for bigger houses? Did NAMA consider doing so?

**Mr. Brendan McDonagh:** No. Again, it is not our land. Affordable housing is a policy objective of the Department of Housing, Planning and Local Government.

**Deputy Bobby Aylward:** We need affordable houses.

**Mr. Brendan McDonagh:** To my knowledge, even up as far as today, and I stand to be corrected, I do not think there is a huge amount of clarity about the definition of affordable housing or what that means.

**Deputy Bobby Aylward:** To me, it is the price that people can afford and are willing to pay.

**Mr. Brendan McDonagh:** I agree with the Deputy on that. In terms of the market understanding about what affordable housing is, if one is a debtor and has loans then one wants to get the maximum amount for those assets to pay off one's loans. We cannot go in and sell the houses at under value to the local authority because the debtor will say: "Well, you have undermined my ability to be able to repay my loans." I think there are two different things going on here. Affordable housing is something that has to be agreed as part of legislation - a planning condition. If one gets planning, again for argument's sake, for 100 houses and 10% are social and, say, 10% or 15% are affordable, then if that is the planning condition that applies to everybody in the land the market has to adjust and deal with that, but that is not the way legislation is at present. All that the legislation says at present is that if one gets planning permission then the local authority must set down a minimum of 10%-----

**Deputy Bobby Aylward:** Under Part V.

**Mr. Brendan McDonagh:** -----under Part V and that is it. There is nothing in the legislation about a percentage that has to be allocated for affordable housing.

The only scheme that I am aware of, and I have outlined it in my statement, is the Poolbeg West SDZ. Dublin City Council, when it approved the SDZ - the project has now gone for appeal to An Bord Pleanála - said that it is 10% social housing and it wants to do a commercial deal on buying 15% of the stock for affordable housing. That is the only deal that I am aware of. I have been in NAMA since 2010 and have seen loads of transactions but that is the only transaction where I have seen that type of thing being promulgated.

**Deputy Bobby Aylward:** Politically, we should go down that road because that is the only way we will solve this major problem but I realise that is not NAMA's problem.

NAMA will be wound up in 2020. Would NAMA, if it were to get another role, continue on? We have a housing crisis. Do the witnesses see themselves playing a further role, if the Government has the will to do so, to continue for another five to ten years in order to try to solve the housing problem? Seeing how NAMA has been so successful in the past eight years, do the officials see NAMA playing a role in solving the housing problem?

**Mr. Frank Daly:** I think, just going back to what I said this morning, we pretty much see ourselves as having worked our portfolio by 2020. If one wants to regard that in 2020 then-----

**Deputy Bobby Aylward:** Some of my colleagues looked at me when I asked my question.

**Deputy Catherine Connolly:** We are listening with great interest.

**Mr. Frank Daly:** If Deputy Aylward wants to look at 2020 as the end of NAMA's life, then it is possible that is when it will happen. I also mentioned that we will have a rump of assets left at that time whose value, in terms of a financial return to the State and, possibly, whose value in terms of the State being able to influence what happens on those things, will happen not by 2020 or 2021 but certainly in 2022 and up to 2025, including the Glass Bottle site. Can we have a role in that? They are assets under management of NAMA. We have an obligation to get the best financial return for those. I suppose our view is we need, as a board, to be assured that we can do that in one way or another, and there is a discussion to be had about how that can happen.

The reality is that if one goes back to what has been said today, we have demonstrated - and I have not come in here to blow our own trumpet or anything like that which I know will provoke a reaction - that we have actually been quite successful over the past eight or nine years in repaying the subordinate debt, a third of which is gone. Particularly I suppose to the point made by Deputy Aylward, the Dublin docklands is actually a great tribute to the coherence, direction, funding and skill-set of NAMA. That place has been transformed. At this stage, 100% of that SDZ that was in NAMA's control is either constructed, under construction or with planning. The project has been transformative.

In housing, and again going back to the figures we have been mentioning, the reality is NAMA has been delivering houses since 2014, quite successfully in a difficult market and with all of the constraints we have. We have been able to do that because of our team's skill-set, experience and expertise. If there is a role for that in future, then we would be more than willing to play it but it is not in our remit to decide that. There is an issue with the European Commission, and I think we have to respect this. The European Commission does not wish to



see NAMA taking on any additional responsibilities or areas of work. I do not think that the European Commission has any problem with NAMA working out its assets and maximising that value. It would expect that of an asset management agency. These are decisions for elsewhere. To quote Dickens, "Barkis is willing". We are willing if there is a need.

**Deputy Bobby Aylward:** I have a general question on the land portfolio and housing. What percentage of the land portfolio has been used over the past two years since NAMA got involved? How much of the land portfolio did NAMA envisage it would sell for housing at the very beginning? Earlier, one of my colleagues here mentioned local authorities did not take up land in places where they should have done so. How much land did NAMA originally earmark for housing? What percentage of land remains? Does NAMA hope to utilise the remainder?

**Mr. Brendan McDonagh:** When we looked at this, and we started looking at expanding the residential programme back in 2015, we had a landbank at that stage that could potentially deliver maybe about, 54,000 or 55,000 units, and now we are down to about 42,000. At this stage, there have been some sites sold in the meantime.

**Deputy Bobby Aylward:** Why did NAMA reduce that number to 42,000?

**Mr. Brendan McDonagh:** Because some sites are being sold because we have to continue to generate cash. One gets offers on them. As I said this morning, one particular site that has planning for 200 houses had a valuation of €10 million 18 months ago yet we have just sold it for €30 million. Land prices have gone crazy and we cannot ignore that because of the section 10 obligation. Some debtors are in NAMA but because of the rise in land values are in a position to pay off their debt. These are honourable people who have said, "Actually, I can pay off my par debt now, I have gone to another bank or another funding provider and here, NAMA, I owe you €25 million, and that is all of my debt paid off, and I am taking all of my sites back and I am going somewhere else." That is reality. That is what has happened as well, Deputy.

**Deputy Bobby Aylward:** Is NAMA's target of 20,000 units by 2020 still achievable?

**Mr. Brendan McDonagh:** Yes.

**Deputy Bobby Aylward:** Can NAMA exceed its target?

**Mr. Brendan McDonagh:** I think it would be difficult for us to exceed that but we are highly confident that we can get that 20,000 by 2020 or mid-2021 because we will have some developments which will still continue to be built on but they will just have to be finished out.

**Deputy Bobby Aylward:** If NAMA reaches its target of 20,000 units will it have land available for more units, perhaps 20,000 more ?

**Mr. Brendan McDonagh:** Yes. Our best estimate, Deputy, is that, the way things are going, we could be left with a longer-term landbank with stuff that could be rezoned in future area plans. Some sites might be on the route of Metro North in Dublin, which will come into play as the Metro North is being built. If one wants a return on that capital investment one must build housing around it, which is not zoned at present, or not part of LAP at present but should be. We could, potentially, have enough land for about 9,000 units.

**Mr. Frank Daly:** It is kind of hard to forecast. A lot can happen in a couple of years, not least, as was mentioned this morning, that some of our debtors who are very important to us in terms of house building could well be gone from NAMA.

**Deputy Bobby Aylward:** That leads to my next question. In 2020, if NAMA is wound up and it has still this portfolio of land, property or whatever, where will this property and land portfolio go then? Who will take over then?

**Mr. Frank Daly:** There is a couple of options. One is that one sells it before that. I have already argued this morning that I do not think that would be the best outcome for the State. It certainly would not be the best outcome for NAMA in terms of our financial return. The other option is that there is some other State agency into which one would transfer these assets in specie. The other one is-----

**Deputy Bobby Aylward:** Set up another new body?

**Mr. Frank Daly:** No. There are enough bodies out there already.

The other one is that one just lets NAMA work this out. It would be a much smaller NAMA but one would still have the core skills and expertise. That is an argument for elsewhere. As for whether we could do it, we could do it.

By the way, Deputy Aylward was talking about land being put into housing. The other figure that is worth mentioning is that NAMA has put more than €1 billion of development funding into that residential delivery programme about which we have been talking. In recent years, €1 billion into housing is a very significant figure. It is a significant figure into the economy in any event.

**Deputy Bobby Aylward:** It is not making a big dent on the problem we have out there though.

**Mr. Frank Daly:** It is making a dent, I would argue, that is disproportionate to the role we were intended to play in this. I mean “disproportionate” in the sense that it is in excess of the role that we were intended to play.

**Deputy Bobby Aylward:** Lastly, I will ask NAMA about the Twenty-six Counties. I note where NAMA has no land in 12 counties. In my constituency, it has land in Kilkenny but in not in Carlow. Why so? Has NAMA no property or land in any of those 12 counties or are they merely being excluded?

**Mr. Brendan McDonagh:** To which page does the Deputy refer?

**Deputy Bobby Aylward:** It is page 13. In the table, figure 7.2, in the report, it appears that no residential units are projected to be delivered by 2020 in 12 of the Twenty-six Counties. I am asking why are those 12 counties not involved.

**Mr. Brendan McDonagh:** In some counties we just did not have any land. At other times, the local authorities said they had no demand for it.

**Deputy Bobby Aylward:** In how many of those 12 counties has NAMA no property or how many are not interested? Can Mr. McDonagh explain that? I will ask only of Carlow. Mr. McDonagh should stick to Carlow.

**Mr. Brendan McDonagh:** In Carlow, we have delivered 49 social housing units. In Kilkenny, we delivered 56 social housing units.

**Deputy Bobby Aylward:** I see that. I do not see Carlow on the list though.

**Mr. Brendan McDonagh:** It is. If one looks at page 43 of our annual report, there is a map.

**Deputy Bobby Aylward:** I am sorry, I did not look at it. I am working off of this one.

**Mr. Frank Daly:** Is Deputy Aylward looking at page 64?

**Deputy Bobby Aylward:** I refer to pages 13 and 12 of this report, whatever report it is. I refer to the Committee of Public Accounts meeting. I do not know. It is a review anyway. It must be the Comptroller and Auditor General's one, I would say. That is what I am looking at. Anyway, I do not want to get mixed up with it.

In Kilkenny, I see where NAMA delivered 52 units, Mr. McDonagh is saying now, and 72-----

**Mr. Brendan McDonagh:** Fifty-six in Kilkenny and 49 in Carlow.

**Deputy Bobby Aylward:** Yes, and 72 then projected until 2020. Is that land-----

**Mr. Frank Daly:** That is social housing. The Deputy is referring to-----

**Deputy Bobby Aylward:** I am referring to all housing. I do not differentiate between social, private and affordable.

**Mr. Frank Daly:** One would have to go back to the table that was viewed earlier here.

**Mr. Brendan McDonagh:** Most of the land left in our portfolio is in Dublin, Meath, Kildare, Wicklow, Louth, Galway and Cork. That is where our portfolio is concentrated. About 98% of our portfolio is concentrated on those counties.

