

# DÁIL ÉIREANN

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## AN ROGHCHOISTE UM FHORMHAOIRSIÚ BUISÉID

## THE SELECT COMMITTEE ON BUDGETARY OVERSIGHT

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*Dé Céadaoin, 31 Eanáir 2018*

*Wednesday, 31 January 2018*

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Tháinig an Roghchoiste le chéile ag 1.30 p.m.

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The Select Committee met at 1.30 p.m.

Comhaltaí a bhí i láthair / Members present:

Teachtaí Dála / Deputies	
Richard Boyd Barrett,	
Thomas P. Broughan,	
Joan Burton,	
Dara Calleary,	
Lisa Chambers,	
Martin Heydon,	
John Lahart,	
Jonathan O'Brien.	

Teachta / Deputy Colm Brophy sa Chathaoir / in the Chair.

*The joint committee went into private session at 1.30 p.m. and resumed in public session at 2 p.m.*

### **Proposal to Establish a Rainy Day Fund: Minister for Finance**

**Chairman:** Before we begin, I remind members and witnesses to turn off their mobile phones. Interference from mobile phones affects the sound quality and transmission of the meeting. I welcome the Minister for Finance and Minister for Public Expenditure and Reform, Deputy Paschal Donohoe. He is accompanied by Mr. John Palmer, principal officer of the economic division; and Mr. Eoin Dorgan, principal officer of the banking division. Seated behind them are Ms Ruth Sutton and Mr. Anthony Maloney.

I thank the Minister for attending the meeting, the purpose of which is to consider the Department of Finance proposals to establish a rainy day fund as set out in the consultation paper published as part of budget 2018. The Parliamentary Budget Office and the Irish Fiscal Advisory Council, IFAC, have both published research notes on the rainy day fund. We have highlighted a number of issues and queries regarding the potential design and establishment of the fund. It is important for the committee to carry out *ex ante* scrutiny of the proposal. This type of committee work can contribute to improving the budgetary scrutiny over time. I acknowledge the work of the Minister and his officials in assisting the committee in this process.

I will give the usual privilege announcement before we hear from the Minister. Witnesses are protected by absolute privilege in respect of the evidence they give to the committee. However, if they are directed by the committee to cease giving evidence in relation to a particular matter and they continue to do so, they are entitled thereafter only to a qualified privilege in respect of your evidence. They are directed that only evidence connected with the subject matter of these proceedings is to be given and are asked to respect the parliamentary practice to the effect that, where possible, they should not criticise or make charges against any persons or entity by name or in such a way as to make him, her or it identifiable. Members are reminded of a long-standing parliamentary practice to the effect that Members should not comment on, criticise or make charges against a person outside the House, or any official by name in such a way as to make him or her identifiable.

I invite the Minister to make his opening statement.

**Minister for Finance (Deputy Paschal Donohoe):** I thank the Chairman for the opportunity to address the committee. I am accompanied today by colleagues from the Department who have been involved in developing the range of options as set out in the rainy day fund consultation paper.

I begin by providing some background and context to the proposal on the setting up of a rainy day fund. The concept was originally mooted by my predecessor as part of the Summer Economic Statement, SES, in 2016. It was announced that once the medium-term budgetary objective, MTO, of a balanced budget was achieved, a rainy day fund would be set up. The establishment of the fund forms part of a wider policy commitment to sound and sensible public finances. It will play an important role in creating a budgetary safety buffer to help absorb

inevitable future shocks to our economy, while at the same time ensuring the long-term health of Ireland's public finances. In the 2017 Summer Economic Statement, the Government committed to consulting the Oireachtas before bringing forward detailed proposals.

The initial proposal for a rainy day fund envisaged an annual contribution of €1 billion per annum to commence post-achievement of the medium-term objective. Subsequently, the Government reduced the planned contribution to €500 million per annum for the years 2019 to 2021 in order to fund capital expenditure over the same period. The level of contributions thereafter was left as an open question and it is one of the many topics on which I welcome the committee's views today.