**Deputy Bobby Aylward:** What about the rest of the country? Mr. McDonagh will be aware we have problems in other parts of the country.

**Mr. Brendan McDonagh:** Yes, but we do not have any land there, or any assets. We have very little left in the rest of the country.

**Deputy Bobby Aylward:** NAMA has in Kilkenny, has it not?

**Mr. Brendan McDonagh:** Yes, but very little. We had very little in Kilkenny from the start.

**Deputy Bobby Aylward:** Will the 72 houses that NAMA has projected be delivered?

**Mr. Brendan McDonagh:** Yes.

**Deputy Bobby Aylward:** In the next two years?

**Mr. Brendan McDonagh:** I do not know what list Deputy Aylward is working off because I do not have it.

**Deputy Bobby Aylward:** I do not know either. It is the one I have in front of me.

**Mr. Brendan McDonagh:** Unfortunately, I do not have it. All I will say to the Deputy is that if he has a list with 72 on it and it was coming from some source, and if it is attributed to NAMA, then it will be delivered.

**Chairman:** Deputy Cullinane wanted to come back in again. I, myself, will have two ques-

tions at the end.

**Deputy David Cullinane:** I will try to be as quick as I can. We all want to get out.

I want to make one observation on NAMA's overall performance and I will put it to Mr. Daly first. I have some sympathy for his position in respect of decisions his organisation would have to make because it is somewhat subjective. People will have opinions as to whether good or bad decisions were made. NAMA has to make, as Mr. Daly put it in the past, real world decisions based on what the market is saying, NAMA's own goals and what is laid down for NAMA in its remit. There would be internal pressures, external pressures, etc. One will always have somebody with a different opinion who will say maybe NAMA should have held on, it might have got more or whatever. I can accept that. NAMA then has to make decisions. At some point, it has to make a decision.

While that is the case, NAMA also must have processes to protect the organisation, the management of assets and how the agency goes about its business. For example, the only project under which we were able to get under the bonnet was Project Eagle. What we saw there was a deviation, maybe, from some of the sale strategies. There were concerns, as Mr. Daly will be aware, regarding the management of conflicts of interests and a number of other matters. The committee published a report, as Mr. Daly will be aware, on Project Eagle. That is subject to a commission and I am not asking Mr. Daly to talk about any of that. In terms of our report, we made a number of observations and recommendations. Has Mr. Daly read the report? I put the same question to Mr. McDonagh. Have they read the Committee of Public Accounts' report? Do they have anything to say or any comment to make on the report, given that we met several times during the course of that? We did an awful lot of work as a committee and put an awful lot of effort into it.

I appreciate that NAMA has to make decisions and there are factors and all sorts of pressures involved, but process is important to protect an organisation. Were lessons learned from the Project Eagle sale or other sales and were lessons learned from any of the reports that were done, particularly the report of the Committee of Public Accounts? That is my first question to Mr. Daly and to Mr. McDonagh.

**Mr. Frank Daly:** As to whether I have read the report, certainly, of course. Very definitely. I suppose so much of the answer to what the Deputy is asking is tied up with the commission of investigation that I am sort of reluctant to go there but I absolutely agree with him that process is important. We are an agency that has been in existence for nine years and I believe that all along the way we have learned, as any agency would. In this committee, when we were in here regarding Project Eagle, we acknowledged that there were areas where our documentation in particular could have been improved, and certainly that has been.

I am confident in relation to the processes we have in place. If there is anything to be learned from any transaction, project or action by NAMA over the years, we are always open to that learning and we always implement it. I am very confident of the robustness of our processes now. We had several discussions around Project Eagle. I am not saying we agreed with every conclusion in the committee's report but that is something to be discussed within the Cooke commission. I am very reluctant to go there.

**Deputy David Cullinane:** I accept that. I will make one follow-on point and maybe Mr. McDonagh can come in then.

One lesson I learned from it in terms of my analysis of how loan sales work and how the management of assets work is that one argument that was made consistently by NAMA is that it must work in what it calls the real world where there are market solutions and market ways of doing things. In fact, there was criticism of some other organisations which perhaps might not have had that expertise, as was pointed out by NAMA, which I did not accept.

Something the market and those in the private sector who manage assets do is use the so-called “internal return rate” to set a benchmark and have a metric in order that one can measure what rate one gets back on individual assets, collective assets or loan sales, but Mr. Daly’s organisation chose not to do that. This made it more difficult for us to determine whether good or bad decisions were made. It goes back to the point I made, which is that once NAMA sold something, it could simply say that is the price it got and for all sorts of different reasons, these are the reasons the agency sold. As a result of NAMA not setting an internal return rate, we, the Committee of Public Accounts, cannot say whether we can benchmark it against any objective. It is so subjective in terms of what could have happened that NAMA is off the hook. Does Mr. McDonagh accept that omission was a mistake from NAMA’s perspective when we are talking about accountability and the Committee of Public Accounts being able to do its job? In terms of good practice and what happens in the real world, having an internal return rate would have been better practice. Does Mr. McDonagh accept that it would have been better for all of us all around if that had been in place?

**Mr. Brendan McDonagh:** I will refer to what the Comptroller and Auditor General said in his own report when he stated that when NAMA acquired the loans, there was an effective interest rate of 5%. That basically said that we were expected to return 5% on the assets over time. In the section 226 report, he stated that our return was 6.2%, so we have exceeded the 5% target. That is a financial measure as much as internal rate of return.

NAMA had a mixed bag of assets. It had some really bad assets, which the banks lent on and were not worth very much. Even if one had held them from 2010 until today, one might get less today than what one got because the land might have been de-zoned and one might have had issues on the cost of holding and the remediation of the asset. NAMA had some very good assets, medium quality assets and really poor quality assets in a mixed portfolio.

What I said earlier in terms of the business we have, the business that is most comparable to the private sector is our residential funding business. The board has set an internal rate of return target of 15% on that and we are achieving in excess of that in any of the projects we are funding at present. Consequently, we have internal procedures.

**Deputy David Cullinane:** I understand all that but in fairness, the question I asked was in respect of the internal return rate and whether that should have been a practice used by NAMA. We have to be able to make judgments. We, as a committee have to be able to say with some form of reliability, metric and benchmark that something was a good outcome and was a good decision. We can look at the macro objective to get a specific amount back but once one starts setting a benchmark for each of the individual assets or if one groups them in terms of a loan sale, it is actually better for us.

**Mr. Brendan McDonagh:** It was set because of the loan price methodology agreed with the European Commission. As the effective interest rate ended up being 5%, effectively that was a benchmark measure. If one is achieving a return greater than 5%, the rate at which one discounted the cashflows-----



**Deputy David Cullinane:** I do not think that in the view of the Comptroller and Auditor General, that would have been the case, that a rate would have been set for all of the loan sales or all of the assets.

**Mr. Brendan McDonagh:** No, that was set for the whole portfolio.

**Mr. Seamus McCarthy:** I accept that. I make that point to support the idea of having an internal rate of return as a benchmark that the 5% discount rate that was used in setting the prices at take on is implicitly an internal rate of return. I am not trying to argue for any particular rate as being a benchmark. That is for the board to determine. My argument was that it is a benchmark, it is something with which one can look at individual loans or portfolios as a whole and can determine that we are doing well, we are ahead of the benchmark we have set or we are falling short of it.

**Deputy Bobby Aylward:** Who set the 5% benchmark?

**Mr. Seamus McCarthy:** It was agreed.

**Mr. Brendan McDonagh:** It was the overall price methodology agreed with the European Commission.

**Chairman:** It was set at the establishment of NAMA.

**Mr. Brendan McDonagh:** Effectively that is a financial measure. I totally agree with the Comptroller and Auditor General on that.

NAMA used to go through a process, until the accounting rules changed this year to fair value. We used to have an impairment exercise each year, where one would mark up or mark down the value of one's loans based on the value of the underlying collateral. We would have an in-house management information system, MIS, to which the Comptroller and Auditor General has full access, called an asset sales tracker, where we put in a figure of what we think the value of the asset is going to achieve. We put it on the market and one can see whether we got above or below that, assess it and it is altered at the end of each financial year.

We do have tracking of every single asset in the NAMA portfolio.

**Deputy David Cullinane:** My second question is on housing. We had a good discussion on housing and a good articulation from both Mr. McDonagh and Mr. Daly on the housing situation. Again what I would be looking at is their articulation of it and then the practice, when one considers the 13,000 units NAMA delivered and whether, in the overall scheme of things, it was helpful in solving the housing crisis or addressing some of the issues. They addressed social housing supply, affordable housing, which is massively important and then taking people out of the private rented sector, if possible and reducing the price of rents. I will benchmark that against what NAMA actually did, but before I do that, Mr. Daly mentioned that NAMA is not a housing agency. It is correct that NAMA was not set up to be a housing agency and there is a particular skill and mindset that goes with that because it is not just about the market in terms of housing. When the State looks at housing it must also do so through a socioeconomic lens. Did NAMA have the expertise in that area to make those type of decisions?

**Mr. Frank Daly:** I will focus on the unit in NAMA that has dealt with social housing and the National Asset Residential Property Services, NARPS, and has dealt with the engagement with the local authorities on social housing. I would say that NAMA absolutely has that ex-

pertise. The board of NAMA has that consciousness about the bigger picture at all times. I do not want to rehearse the arguments about our remit and the constraints on us, if the Deputy wishes to refer to them as that. Deputy Connolly referred this morning to the requirement in the Act which enjoins NAMA to take account of the social and economic dividend. There are several ways in which one provides a social and economic dividend. We would argue and we have argued before that the most effective dividend that we have delivered is to remove the €31 billion contingent liability from the State and part of that dividend will be the €3.5 billion that we will return in a year or two. Part of that dividend is the 13,000 houses delivered that the Deputy mentioned; as well as the docklands. There are all sorts of ways of delivering a social and economic dividend. I think that within the parameters of our mandate and the constraints on us in the Act - it will be for others presumably in five or ten years' time to do very learned papers on what NAMA contributed - I certainly will be arguing they are elements of the social and economic dividend we have delivered.

**Deputy David Cullinane:** I fully accept the parameters and the constraints. Affordability is obviously the biggest issue. There was actually a very interesting discussion about what contributes to rising prices. Many experts say that supply is only one element and the bigger issue - one of the biggest issues that the State never grappled with - was land speculation. Land is a major driver in driving up the price of houses. Lending was also mentioned as having an impact. It is obviously more than supply but supply is obviously important. In my view affordability is the most important thing. Of those 13,000 housing units, how affordable were they? If the witnesses do not have the figures now, I understand they will send a note to the secretariat about the breakdown of houses into social, affordable and private. I would like a breakdown on the average price.