In budget 2018, I announced that the Government had decided to transfer €1.5 billion from the Ireland Strategic Investment Fund to the rainy day fund when it is established. I published the consultation paper, on which the Chairman has commented. I welcome the paper I have received from Fianna Fáil along with the papers from the Irish Fiscal Advisory Council and the Parliamentary Budget Office. Before I form any particular view on the specific details of the fund, I hope today to get some initial views from the committee on the outstanding questions I have set out in the consultation paper. These matters relate to the design, operation and purpose of the fund; as well as the issues of how it is resourced; withdrawal triggers; and its governance.

Broadly speaking, the current proposal is to design a rainy day fund that will primarily meet budgetary demands which may arise from a specific, one-off shock. As set out in the third section of the consultation paper, a natural question arises as to whether the rainy day fund should be used in the first instance as a contingency reserve. It would be necessary to clearly define the circumstances under which such reserve funds could be deployed in order to ensure it is used only during a time of crisis. *Force majeure* events which might necessitate access to the contingency fund may include a natural disaster or a public emergency.

Expenditure based on a withdrawal from a contingency reserve fund would be permissible within the parameters of the fiscal rules. If at the end of a given budgetary year, the funds within the contingency reserve remained unused, they could then be transferred to a separate rainy day fund, the establishment of which would require primary legislation.

These are just some of the issues outlined in the consultation paper which require further consultation on this reserve fund. Other matters to be discussed include whether such a contingency reserve should be held within the Exchequer account or within a rainy day fund, how the withdrawal triggers should be determined, and what kinds of shocks or events should be considered as triggers. As I mentioned at the outset, I am keen to hear the views of the members of the committee today on these and other questions that I put forward in the consultation paper.

Sections 4 and 5 of the paper raise questions on operational and administrative matters associated with the overall rainy day fund. These design and operational issues relate to the deposit mechanism, the withdrawal mechanism, the size at which the fund should be capped and the replenishment methodology. Other practicalities to be considered include how the fund might be invested, what governance structures would be most appropriate and who should administer and manage the fund.

I will identify some of the key design concepts of the fund about which the views of the committee will be important. The first is the deposit mechanism. The proposal as currently drafted envisages a deposit mechanism whereby, aside from the €1.5 billion seed funding from ISIF, there will be an annual contribution of €500 million from the Exchequer until 2021.

Clearly, it would be my intention that the annual contribution would continue beyond that point. Is this a sufficient level of contribution? Should we be looking to bring additional seed funding into the rainy day fund? How will name and determine the size of annual contributions after that? Many options spring to mind. One would be to have a fixed contribution key in either nominal or as a percentage of gross domestic product, GDP, or gross national income, GNI, terms. An alternative could be to lodge windfall tax revenue on the basis of revenues above target in general terms or with regard to specific taxes. I am sure that members will have other options as well.

In respect of the withdrawal mechanism, clear and defined rules will be required in respect of the events and conditions which could trigger a withdrawal proposal and the process by which such a proposal would be progressed by the various State actors. International evidence shows that these triggers tend to comprise economic and fiscal triggers such as the level unemployment and revenue and expenditure levels, as well as democratic triggers relating to approval by the Executive and Parliament. The design of these triggers will be a critical task in developing the fund. They should be appropriate and relevant as well as being based on data which is timely and transparent. There is a need to also strike a balance between sufficient checks and balances and a process that allows the speedy utilisation of the funds given they will be needed in a crisis.

Associated with the interplay between deposits into and withdrawals out of the fund are the issues of the overall fund size and the process by which it should be replenished if it used. The optimum size must be determined so that we have sufficient capacity to address challenges emerging but also while avoiding the carry costs of a cash or near-cash fund which could become too large. Given the State's debt levels are consistently identified as one of the State's top risks, the State should always be seeking to pay down debt except where there is a better return for the State. In this case, the rainy day fund provides resources to mitigate tail-risk events that would have a significant impact on the Irish economy and public finances thus justifying the additional interest costs on the debt that could be paid down by the rainy day fund.