**Chairman:** To what note is the Deputy referring?

**Deputy David Cullinane:** This morning I had asked for a note on the breakdown of the 13,000 units into social, affordable and private.

**Chairman:** That is fine.

**Deputy David Cullinane:** On the affordable side, I am now looking for an average price of the 13,000 units. I also seek a breakdown by location. I refer to criticisms from some quarters, while appreciating the limitations and acknowledging location is important. Most of the units are in Dublin. What parts of Dublin? There are many areas that are socially deprived, for example. What was the percentage of housing in those areas?

**Mr. Brendan McDonagh:** We can give postal addresses. We have got the data. We have no problem providing them.

**Deputy David Cullinane:** In terms of affordability, could the witnesses make a comment? That is my final contribution.

**Mr. Brendan McDonagh:** I do not have the figures with me. Could the Deputy give me one moment?

**Mr. Frank Daly:** We do provide quite a bit of data in our annual report and examples but we can come back with a greater breakdown.

**Mr. Brendan McDonagh:** Most of the houses have been built by developers, with 90% private and 10% social. Twenty percent were less than €300,000. Forty-one percent were be-

tween €300,000 and €400,000. The rest were more than €400,000 because some of the schemes had mixed developments, with three, four and five-bedroom houses, depending on the type of scheme. We will have to get a detailed breakdown, which we can give to the Deputy. Sixty-one percent were certainly up to the €400,000 bracket.

**Deputy Catherine Connolly:** I return to this at my peril because it is certainly not my area. Page 11 of the report of the Comptroller and Auditor General refers to the rate of return. A fundamental difference is being highlighted, namely, that NAMA's measure, the entity return on investment, EROI, does not take in the time value of the money. What the Comptroller and Auditor General is saying is that the "Internal rate of return is a standard performance metric for property-related investments". NAMA does not use that measure. Could Mr. McDonagh explain why NAMA does not use what is accepted? How did it come up with the other measure?

**Mr. Brendan McDonagh:** Deputy, I disagree with the word "accepted" because the board has discretion to set out how it-----

**Deputy Catherine Connolly:** Could Mr. McDonagh explain the contradiction?

**Mr. Brendan McDonagh:** As stated in response to Deputy Cullinane, the Comptroller and Auditor General responded on that. One can have a financial measure of NAMA's performance based on the European Commission methodology, involving a return of 5%. We are currently returning 6.2% so we are ahead of the benchmark set at the start in terms of the loans we required.

The board said in 2014, after the first Comptroller and Auditor General review of NAMA, that NAMA should go about benchmarking its exercise. The board considered this and decided to set a measure called the entity rate of return, EROI, which is based on our total portfolio rather than individual pockets of the portfolio and said we have a target of 20%. The Comptroller and Auditor General's point is that one should take account of the time value of the money in that return. That is fine. I do not disagree that the Comptroller and Auditor General has that view. That is absolutely fine; that is the Comptroller and Auditor General's view. The board's view is that we do not take account of that; we take account of the measure that we set, which is a 20% target.

**Deputy Catherine Connolly:** What are the implications of not taking that into account?

**Mr. Brendan McDonagh:** I do not think there are any implications. It is just a different measure. At the end of NAMA's life, we will have paid €31.8 billion in cash. We will have interest costs incurred on that and we will have an amount left over after we have sold the assets. At the end of NAMA's life, all that will matter to the Exchequer is how much surplus NAMA is giving back after it has paid off all its expenses and all the debt it took on to acquire the loans from the institution. That contribution is a net contribution towards the wider Exchequer cost of the banking system-----

**Deputy Catherine Connolly:** The measure that NAMA has adopted is more suited to the narrative that the agency has done well, rather than the other-----

**Mr. Brendan McDonagh:** But Deputy-----

**Deputy Catherine Connolly:** I do not mind if the witnesses disagree with me. I am trying-----

**Mr. Frank Daly:** It is more suited to the reality of what NAMA is. We are commercial and have to act commercially but, going back to discussions we had a while ago, we are an agency that operates under certain constraints that the private sector, or another commercial organisation, would not have to operate under. We do not have the capacity to hold all these assets to maturity, which another organisation might have. We have had pressure on us to repay the contingent liability. Therefore, there are many similarities with commercial organisations but there are dissimilarities also. That is why, at the end of the day-----

**Deputy Catherine Connolly:** Could that be clarified? Mr. Daly is saying NAMA does not have the capacity and that there is pressure on it.

**Mr. Frank Daly:** I am saying we do not have the capacity to hold assets to maturity because, if we did, we would never end up paying off the debt. That is a constraint that has been on NAMA from the beginning. It goes back to the debate we had this morning in that if one held on another month, year or ten years, one might get a better price. One might. If there were no other constraints or requirements in terms of paying off the debt, that would be a grand idea but it was not possible for us to do that.

**Mr. Brendan McDonagh:** If Ireland did not have a €200 billion national debt. Trying to refinance-----

**Deputy Catherine Connolly:** Mr. McDonagh has explained that loads of times. I am just trying to get my head around something because we will be writing up a report in due course. Tied in with this matter is the information on page 33 of the report of the Comptroller and Auditor General, which uses the heading “Internal rate of return - debtor level”. Again, there is a very specific point being made. At the end of 2010, NAMA had over 750 debtor connections in its loan portfolio, and then so many exited. It is all set out in the report. The examination team from the Comptroller and Auditor General’s office applied the internal rate of return methodology. The witnesses can read this. The approach is based on what NAMA paid for the loans and the actual cash receipts generated by the connections before exiting NAMA. The weighted average internal rate of return and so on was approximately 3.4%. That is what the examination found. The final sentence is: “NAMA’s view is that it would be more appropriate to compute the internal rate of return by reference to the market value of the loans at acquisition and not what NAMA paid for them.” NAMA paid €31.8 billion but the market value was only €26.2 billion. If the market value is used, it obviously looks as if the agency is getting a better return. Is that not right, or am I being foolish?

**Mr. Frank Daly:** It is not a perception; it is a reality.

**Mr. Brendan McDonagh:** It is a reality. The private sector would have paid only €26 billion for this portfolio. It would not have paid €31.8 billion.

**Deputy Catherine Connolly:** NAMA paid €31.8 billion.

**Mr. Brendan McDonagh:** Because we were forced to-----

**Deputy Catherine Connolly:** I am not arguing about whether NAMA was forced. These are just the facts. NAMA paid €31.8 billion. I am not sure why Mr. McDonagh is laughing because I do not see anything to amuse me here. NAMA paid €31.8 billion. Is that not right?

**Mr. Brendan McDonagh:** Yes.

**Deputy Catherine Connolly:** But NAMA is not using that figure in its computation. It is using the market value, €26.2 billion.

**Mr. Brendan McDonagh:** Yes.

**Deputy Catherine Connolly:** Could Mr. McDonagh explain why NAMA is using that value when it did not pay that? It paid a much higher price.

**Mr. Brendan McDonagh:** It has been outlined here today and in reports that we overpaid for the loans by €5.6 billion. If the Deputy wants to make a comparison between what NAMA did and what the private sector would have done, she will note it would have paid only €26 billion or less for the portfolio.

**Chairman:** What is the basis of the difference between the €26.2 billion and the €31.8 billion? Could Mr. McDonagh describe it?

**Mr. Brendan McDonagh:** The European Commission made us value the loans on two bases when we took them from the banks because it wanted to work out the amount of state aid the banks got. It made us value the loans at a 5% discount rate, which we discussed a few minutes ago, and it also said that any private sector body buying this distressed portfolio in the market would have a discount rate of around 15%. Therefore, if discounted at 15%, one pays only €26 billion. If discounted at 5%, one pays €31.8 billion. Therefore, that is the state aid difference to the banks. I refer to the €5.6 billion, which is based on the different discount rates used. That is basically what the Commission is saying. Nobody but a Government would ever pay €31.8 billion for the loans. If the private sector were prepared to buy the loans, the most it would pay would be €26 billion.

**Chairman:** Why did Europe insist on the higher figure?

**Mr. Brendan McDonagh:** On the €31.8 billion?

**Chairman:** Yes.

**Mr. Brendan McDonagh:** Because it was approved state aid to bail out the banks.

**Mr. Seamus McCarthy:** I do not think it was Europe that was insisting on a higher payment to the banks.

**Mr. Brendan McDonagh:** Yes, but the Government requested-----

**Mr. Seamus McCarthy:** The proposal here was that the State would pay the higher figure. The EU looked at it and said that, on a one-off basis, because there is a crisis, it was prepared to accept there is an element of state aid in here – a subsidy to the banks. I think that is a better characterisation.

**Mr. Brendan McDonagh:** That is fair enough.

**Chairman:** The banks wanted the extra money.

**Mr. Seamus McCarthy:** The State wanted to pay them-----

**Mr. Brendan McDonagh:** The State wanted to give the banks more for the assets, based on the concept that the €5.6 billion represented long-term economic value in that it would be recovered over time. One could argue that that €5.6 billion has been recovered over time. We



are saying that we have paid the €31.8 back and we will give an extra €3.5 billion on top of that. The long-term economic value of the state aid has been repaid. Remember, at the beginning we had to price everything by reference to 30 November 2009. Between 2009 and 2012, the first three years of NAMA, the market had dropped 30%. People were saying that NAMA should have changed the valuation date and should make a valuation as at 2011 when we would have paid less to the banks. The consequence of that would have been that the Government would have had to come in and put in more money to bail out the banks. It is a zero-sum game as far as the State is concerned. It is either putting in equity or it is paying more for the assets.

**Chairman:** Was a more cautious approach taken at some level, that it was better to burden NAMA with the extra debt rather than leaving the banks in a tighter corner?

**Mr. Brendan McDonagh:** A pragmatic view was taken at a political level. These were effectively fire sales of assets where it was necessary to remove them from the banks' balance sheets because they were too big. By paying this long-term economic value, which is the state aid, this would potentially be recovered over the ten-year life of NAMA, which has effectively been borne out.

**Chairman:** I apologise for interrupting.

**Deputy Catherine Connolly:** That is okay because the clarification is helpful. Mr. McDonagh obviously thinks that this is amusing. Will the Comptroller and Auditor General explain the purpose of his paragraph highlighting this difference?

**Mr. Seamus McCarthy:** The conversation that has been had in the last few minutes exemplifies why internal rate of return is a meaningful performance metric for the activity that NAMA is engaged in. I have never attempted to say what the figure should be. That is something for political debate, or a debate between NAMA and the Department of Finance, and is to be explained here. I believe I heard Mr. McDonagh say that when the state aid figure was being calculated, a discount rate of 15% was used. Therefore, immediately, one has a figure of 10.3%, to which Deputy Catherine Connolly referred, as compared with the 15%. In the previous paragraph one has the 3.4% as compared with the 5%. This is the kind of conversation that I would envisage that we would always have at the Committee of Public Accounts about this kind of activity. Part of the reason that the EROI was developed was that in the first report, I recommended that the internal rate of return should be used and the targets should be set. In fairness to NAMA, it did have a conversation about it and came up with EROI and discussed it with us. To my mind, it did not fully serve the purpose.

**Chairman:** Can Mr. McCarthy explain EROI for people watching?

**Mr. Seamus McCarthy:** It is the final surplus related back to the investment that was put in at the beginning.

**Chairman:** What does EROI stand for?

**Mr. Frank Daly:** It is entity return on investment.

**Deputy David Cullinane:** Why did the Comptroller and Auditor General not find that satisfactory?

**Mr. Seamus McCarthy:** Because it did not take account of the time value of money. If someone was asked to put, say, €100,000 of his or her own money into a project or an invest-

ment and in ten years, he or she received €130,000, which is a 30% EROI, would that person be satisfied with it? It is a very difficult question to answer without considering what return the person would receive if he or she put the money into a bank offering an interest rate of 2% or 4%. Unless one has meaningful figures that one can use to allow oneself to make a decision, one cannot decide whether one is prepared to put money into the project as opposed to a bank. One needs the tools, one must have the interest rate and the rate of return. That is what I have been arguing on this.

**Deputy Catherine Connolly:** I will leave this for a moment. It sounds to me like a game of Monopoly. There is €74 billion and then €31 billion is paid but the property at market value is €25 billion or €26 billion. There are all these games around it in the inner circle but in the meantime we have a major housing crisis while NAMA's *raison d'être* depends on property values increasing. I am repeating myself from this morning but really, it is extraordinary.

Returning to Project Nantes, Mr. McDonagh told Deputy MacSharry that he would re-examine it. I have some specific questions. He said he only became aware of the conflict of interest. I have looked at what is on my desk and that is not accurate. There were questions in the Dáil which raised issues of value for money and queried a conflict of interest. Presumably those Dáil questions were passed on to NAMA. Is that correct?

**Mr. Brendan McDonagh:** There was-----

**Deputy Catherine Connolly:** Just answer my question please. I will be stopped by the Chair and I want to get on to social housing.

**Mr. Brendan McDonagh:** If the Deputy wishes me to answer the question-----

**Deputy Catherine Connolly:** I do.

**Mr. Brendan McDonagh:** -----I am happy to do so, but she must let me answer the question.

**Deputy Catherine Connolly:** I am not preventing Mr. McDonagh from doing so.

**Mr. Brendan McDonagh:** There were Dáil questions on this portfolio which were answered by the Minister for Finance. We were certainly aware of that. I must be very careful here. There was a particular aspect around a piece of information this morning. I said that we need to go off and check this out. We said that once it is checked out, we will write back to the committee. I cannot prejudge this because it came out this morning. I was coming over to brief the committee and I have been here all day. I and the chief legal officer need to return to the office and review documentation and so on. I am being upfront with the Deputy and the committee in saying we need to examine this. We are not rushing to any judgment. We just need to go back and look at some paperwork and satisfy ourselves. We have committed to write back to the committee after that. I have been completely upfront with the committee.

**Deputy Catherine Connolly:** I had concluded on that issue and Deputy MacSharry followed up on it. I understood from that discussion that NAMA had only become aware of a possible conflict of interest. I have since looked at Dáil questions and they go back to at least July 2017, if not earlier. A question was also asked in July 2018. The Minister's reply states: "I am advised by NAMA that it is satisfied that it obtained the best achievable financial return". I am not asking Mr. McDonagh to go into the details but clearly, in response to this question and the issues raised, he must have looked at this issue. It is not news to him.

**Mr. Brendan McDonagh:** In terms of value for money, I am satisfied. That is a financial aspect. I have no issue about that.

**Deputy Catherine Connolly:** Tied in with that question was the matter of a conflict of interest. I refer to Parliamentary Question No. 179 which asked if the Minister's attention had been drawn to a conflict of interest. That question was put down and answered in July this year. NAMA was fully aware of the issues relating to a conflict of interest and value for money.

**Mr. Brendan McDonagh:** No, we were not aware of any conflict of interest. This is an alleged-----

**Deputy Catherine Connolly:** Sorry, NAMA was alerted to the issues being raised by a Deputy.

**Mr. Brendan McDonagh:** No, we were not because the Deputy concerned did not specify what the conflict of interest was. Deputy Connolly asked if the Minister was aware. The Minister could not have been aware because we did not know what the specifics were.

**Deputy Catherine Connolly:** I am not interested in going into the details of this. I want to get something out clearly. Issues have been raised through Dáil questions in relation to this particular project and, in particular, to value for money and a conflict of interest. Is it not correct that NAMA was aware prior to today that those issues had been raised?

**Mr. Brendan McDonagh:** Absolutely, but there was no specific information about an alleged conflict of interest.

**Deputy Catherine Connolly:** That is okay, I am going to -----

**Mr. Brendan McDonagh:** If the Deputy asks me a question, she must allow me to answer.

**Deputy Catherine Connolly:** I certainly will but I am not asking him for details on this. I am simply trying to clarify that NAMA was aware of the questions before this morning.

**Mr. Brendan McDonagh:** Of course we were aware of parliamentary questions. When the Minister answers parliamentary questions, the Department would ask us about certain things. We have never held back anything from a parliamentary question. I want to put that on the record. I have no issue about the value for money aspect. On the conflict-----

**Deputy Catherine Connolly:** Mr. McDonagh stated he will go away and look at this issue. He has already looked at it. To be able to say that he is satisfied with regard to value for money, he must have looked at this.

**Mr. Brendan McDonagh:** I must emphasise this again. The Deputy must listen to me.

**Deputy Catherine Connolly:** I will listen.

**Mr. Brendan McDonagh:** Right. A new piece of specific information about this is being alleged. We need to go back and look at the statutory section 172 disclosure which was made. I cannot answer that here and now. I need to go back to the office with my chief legal officer and dig out this information, review it, ask some questions and come back. We have committed to come right back to the Committee of Public Accounts on that. I cannot rush to judgment here and now. It would be wrong for me to do that. When new information emerges, not just from newspapers but also from people contacting us the whole time with information about various

letters and assets, we look at it. That is all we can do. I cannot rush to judgment. I am certainly aware of the parliamentary questions. When a new piece of specific information is referred to, I cannot answer on the spot and I cannot rush to judgment.

**Deputy Catherine Connolly:** I did not ask Mr. McDonagh to answer on the spot. I do not know the details of this and it is not my way. I am asking general questions. I understood from Mr. McDonagh's reply to Deputy MacSharry that he was not aware and was going to go away and look. Maybe I misunderstood him. I am not talking about any extra piece of information. I am not privy to anything. I am talking about NAMA's awareness in terms of parliamentary questions of concerns expressed, not to NAMA, but to the person putting the questions.

**Mr. Brendan McDonagh:** There was one specific aspect mentioned today that I was not aware of. I have not had an opportunity to go away and investigate it because I have been here, at the Committee of Public Accounts, all day.

**Deputy Catherine Connolly:** What specific aspect?

**Mr. Brendan McDonagh:** I cannot get into that now.

**Deputy Catherine Connolly:** Where did Mr. McDonagh become aware of that one specific-----

**Mr. Brendan McDonagh:** There is a newspaper article today.

**Deputy Catherine Connolly:** All right.

**Mr. Brendan McDonagh:** It specifically mentions information that I was not aware of previously. I need to go back to the office to talk to people. I have to go back and dig out the files around that to see if there is something wrong or not. I cannot rush to judgment. That is all I am saying.

**Deputy Catherine Connolly:** On the issue of rent, the National Treasury Management Agency, NTMA, was before us, and NAMA is in the same building as the NTMA. Is that correct?

**Mr. Brendan McDonagh:** Yes.

**Deputy Catherine Connolly:** Am I wrong in my memory that the agencies are paying €1 million per year for rent?

**Mr. Brendan McDonagh:** NAMA operates two floors. We pay €2.1 million per year in rent.

**Deputy Catherine Connolly:** NAMA pays €2.1 million rent per year?

**Mr. Brendan McDonagh:** Yes, for two floors. The cost for two floors is €2.1 million. It is in our financial accounts.

**Deputy Catherine Connolly:** I move to the issue of social housing. I, like Deputy Cas-sells, sat on a city council for 17 years. We saw the housing crisis building up. There was a housing crisis well before 2014. In fact, it deepened in 2013 or 2014 when the housing assistance payment, HAP, became the only game in town. That has nothing to do with NAMA except the more rented buildings that it makes available, the more that HAP is used. A total of €300 million has been spent this year on HAP. This housing crisis has happened over a period

because of a failure to build houses. The first time NAMA discussed housing seems to have been 2014. Is that right?

**Mr. Brendan McDonagh:** NAMA has always looked to fund residential development where a debtor could justify that it would make a commercial return. The Deputy will recall that house prices fell by 30% after NAMA acquired the loan portfolio. Houses could not be built because the cost of building them could not even be recovered. Under the legislation passed by the Oireachtas, NAMA is not allowed to do that. From 2013 onwards, some of NAMA's debtors who were house builders said there was a bit of growth in the market again and asked for funding to build houses on a small scale to sell them. People forget that aspect.

**Deputy Catherine Connolly:** I come from Galway city and sat on the city council there. Galway has a bigger crisis than Dublin. According to the most recent census, 49.9% of Galway people rent. There are no properties available, there is no public housing and there is a massive waiting list. By any stretch of the imagination we have a major crisis. What was NAMA's engagement with Galway city and county? Were they among the local authorities that did not take up the agency's approach?

**Mr. Brendan McDonagh:** I do not have the figures with me. As I said, wherever NAMA had houses in any local authority-----

**Deputy Catherine Connolly:** Did NAMA have houses in Galway city and county as one of the major centres of a crisis?

**Chairman:** NAMA published that.

**Mr. Brendan McDonagh:** We certainly did and I think the number of units we offered local authorities and the numbers they accepted might be on our website, as the Chairman just reminded me.