Once the maximum size is achieved, should annual contributions continue for the purposes of budgetary discipline or cease? If they continue, should the surplus in the fund be used to pay down our debt? I consider that the rainy day fund should be of a sufficient size to act as a fiscal buffer. The rainy day fund should give the economy and public finances time to make the longer term adjustments to re-establish debt market access at normalised levels. This is connected to the paying down of debt as the lower the State's existing debt level, the more sustainable the cost of debt from markets.

Subsequent to any withdrawal and determined by the target fund size, the fund will need to be replenished to rebuild the fiscal buffer. Clearly, replenishment will also be influenced by the prevailing economic and fiscal conditions, which might impact on the timing of the Exchequer's capacity to recommence contributions to the fund. Should the provisions for the replenishment of the rainy day fund be determined now or should they be determined post the withdrawal of the funds?

It is also important to note that everything we do must be must be compliant with the Stability and Growth Pact, as well as the Fiscal Compact. The fiscal rules dictate that use of funds from a contingency reserve or payments into the rainy day fund would be treated as expenditure by the Exchequer. Payments made to the fund are deemed a financial transaction within general Government but not counted as part of the general Government deficit. Therefore, any withdrawals from the fund will result in expenditure that worsens the general Government

balance. In addition to all of these issues, the consultation paper outlines some options on the governance structure for the fund and how it might be managed with the NTMA indicated as a clear, and in my view, very good, possibility.

I look forward to a constructive engagement with the committee now and in the coming months as we pull together the proposal and the legislation relating to this matter. It is my objective to be in a position that allows us later this year to complete all the work that is necessary to draft this legislation to present it to the Oireachtas. Accordingly, I welcome the views of the committee on the consultation paper and the different issues to which I have referred.

**Chairman:** I thank the Minister. A number of members have indicated that they wish to ask questions. I will add Deputy Heydon to that list while Deputy Burton is already on that list. We have a list of everybody who would like to ask questions. On foot of the end of this meeting, we will also write to the Minister with committee views as part of this.

**Deputy Dara Calleary:** I welcome the Minister and his officials and thank them for their time. With respect to the Minister's predecessor, I think it is Deputy Michael McGrath who has been the champion of the rainy day fund for some years. I will start where the Minister finished, which is around European fiscal rules. In its submission, the Irish Fiscal Advisory Council, IFAC, is of the view that the current exemptions are unlikely to provide the kind of flexibility the Minister seems to be seeking in terms of the rainy day fund and avoiding a breach of domestic and EU rules. Has the Minister had any engagement around the design of the rainy day fund to provide it with the flexibility it needs to and to ensure that we are still in compliance with all the various rules?

The Minister spoke about international evidence. The Parliamentary Budget Office has shown us the Estonian example but it did say that there are a few other examples. Has the Minister unearthed other examples at which the committee could look and make a call in terms of the flexibilities?

I think there are possibly two different roles for a contingency reserve fund and a rainy day fund. I think they are probably two different animals. A contingency reserve fund might be something that should be there on an annual basis in the event, which the Minister mentioned in his speech, of some sort of one-off event. An example would be the flooding two years ago. In such a case, money could come from a contingency reserve fund. If that is not needed in a year, the balance left in that fund can go to a rainy day fund, which is much more medium and long term. Is there not an argument to be made in terms of good prudence for two separate funds - a contingency reserve fund and a rainy day fund, which is a much more long-term fund?

**Deputy Paschal Donohoe:** Does the Chairman want me to speak on-----

**Chairman:** Just to brief the Minister, we have looked at having three areas of questioning per member as a first round and then coming back.