**Deputy Catherine Connolly:** What was the uptake from Galway City Council?

**Mr. Brendan McDonagh:** I do not have the information with me.

**Deputy Catherine Connolly:** I would like that information-----

**Mr. Brendan McDonagh:** I have no problem providing that.

**Deputy Catherine Connolly:** -----for both local authorities.

**Mr. Brendan McDonagh:** That is fine.

**Deputy Catherine Connolly:** The papers say there was a general uptake of only 40%, across the board.

**Mr. Brendan McDonagh:** Across the system.

**Deputy Catherine Connolly:** I understand that. I would be very interested to know what the local authorities in Galway did, given the crisis.

**Mr. Brendan McDonagh:** We can certainly give the Deputy that.

**Chairman:** I have a few questions. I have listened to an interesting and useful meeting here. My questions will range quite a bit and cover a variety of topics.



Looking at the macro picture, and not specifically housing at the moment, how much of NAMA's total income was generated through the sale of underlying assets versus the loan sales, if Mr. McDonagh knows what I mean? Of its total disposals, how much was selling off loans to other organisations and how much was selling the underlying assets?

**Mr. Brendan McDonagh:** I think close to €11 billion has been from loan sales.

**Chairman:** That is €11 billion in receipts?

**Mr. Brendan McDonagh:** Yes. There is another €24 billion which has been generated from asset sales. We generated about €6 billion from income on the portfolio over the years.

**Chairman:** Approximately €24 billion came from the sale of the underlying assets. Will Mr. McDonagh give me a geographic breakdown of where the loan sales were purchased? How much of that €11 billion was received from American vulture funds, as opposed to the Irish market or the English market?

**Mr. Brendan McDonagh:** I do not have a figure to hand. We have got this information and I can write back to the Chairman. It is no secret that the majority of the loan sale buyers have been foreign, and mainly US private equity capital.

**Chairman:** That €11 billion went mainly to the USA.

**Mr. Brendan McDonagh:** Yes.

**Chairman:** It is mainly the US because they were not operating in Ireland. We saw, during Project Eagle, most of the main players were-----

**Mr. Brendan McDonagh:** There were very few European buyers of loan sales.

**Chairman:** Or Middle East buyers.

**Mr. Brendan McDonagh:** It seems to be something that had developed because of their own financial crisis in the 1980s in the US. These well-known funds grew out of that in the US and they have been buying all over the world.

**Chairman:** In terms of the sale of the underlying assets, would Mr. McDonagh have an approximate geographic breakdown? Would most of them have been sold to Irish resident companies?

**Mr. Brendan McDonagh:** In terms of NAMA's portfolio, €15 billion of its assets were overseas and, when they are sold overseas, they are predominantly foreign buyers. In Ireland, there is a plethora of buyers. There have been foreign pension funds, Irish pension funds and other investment funds buying them.

**Chairman:** I want to know the country of origin and the geographic breakdown of the sales of the underlying assets of the €24 billion.

**Mr. Brendan McDonagh:** Is the Chairman talking about the purchasers-----

**Chairman:** The purchasers, yes.

**Mr. Brendan McDonagh:** -----as opposed to where the asset is located?

**Chairman:** Yes, the purchasers.

**Mr. Brendan McDonagh:** We will have to go back and dig that out.

**Chairman:** Would much of it have been American?

**Mr. Brendan McDonagh:** A fair amount of it would have been American capital. Going through transactions in my mind, a fair amount would have been American capital.

**Chairman:** What about from outside the State? Of the €24 billion of underlying assets, how much would have been sold to organisations resident outside the State?

**Mr. Brendan McDonagh:** A significant amount of it would have been capital from outside the State because there was very little capital in the State.

**Chairman:** At least €15 billion of the €24 billion.

**Mr. Brendan McDonagh:** Easily, Chairman.

**Chairman:** Maybe even €20 billion. NAMA is about 90% of the way through the project it was given ten years ago. I am trying to get the big picture of what happened rather than waiting for someone to do a thesis in ten years time. I want to learn a bit before that. I am getting a picture that shows €11 billion of loans being sold substantially to American and other foreign investment funds. Some €20 billion of €24 billion in property sales were sold to foreign entities.

**Mr. Brendan McDonagh:** No. Some of the loan sales were foreign assets. They would have to be excluded.

**Chairman:** Yes, but they were Irish loans.

**Mr. Brendan McDonagh:** Some of the assets that were sold were overseas assets. Is the Chairman interested purely in Irish assets?

**Chairman:** No. I am trying to get a picture of NAMA from beginning to end. The €71 billion in bank loans were in Irish banks and financial institutions. I want to know where those loans, which were discounted by approximately 50%, ended up. In what country did they end up? How much of the €71 billion in loans ended up being controlled by financial institutions outside the State? This is a very basic question for NAMA. Mr. McDonagh is chief executive and must have some gut feeling for where the €71 billion has ended up today.

**Mr. Brendan McDonagh:** It is an exercise we would need to do.

**Chairman:** Does Mr. McDonagh not have an idea?

**Mr. Brendan McDonagh:** There was not very much capital for Irish buyers of assets.

**Deputy David Cullinane:** The Chairman is not looking for excuses.

**Mr. Brendan McDonagh:** I am not giving excuses. We would have to go away and look at this question and I have no problem coming back to the committee once we have done so. My intuition is that the majority of buyers of the assets which ended up in NAMA have been foreign.

**Chairman:** If I am asked to tell the story of NAMA to a later generation, it is beginning to look to me like the story will be that we had €71 billion of debts in Irish financial institutions and set up an organisation, a temporary holding company, whose function was to export the

ownership of the vast majority of that €71 billion to foreign investment companies. We took it from the private sector when it collapsed, took it into State ownership through the vehicle which is NAMA, and ultimately privatised it abroad.

**Mr. Brendan McDonagh:** We also paid off €32 billion of debt which the State had.

**Mr. Frank Daly:** We can certainly get an analysis for the committee, but I think what the Chairman is suggesting is a bit unfair.

**Chairman:** Do the witnesses understand the picture I am describing? We started with €71 billion. Where has it ended up now?

**Mr. Brendan McDonagh:** The assets were not worth €71 billion. Our task was to get back €32 billion.

**Mr. Frank Daly:** The Chairman may not have intended this but he said we were set up to export.

**Chairman:** NAMA was set up to manage it and, because of the financial crisis and the shortage of capital, the outcome was that we transferred the control and the ownership of the entire banking debt of Ireland to private investment companies outside the State. I am not saying it was set up to do this but that is what seems to have been the outcome.

**Mr. Des Carville:** There would be another chapter to the book the Chairman will be writing.

**Chairman:** I will never write the book. You can be clear about that.

**Deputy Catherine Connolly:** It might be a horror story.

**Mr. Des Carville:** The next chapter will be about what happens next. Foreign funds purchased loans but that is only the start of the story. In another chapter the funds will be recycled back, sometimes to Irish banks and other entities. The loans will have quite a lengthy journey.

**Chairman:** It will be about a ten-year exercise for NAMA from 2010 to 2020.

**Mr. Frank Daly:** I might write the book about NAMA and the Chairman might launch it.

**Chairman:** I do not think Mr. Daly will write a book about it either. I hope the witnesses understand that I am just trying to put in a paragraph about what NAMA did. It took in excess of €71 billion in Irish-controlled bank debt, for which it paid €31 billion. It held it for the State and ultimately disposed of it outside the State to private investment companies. Essentially, we reprivated it abroad. In a sentence, that is what happened with NAMA.

**Mr. Frank Daly:** Yes.

**Chairman:** I am not saying it is good or bad. I am just trying to write the story.

**Mr. Brendan McDonagh:** The banks that lent the money in the first place had borrowed on the international markets to lend it out.

**Chairman:** I know that.

**Mr. Brendan McDonagh:** Ultimately, it was foreign owners-----

**Chairman:** So it was nothing to do with Ireland at all.

**Mr. Brendan McDonagh:** It was, of course, because we had to pay back the debt of the banks when they went bust, but that is another story.

**Chairman:** I thought the witnesses would have had a better handle on how much of the debt they took over was now controlled outside the State, as opposed to within the State.

**Deputy Catherine Connolly:** We have missed out another chapter which describes how the money became public debt.

**Chairman:** Yes. I said it started off as a private debt, was nationalised, and is now being reprivated.

**Mr. Frank Daly:** It will also be necessary to do a follow-through analysis on it. Not everybody who bought the debt from us has held onto it. Some of it has come back.

**Chairman:** I am just trying to follow the geographical money trail. I know there is another chapter for the next decade. I am trying to get the global picture.

Statutory declarations under section 172 were mentioned and it was stated that falsely signing a declaration was an offence. Have there been any prosecutions by the Garda relating to section 172 declarations?

**Mr. Alan Stewart:** Not that I am aware of.

**Chairman:** If somebody wants to buy a portfolio from NAMA and sets up a company in Luxembourg to do so, what jurisdiction applies to the section 172 declaration?

**Mr. Alan Stewart:** It would typically come from the buyer. If it was a Luxembourg company, that company would give the declaration.

**Chairman:** What mechanism does NAMA have to investigate declarations signed by companies based in Luxembourg? I refer specifically to this debt.

**Mr. Brendan McDonagh:** Effectively, declarations are made under legal advice.

**Chairman:** Has NAMA ever carried out investigations relating to section 172 declarations signed on behalf of organisations outside the State?

**Mr. Alan Stewart:** We carried out investigations on documents sworn under oath, which is what a declaration is. This was done when they appeared to us, based on information gained afterwards, to have been in some way incomplete or inaccurate.

**Chairman:** I am referring to declarations from companies based outside the State. Has NAMA investigated any declarations signed by companies based in other jurisdictions?

**Mr. Brendan McDonagh:** Anyone who transacts with NAMA has to fulfil all sorts of obligations about his or her bona fides and comply with anti-money laundering provisions etc. We find out as much as possible about a purchaser.

**Chairman:** What did NAMA find out about the company in Luxembourg?

**Mr. Brendan McDonagh:** We tried to find out who was behind it. We do not do things blind.

**Chairman:** Has NAMA investigated any section 172 declarations signed by companies

based in Luxembourg?

**Mr. Alan Stewart:** No.

**Chairman:** Has NAMA investigated any declarations signed by companies based outside the State?

**Mr. Brendan McDonagh:** If we accept a section 172 declaration and are satisfied it is bona fide and complies with money laundering regulations, we regard that as a reasonable check and complete the transaction. If other information comes in about a person, we investigate it and try to get more information. We might engage a third party, such as an accountancy firm.

**Chairman:** How many such investigations has NAMA done? Is it ten, 20, 50 or 100?

**Mr. Alan Stewart:** Any that I have been involved in have been more to do with incomplete declarations as to the state of their assets and what not-----

**Chairman:** I refer to investigations rather than completeness and just filling in the form - where NAMA is alerted to a potential problem where it is felt there is a need to investigate-----

**Mr. Alan Stewart:** There have been a handful.

**Mr. Brendan McDonagh:** There have been relatively few instances over the lifetime of NAMA where somebody has raised something that we have had to look further into, but if somebody raises anything with us we would look into it.

**Chairman:** I know, but rather than checking if the form is fully completed, because it is fine to have it all on paper, I am concerned that there is no policing of it and what I really want to know is in terms of the investigations that have been carried out. Have any been specifically been carried out on companies that were resident outside of the State?

**Mr. Brendan McDonagh:** No, not in Luxembourg.

**Chairman:** So there is no policing-----

**Mr. Brendan McDonagh:** No there has to be a basis on which it is believed that a statutory declaration is false. If we came across any information to indicate that a statutory declaration was false we would contact the Garda.

**Chairman:** Has that happened in many cases?

**Mr. Alan Stewart:** Yes, I am aware of it having happened in statements of affairs and we talked about three cases earlier.

**Mr. Brendan McDonagh:** On the section 172s to date, I do not believe we have had cause to refer to the Garda yet. We have never come across any substantial information that has been presented to us that we have been able to-----

**Chairman:** So NAMA is satisfied that everybody who has bought something from it was totally honest in their dealings and it was never checked up.

**Mr. Brendan McDonagh:** Hold on now. The reality here is that we have to have a basis for suspecting something. Nobody has presented any information to us to date that has given us a basis to refer to the Garda. The Garda would only take on something to investigate it if we



could give it a lead and present something as evidence.

**Chairman:** I am only hearing of this section 172 issue today. I had never heard of it before. NAMA has always said the situation is confidential - between the purchaser who is signing the section 172 and NAMA. How could anybody be privy to that? It is a closed process. How does NAMA expect it will get complaints?

**Mr. Alan Stewart:** Maybe I can help the Chair. He talked about policing and enforcement a moment ago and I think that is his main concern with this. If a false declaration is sworn, that gives rise to a criminal offence. It is also an offence under section 7 of the National Asset Management Agency Act 2009 to give information to NAMA that is false or misleading where there is recklessness or gross negligence as to the giving of that information. The consequences for someone who takes a glib attitude to a confirmation or declaration given to NAMA are severe. That is an important point that needs to be kept in mind-----

**Chairman:** I accept that.

**Mr. Alan Stewart:** -----where someone comes up after the fact and says that they have information to show that what was said was not the whole truth or full picture. In those instances of course we investigate that and it would be remiss of us not to do so. That is what I will be looking-----

**Chairman:** I accept everything the witnesses said. My question is what jurisdiction does the National Asset Management Agency Act 2009 have in Luxembourg?

**Mr. Alan Stewart:** The commission of the offence is an offence under Irish law so if it is a declaration-----

**Chairman:** In any jurisdiction?

**Mr. Alan Stewart:** -----even under Irish law-----

**Chairman:** We are talking about a company in London signing the statute in Luxembourg.

**Mr. Alan Stewart:** Yes.

**Chairman:** I could have picked Chicago but I picked Luxembourg and the signing of a statutory declaration there. The National Asset Management Agency Act 2009 has no effect in Luxembourg.

**Mr. Alan Stewart:** It does. It is up to the authorities to pursue-----

**Chairman:** Which authorities?

**Mr. Alan Stewart:** If it is a criminal matter, it is up to the investigatory authorities-----

**Chairman:** There has to be an equivalent offence in Luxembourg so that the Garda equivalent in Luxembourg can investigate it and there probably is not a similar-----

**Mr. Brendan McDonagh:** The Garda have liaisons through Interpol with other police bodies if it believes something criminal has happened.

**Mr. Alan Stewart:** There are treaties that deal with exactly that.

**Chairman:** The witnesses have told us that they have referred none to the police anyway.

**Mr. Brendan McDonagh:** Because we have had no reason to refer them to the police.

**Chairman:** They have all been accepted in good faith on the basis of the property assigned.

**Mr. Alan Stewart:** The consequences I have outlined a moment ago are draconian, so that is the reason for doing it.

**Chairman:** With all due respect, we have Mr. Daly here who had an outstanding career as Chairman of the Revenue Commissioners. He would have done some check or some bit of an audit. If he had hundreds of thousands of people making their statutory returns there was always some procedure or check in the Revenue Commissioners. I would have more confidence in this if I felt that there was a threat of a full and detailed examination of even 1%, not to mind 10%. We are looking to have confidence in this.

**Mr. Seamus McCarthy:** In carrying out the section 226 report we looked at whether section 172 declarations had been made in relation to 80 disposals. What we found was that for 74 out of the 80 there were section 172 declarations available for review. For 55 of those, the asset sale contract was available and the examination team could agree the purchaser from the contract to the declaration. In other words there was a match, the purchaser had made the declaration but for 19 of the sales the contract was not available in NAMA and therefore we could not complete that link. We also established that NAMA case managers do not carry out a formal verification process of the section 172s which is the point the Chairman is making.

**Chairman:** Forgive me for not reading that paragraph-----

**Mr. Frank Daly:** We do not do that but let us cut to the chase here because we have examined section 172 declarations where we have had any information that would have indicated that they were incomplete or false. We have never had a case where that has stood up to the extent that it was worth reporting to the Garda but what everybody is interested in here is one particular declaration and we have already said that we will be investigating that starting this afternoon.

**Chairman:** I am surprised now that from what appeared to be a one-off issue, it is now clear that NAMA has no verification process in place to verify any of them.

**Mr. Frank Daly:** There is no routine verification process but this is a statutory-----

**Chairman:** Take it from me as Chairman of the Committee on Public Accounts that from where I am sitting that is a gap in NAMA's governance. There should be some spot check or verification. That is all I will say. I am not making a formal statement on it but the witnesses can understand that I am surprised that there is no process of having a spot check to let everyone know that these declarations are being watched. I am still not sure, and the witnesses might be able to tell us, how many of the declarations NAMA has received were signed by organisations outside of the State versus inside the State. I am curious about that.

On the non-sale, did Mr. McDonagh have any direct contact with the purchasers of that portfolio around the time or at the conclusion of that sale?

**Mr. Brendan McDonagh:** No.

**Chairman:** He had no contact with people connected with Avestus, the purchasers.

**Mr. Brendan McDonagh:** The purchaser was an entity called Clareview. I do not know

anybody in Clareview and I never had any discussion with anyone there.

**Chairman:** That is all I am asking. That is fine. That only arose because of this morning's issue but I did not realise it would go that far. About how much debt does NAMA still have?

**Mr. Brendan McDonagh:** There was €2.7 billion worth of debtors who have NAMA debt on assets to be collected at the end of June.

**Chairman:** Given that the uplift in the property market is happening and the witnesses are saying that some people are coming back with the increase in value, is there a possibility that the level of profit that will be made out of the recovery of that €2.7 billion might be higher than would have been experienced in previous years because of the property market? I know the €3.5 billion has been mentioned but it is possible that the €3.5 billion will now creep up because of the improved market? The witnesses did say that some of these people might repay their loans and pull out which was not always the case.

**Mr. Brendan McDonagh:** If people can pay off more of the debt we will grab it. That is what our job is. There was a change-----

**Chairman:** Give me some thoughts on that.

**Mr. Brendan McDonagh:** NAMA's accounts have become very transparent now because there was a change in accounting to IFRS 9 from 1 January 2018 because we have the fair value assets now so it is no longer IAS 39 and the value of the loan portfolio has to reflect the value of the-----

**Chairman:** What is the value of that loan book?

**Mr. Brendan McDonagh:** Some €2.7 billion at the end of June.

**Chairman:** Is that the carrying value?

**Mr. Brendan McDonagh:** It is the carrying value based on the fair value of the assets so the underlying-----

**Chairman:** What was the carrying value before the fair value was brought into it?

**Mr. Brendan McDonagh:** Remember how we previously had the concept that we had unrecognised profit-----

**Chairman:** Yes.

**Mr. Brendan McDonagh:** -----that we could not take in under the previous accounting rules IAS 39 and that was around €360 million. When we moved to IFRS 9 on 1 January, we had to make an adjustment called a transition adjustment from IAS 39. We recognised approximately €160 million on that. That goes straight to reserves as a day-one adjustment.

**Chairman:** Okay.

**Mr. Brendan McDonagh:** The rest of it flows through in terms of the value of the portfolio that we have yet to collect at the end of June. Based on the assets, it is €2.7 billion. If property values increase by 10%, we will get another €270 million.

**Chairman:** Yes.

**Mr. Brendan McDonagh:** If property values fall, we will get €270 million less.

**Chairman:** I understand that.

**Mr. Brendan McDonagh:** It is very transparent now.

**Chairman:** Fine. I appreciate Deputy Cullinane has to leave. I have another question about the surplus. Has the Department of Finance had discussions at EU level with EUROSTAT about the use of the surplus when it is ultimately handed over? We had a discussion on this here before. We were told that because NAMA is unique, there are no specific European or EURO-STAT rules on it. Historically, financial assets were sold to reduce debt. That was in the time of the troika. There is no legal requirement for this to be done, but there might be a political view that it should be done. Where is this topic? The Department should not wait until the money arrives before it starts considering it.

**Mr. Des Carville:** I was about to say that we have to wait until the money arrives before we can consider it.

**Chairman:** Surely the Department has to put plans in place.

**Mr. Des Carville:** There is a waterfall of liabilities. The €30.2 billion of senior debt is first in that waterfall.

**Chairman:** Yes.

**Mr. Des Carville:** That has been fully repaid early, as NAMA has explained. Due to an exercise carried out earlier in the year by NAMA, the €1.6 billion of subordinated debt that has to be repaid has been reduced to €1 billion. If the holders of that debt do not tender or accept early repayment by NAMA, it will stay *in situ* until March 2020. That is the next step.

**Chairman:** Where will it stay?

**Mr. Des Carville:** It will stay with the holders - the banks that own the subordinated debt.

**Mr. Brendan McDonagh:** We owe it to them. They are holding it because they are getting a very good recoup of 5.26% on it. They do not want to sell it.

**Chairman:** If they are happy with their return, they will sit on it.

**Mr. Des Carville:** If they are happy with their return in a low-interest rate environment, it makes sense.

**Chairman:** In other words, we are in their hands because that is out there until that period.

**Mr. Des Carville:** It is their asset.

**Chairman:** We cannot actually hand it in to the-----

**Mr. Des Carville:** No, they own it.

**Mr. Frank Daly:** We cannot do it until March 2020.

**Chairman:** I am making the observation politically - it is more of a financial thing - that it is not a good idea to have €3.5 billion locked away to this extent. I would be interested to know if there is some amendment that could deal with this.

**Mr. Brendan McDonagh:** It is not locked away. I will explain it. We have approximately €2 billion in cash in NAMA. If all the subdebtors came in tomorrow morning, we would pay off that €1 billion and we would have €1 billion in cash-----

**Chairman:** Okay, that is all NAMA can-----

**Mr. Brendan McDonagh:** -----left over.

**Chairman:** Yes.

**Mr. Brendan McDonagh:** We will only get the €3.5 billion if we sell the remaining-----

**Chairman:** On the basis of-----

**Mr. Brendan McDonagh:** -----€2.7 billion.

**Chairman:** So it is not realised yet.

**Mr. Brendan McDonagh:** No-----

**Chairman:** Okay.

**Mr. Brendan McDonagh:** -----and it will not be realised-----

**Chairman:** The €3.5 billion has been mentioned so often-----

**Mr. Brendan McDonagh:** Because it is the value of the residual-----

**Chairman:** -----that people now think it is sitting-----

**Mr. Brendan McDonagh:** No.

**Chairman:** I understand.

**Mr. Brendan McDonagh:** The Chair is completely-----

**Chairman:** People really believe it because it has been mentioned so often. The €3.5 billion surplus is now a fact of life for them.

**Mr. Frank Daly:** We never said anything other than that would be the terminal surplus.

**Mr. Brendan McDonagh:** After we have sold everything.

**Chairman:** The witnesses get my discussion point.

**Mr. Brendan McDonagh:** Yes.

**Mr. Frank Daly:** Yes.

**Chairman:** It has been mentioned so often that people now think it is already in the bank.

**Mr. Brendan McDonagh:** Absolutely. We have always been-----

**Chairman:** So it gives-----

**Mr. Brendan McDonagh:** I would have thought that some of the people who have said this to me would have thought even more about it. They have said “sure you have €3.5 billion in



cash” and I have said “I wish I had, but I do not”.

**Chairman:** Okay. It is useful to say this to those who are watching.

**Mr. Des Carville:** Then the external shareholders, who hold 51% of shares, have to be paid.

**Chairman:** I mentioned that extensively this morning.

**Mr. Des Carville:** That is right. Then it is a Government decision at that point in time-----

**Chairman:** I accept that

**Mr. Des Carville:** -----as to how the proceeds are used.

**Chairman:** Will the Government have to consult the EU on that or can it make its own decision?

**Mr. Des Carville:** There are fiscal rules in terms of-----

**Chairman:** How it can be used.

**Mr. Des Carville:** -----the cash coming in and how it is applied.

**Chairman:** Okay. I will move on to housing. I am probably going to come at it slightly differently from everybody else here. NAMA started off with one mission and that was its mission. Then, because of the housing crisis, it was asked to build houses and supply land. That is all very important, but it was not NAMA’s main core objective or anything like that. It was a bit of a by-product. As I have been listening to everything here, it has struck me that there has been a lot of discussion on the housing issue, which is really only a very small part of NAMA’s work. It is an important part from a social dividend point of view. I look at it this way. I am looking at the global picture as NAMA’s work is beginning to end. It has said that it has done roughly 10,000 houses so far and that out of a total of 42,000 - when people are taking back and buying - it will do approximately 20,000 more between now and 2020. There will be 20,000 extra houses on the land under NAMA’s control.

**Mr. Brendan McDonagh:** We will get to 20,000 when the 10,000 are included.

**Chairman:** I was adding in the 10,000.

**Mr. Brendan McDonagh:** No. We have another 10,000 to go.

**Chairman:** That is from the total of 42,000.

**Mr. Brendan McDonagh:** Yes.

**Chairman:** I thought from our conversation this morning that 10,000 were done and another 42,000 could potentially be done.

**Mr. Brendan McDonagh:** We have potential for 42,000 on our landbanks if planning comes through. Approximately 9,000 of the 42,000 are on longer-term sites, which are effectively post 2020.

**Chairman:** Okay.

**Mr. Brendan McDonagh:** They could be-----

**Chairman:** I will explain what I am getting at. At the end of the day, approximately 20,000 houses will have been delivered by NAMA by 2020, or there or thereabouts.

**Mr. Brendan McDonagh:** Yes, one way or another.

**Chairman:** We are not quibbling.

**Mr. Brendan McDonagh:** Yes.

**Chairman:** I would put it in a different context. There are approximately 1.6 million houses in Ireland today. NAMA's contribution to the housing stock at the end of this process will be little more than 1% of this country's housing stock.

**Mr. Brendan McDonagh:** Yes.

**Chairman:** I am saying it is "Yes" and Mr. McDonagh knows it is "Yes". I think there is an assumption that NAMA is a key player in increasing the housing stock and solving the housing problem. I am just saying I think the general commentary has totally overstated the reality. When all is said and done, if NAMA adds 1% or 1.5% to the housing stock of the nation over ten years, that will be about it. I am not criticising NAMA because it was not set up to do housing. I am just putting it out there.

**Mr. Brendan McDonagh:** The Chairman is correct.

**Mr. Frank Daly:** It is a fair way to come at it.

**Chairman:** I am asking the witnesses to agree. Nobody in this building has this type of conversation. It is all about what we should all be doing. When all is said and done, other people are charged with building houses.

**Mr. Frank Daly:** NAMA is not the panacea for solving the housing problem, but we have contributed and we will continue to contribute.

**Chairman:** That contribution is of the scale I am talking about.

**Mr. Frank Daly:** The Chairman has put our contribution in the context of the total number of households, which brings us back to the figure we mentioned earlier.

**Chairman:** Yes.

**Mr. Frank Daly:** Over the past three or four years, there were critical points in this country when very little housing was being built. In that period, we were contributing approximately a quarter of what was being built.

**Chairman:** Yes, in that period when very little else was going on. I want to ask about a completely different topic. I do not know whether it relates exclusively to Project Eagle or to other things. Can the witnesses tell me how much money NAMA would have been paid to Tughans Solicitors in Belfast for its services over recent years? They might tell me that this information is commercially sensitive. I do not know whether it is.

**Mr. Frank Daly:** It is-----

**Mr. Brendan McDonagh:** We have given that figure before.

**Chairman:** If NAMA has done so, that is okay. There was a freedom of information re-

quest. I have a figure.

**Mr. Brendan McDonagh:** There is a figure that I do know. This has come up previously. The last time we were before the committee, we gave a figure up to a point. There have been some residual invoices for residual work that needed to be done on some of our debtor connections. I think we have had to pay an extra €20,000 or something like that for some residual work since the last time we were before this committee.

**Chairman:** I have a figure that somebody gave me through freedom of information, rather than through the Committee of Public Accounts. The figure in question is approximately €257,000.

**Mr. Brendan McDonagh:** Is that from 2010?

**Chairman:** Yes, the whole way along.

**Mr. Brendan McDonagh:** It is probably around that.

**Chairman:** The figure up to the fourth period of 2017 - April or whenever that was - was €257,887. That sounds reasonable.

**Mr. Brendan McDonagh:** That sounds right. If that is the figure that came from freedom of information, that is what is in the system and that is what is there.

**Chairman:** Okay. I have one more global question. I am not getting into the specifics. I want to get a pen picture. This question can be answered from one page. We have seen the accounts for 2016 and 2017. I am looking for a one-page summary of the picture from inception to the end of June of this year or the end of December of last year. According to the figures we have been given in NAMA's financial statements, the total income was €40.698 billion. The senior bonds have been paid back. A couple of hundred million in tax has been paid. I presume NAMA pays tax on profits like other companies.

**Mr. Brendan McDonagh:** Yes.

**Chairman:** That is good. It must be acknowledged that NAMA expects to pay approximately €400 million in corporation tax on its surplus of approximately €3.5 billion.

**Mr. Brendan McDonagh:** Yes, by the time we complete in 2020.

**Chairman:** That is the guts of another €500 million to the Exchequer.

**Mr. Brendan McDonagh:** Yes. If we did not pay tax, it would be added to the surplus, so it is just-----

**Chairman:** Yes, it is coming in. I am looking for the operating expenses. I do not see that figure readily. I would like a brief summary, like that in the financial statements. There is a year-by-year analysis. I would like a summary. Perhaps Mr. McCarthy can tell us what NAMA's operating expenses were globally from its inception to the end of 2017.

**Mr. Seamus McCarthy:** We have the figure up to the end of 2016.

**Chairman:** Okay. Where is that?

**Mr. Seamus McCarthy:** It is in the report.

**Chairman:** What page?

**Mr. Seamus McCarthy:** I will get the page number for the Chairman. It is page 35, NAMA operating costs broken down-----

**Chairman:** I thank Mr. McCarthy. It is three quarters and I think I have used that figure before-----

**Mr. Seamus McCarthy:** NAMA could probably quite easily bring it up to 2017.

**Chairman:** That is fine. That is €740 million up to the end of 2016 is over 18-----

**Mr. Brendan McDonagh:** We up as far as the end of June. I have it here.

**Chairman:** I thank Mr. McDonagh.

**Mr. Brendan McDonagh:** It is €839 million.

**Chairman:** It is €839 million.

**Mr. Brendan McDonagh:** That is correct. I can send this to the committee, there is no problem about that.

**Chairman:** No, I might ask somebody to update the chart or an equivalent chart. Just send that.

**Mr. Brendan McDonagh:** We can do that. We can send that.

**Chairman:** It is very easy. I might have said when that report came out that the operating expenses of NAMA at the end of the day will have been approximately €1 billion. It is at €839 million.

**Mr. Brendan McDonagh:** The Chair is right.

**Chairman:** It will be in that region. None of us can predict it but it will be in that region.

**Mr. Brendan McDonagh:** That is correct.

**Chairman:** That was the cost NAMA recouped through its sales and it still arrived----

**Mr. Seamus McCarthy:** If my memory serves, it was anticipated initially that it would be €2 billion. That was the figure used.

**Mr. Brendan McDonagh:** I ask the Comptroller and Auditor General to realise that the NAMA board was not in place when that was produced.

**Mr. Seamus McCarthy:** I know that, and in fairness the €2 billion in operating costs for NAMA was a figure that was around at one stage.

**Chairman:** To be generous to NAMA, it has realised income of well over €40 billion already - it is well over that - and there are a couple of billion to go. Rounding up, it will be near €50 billion and operating expenses will be 2%.

**Mr. Brendan McDonagh:** A billion, yes.

**Chairman:** It is not all bad news. NAMA should be-----

**Mr. Brendan McDonagh:** One of our original NAMA board members used to work for the International Monetary Fund, IMF, and he was a bank restructuring expert having been involved in dealing with bad banks all over the world. One of the things that he made us benchmark against were asset management companies across the world where costs should be no more than 6% of the whole thing. We are running much less than that and he used to say that was a really good sign because that was a parameter used by the IMF when measuring the work of bad banks or asset management agencies.

**Chairman:** It looks as if NAMA is doing it at about 2%.

**Mr. Brendan McDonagh:** Yes, that is correct.

**Mr. Frank Daly:** We did an exercise at one stage, I cannot remember the details now, against benchmarking.

**Chairman:** I know all the audience is gone but we are into the good news bit now, from NAMA's perspective.

**Mr. Frank Daly:** We were benchmarking ourselves against other comparable entities and it was a very favourable outcome.

**Mr. Brendan McDonagh:** Mr. Daly is right.

**Mr. Seamus McCarthy:** I think it due to close monitoring of NAMA by the Committee of Public Accounts.

**Mr. Brendan McDonagh:** And that of Mr McCarthy.

**Chairman:** I want to look at NAMA's financial statements. I refer to page 108. Interest is an issue. I ask the witnesses to explain that. I would like to get the total figure regarding note 5 on page 108. We know what I am talking about there - negative interest expense on cash or cash equivalents. It seems to me that NAMA lost more than €3 million in 2017 in negative interest. In other words, NAMA was on a negative interest rate. It was €8.5 million the previous year. What has been the total negative interest? What is the total cumulative figure to date?

**Mr. Brendan McDonagh:** We will come back to the committee with that. I do not-----

**Chairman:** Will Mr. McDonagh explain that? People will be shocked, given that it is doing so well, that NAMA is losing money.

**Mr. Brendan McDonagh:** I do not think we are different to anyone else in the market. If money is left in the Central Bank, and we leave our money there or invest it in NTMA Exchequer notes, it is paying -0.4% on the money. We have €2 billion in cash at present. If we left it in the Central Bank we would get a -0.4% return. The board has a policy which effectively takes account of prudence and tries to see if we can invest the money to generate a return. It is very hard to generate a return without taking undue credit risk in this market. We might get a higher return but we could lose by not getting our capital back or things like that. NAMA is like any other private or public sector company at present. If we have cash and we put it on deposit in a financial institution, it will pay a negative interest rate.

**Chairman:** It is costing NAMA money to put it in there.

**Mr. Brendan McDonagh:** That is the same for everybody in the eurozone.



**Chairman:** I understand that. It is a concept that for ordinary people sounds-----

**Mr. Frank Daly:** There has been continuous scrutiny of this by the board and particularly by our risk management-----

**Chairman:** NAMA does know the cumulative figure. I see €11 million or €12 million in the financial statement just for two years .

**Mr. Brendan McDonagh:** It is just a reflection of the eurozone and the quantitative easing that the ECB has in place.

**Chairman:** That would not have been the case early on in the life of NAMA.

**Mr. Brendan McDonagh:** No, and we would not have had that much cash early on in our life either.

**Chairman:** That ties into my first question about the use of that cash in regard to the Department of Finance. I know NAMA has said it does not have it all yet but in my mind, given that it is losing money on it, could there be some mechanism - the law probably does not allow for it at the moment without some amendment but I am sure the Minister could consider a directive - to hand some of it over to the State instead of paying an average of 3% or 4%? We will call it an interim dividend.

**Mr. Brendan McDonagh:** The Chair is absolutely right but the NTMA, which is managing the national debt and carries cash balances as well the whole time to make sure it has cash available, suffers -40 basis points as well. It is not anything unusual to us.

**Chairman:** I know that and we mentioned that to the NTMA when it was here.

**Mr. Des Carville:** I would like to say on behalf of the Department of Finance that this is something we looked at. We love the idea of interim dividends from anywhere we can get them.. They are very important to us. It in something we examined in extensive detail earlier this year but, to ward off all the creditors, we cannot get an interim dividend from NAMA until all the underlying liabilities have been settled.

**Chairman:** Is that based on the current legislation without some amendment?

**Mr. Brendan McDonagh:** No, it is based-----

**Mr. Des Carville:** No, it is based on the capital structure of the industry.

**Chairman:** Will Mr. Carville send us a note summarising the review the Department did so that we can have it on the record?

**Mr. Des Carville:** It has not been published but I am happy to do that.

**Chairman:** I ask Mr. Carville to forward it to the committee. I am nearly there now. The briefing note sent to us before the meeting, on page 28 concerning the NAMA key financials, states that the total cash generated from inception is €42 billion but the figures in the financial statements do not quite add up to that. They only add up to €40.7 billion. What is the difference?

**Mr. Brendan McDonagh:** I am sorry, the cash generated up until 14 September is €42.7 billion.

**Chairman:** Is that a more up to date figure?

**Mr. Brendan McDonagh:** It is. The committee's letter inviting us here asked us to give the most up to date information possible, so we tried to do that.

**Chairman:** Are the figures not based on the same date?

**Mr. Brendan McDonagh:** No, they are not.

**Chairman:** We are just about there. Page 16 of the financial statements gives the NAMA asset disposals year by year, as in 2010 to 2017. I refer to €7.2 billion on page 16 on the bottom chart. It can be seen there. Somebody touched on this earlier. The witnesses said that NAMA was under pressure from the troika in those first couple of years to generate cash. Some of that was from sales of property mainly outside of the country where there was a better market. When we look to 2014 and 2015, there were about €8 billion of disposals each year. I refer to those people whom NAMA moved on and disposed of their assets or sold their loans at that time. Have there been any complaints from them that they felt they were rushed? The Player Wills site and some other sites were mentioned. Some people were luckier, or perhaps were more truculent, and NAMA did not get them earlier. They are now actually going to come out clear because they were left until last. The guys that went early probably suffered the most, whereas the guys who, for some reason or other, are some of the last batch to be sold might actually come out a bit better. NAMA might also do better because it might recover more. Is NAMA's profitability on its recoveries, based on its disposals next year, in 2018 and 2017, that bit higher than the profitability of its disposals in the years 2014 and 2015?

**Mr. Brendan McDonagh:** No, it depends-----

**Chairman:** Does Mr. McDonagh understand my question?

**Mr. Brendan McDonagh:** I understand the question but the reality is that we had to sell assets as we went along and get the best price we could at the point. The assets we spoke about earlier were an exception to the rule unfortunately. Even if we had held on to many of the assets, in different parts of Ireland, they would not have recovered to the extent that they could have paid off much more debt than they did. They had no hope of ever paying off the prior debt.

**Chairman:** Is Mr. McDonagh satisfied that was the case?

**Mr. Brendan McDonagh:** I am satisfied about that. We did not have the luxury of hanging around when we had a €30 billion contingent liability with a €200 billion national debt. There was a directive from the Minister of Finance. I want this contingent liability paid off. The NTMA is in the market trying to raise money and this is a big cloud hanging over us. We sold assets to pay off the contingent liability. If we could have chosen the assets that we wanted and just bought all the good assets on the first day rather than taking the mixed bunch of assets we got, it would have been great. Perhaps we could have had long-term investment and been well funded with no debt while being able to pick and choose over a longer term. However, they are all "ifs" and that was not the reality.

**Chairman:** I understand that and I understand the troika was here until 2013. There seems to have been a big spike in disposals in 2014 and 2015, which was after the troika left.

**Mr. Brendan McDonagh:** As the Chairman said, in 2014, there was a review and much investor capital was coming towards Ireland. We also had a section 227 review and the Minister

for Finance asked us to look at accelerating, if possible, paying down the contingent liability.

**Chairman:** That has now slowed. In 2017, it was only €2.4 billion.

**Mr. Brendan McDonagh:** Yes, as our portfolio is getting smaller.

**Chairman:** Yes.

**Mr. Brendan McDonagh:** Some of the assets we are currently holding on to are examples we are trying to build out because we are funding house building on them.

**Chairman:** I forgot to ask a question a few moments ago. Of the figure that the organisation is responsible for, how much was fully settled by debtors? Of the €42 billion received, how much came from debtors clearing their loans?

**Mr. Brendan McDonagh:** That was approximately €5.5 billion and 61 debtors have paid off their par debt to date.

**Chairman:** There might be a few more in the wings.

**Mr. Brendan McDonagh:** We hope some will be in a position to do so.

**Chairman:** Is that €5.5 billion out of the €31 billion, which is approximately one sixth?

**Mr. Brendan McDonagh:** No, it is €5.5 billion out of €74 billion. They have paid off the par debt.

**Chairman:** Essentially, only approximately 8% of the par debt ended up being fully repaid by the original borrowers.

**Mr. Brendan McDonagh:** Unfortunately, that is the position. In 2010, 2011 or 2012, it was hard to see anybody paying off their par debt.

**Chairman:** Mr. McDonagh will understand I am looking at this from beginning to end. I am trying to see the global and long-term picture.

**Mr. Brendan McDonagh:** It is the macro picture.

**Chairman:** It seems that, ultimately, approximately 8% or 9% was fully repaid. The other portion was heavily-----

**Mr. Brendan McDonagh:** There were degrees of repayment.

**Mr. Frank Daly:** Approximately 60% has been repaid.

**Chairman:** Is that through receiverships or debtors?

**Mr. Frank Daly:** No, I mean in terms of the cash generated. I refer to the €42 billion.

**Chairman:** Yes, I understand that. I am just saying that only 8% was fully repaid.

**Mr. Brendan McDonagh:** Yes.

**Chairman:** Could we get a chart on what I am talking about?

**Mr. Brendan McDonagh:** We can produce a chart. We have stratified this previously and

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we can pull it out again and update it.

**Mr. Frank Daly:** It will be a long letter to the committee.

**Chairman:** That is fine. There are only a few of us here but this level of information is useful. NAMA has moved to housing and this level of discussion is not seen much on a public record. It is no harm. There is good information in there so it is just about getting information out. People can make what they like of it.

**Mr. Frank Daly:** I get the impression we are not half good enough at selling ourselves or telling the good story.

**Chairman:** Some of what I mentioned here was in the annual financial statement.

**Mr. Frank Daly:** We are a bit shy.

**Chairman:** People can read it. I am not charging anything for the public relations element. The witnesses get the point and some useful information can be gleaned in there. I have said enough at this hour of the evening. I am here on my own and I could have asked the questions earlier but I said I would pay other members the courtesy of asking their questions first. I thank all the witnesses from NAMA as it is quite a while since they were here. We will receive other information as soon as they can send it. The organisation is nearly there but not quite there yet. I thank the Comptroller and Auditor General and his staff, as well as the personnel from the Department of Finance.

*The witnesses withdrew.*

The committee adjourned at 5.05 p.m. until 10 a.m. on Tuesday, 25 September 2018.