**Deputy Paschal Donohoe:** I will deal with each of them in turn. With regard to whether there are any other examples of countries that are well advanced in doing this kind of work with a European setting, the answer is "No". When we commence this work in terms of putting together a fund, we will be in the first wave of countries that are looking to carry out this work well. In terms of compliance with fiscal rules, where there is an intersection with current EU fiscal rules, under the current fiscal rules, there is provision for expenditure to be used in response to so-called exceptional circumstances. Given that I would only be proposing to use

the rainy day fund in light of exceptional circumstances, there is some fit there but once we are clearer in how we want to structure the rainy day fund and how it will operate, we will have to engage further with the Commission with regard to that. I am optimistic about such discussions. The European Commission understands the distinction between the day-to-day challenges, the expenditure consequences of the day-to-day management of the State, and exceptional events that require a response from the State. Given that we are only talking about setting up this fund, once we have achieved our budgetary objectives I am optimistic that we will be able to make this work within the existing rules and with the support of the Commission.

Regarding the Deputy's third question, I agree with what he said. There are two different ideas: one is a contingency reserve and the other is a rainy day fund. That is something I have introduced in my discussions with my Department in recent months. I well remember, as Minister for Transport, Tourism and Sport, dealing with the flooding the Deputy referred to towards the end of 2015. Something that struck me at the time was that when we are dealing with an event in our country that, for example, stretches beyond a county or even a number of counties but affects many regions and, therefore, has a high cost across a number of Departments, inevitably it involves, in the middle of the year or whenever it happens, having to open discussions with the Department of Public Expenditure and Reform and other Departments on how we can respond quickly to something like that. I believe there should be a better way of doing that. That is the reason I am interested in the idea of this reserve fund. In terms of where it would sit, I have an open mind regarding it. I believe we could do it two ways. It could be a separate fund to the rainy day fund or, alternatively, it could be a certain level or parcel of funding within the rainy day fund that would have different access criteria.

**Deputy Dara Calleary:** I thank the Minister. Are there any other countries in the same space as Ireland that are preparing or having discussions on this, particularly in terms of where the eurozone need has come from in recent years, and many countries having had fiscal crises? As a member of the eurozone, does the Minister not believe it is prudent that this would be examined across each eurozone country, particularly those that have had to face the challenges we have faced in recent years?

**Deputy Paschal Donohoe:** I am not aware of any such discussions in other countries. Even if those discussions are beginning to develop, they have not got to the point of causing discussion in either Eurogroup or ECOFIN meetings. When our thinking is more advanced on this in the next few months, I believe we will be one of the countries, if not the first country, to raise this matter.

**Deputy Dara Calleary:** Are there contingency funds in other countries?

**Deputy Paschal Donohoe:** What exist in other countries are contingency reserves set aside on a by-department basis.

**Deputy Jonathan O'Brien:** I want to stay on the point about the need for a contingency fund as opposed to a longer-term rainy day fund. In its paper provided to us, the Parliamentary Budget Office pointed out what it referred to as mitigating risks. In other words, having the cash on hand to react to events such as flooding would improve the State's capacity to deal with that after the event. It also refers to immediate investment in preventing those events such as flood defences. How do we achieve that balancing act? Has the Minister given any consideration to that? That would also question the need for a contingency fund. Would the Minister see the need for the contingency fund but also the investment? Last week, the Minister of State in charge of flooding stated that approximately €1 billion would be needed to complete all the

current flood defences and those proposed for the future.

The second question relates to the withdrawal criteria for a rainy day fund. One aspect the briefing paper highlights is the way the criteria would be written into legislation. The Minister said in his contribution that for a longer or medium-term rainy day fund, he might have to consider primary legislation in terms of the criteria and how we would access it. An issue the paper raises is the need to put that on a constitutional footing. It references the National Pensions Reserve Fund, which was designed to do one thing but which, when the crash happened, was diverted. Does the Minister have any thoughts on that?

The final question is on the objective formula-driven deposit criteria, which are mentioned. What does that mean and how would it work in practice? For example, if there was a significant increase in certain tax receipts, is it a formula or a percentage of those increases? What type of formula is the Minister considering?

**Deputy Paschal Donohoe:** I thank the Deputy. Regarding the first question, I would not anticipate that the contingency reserve fund could be used to fund precautionary work. In any Department, precautionary work that needs to be delivered should be part of the normal Estimates process. In my experience of dealing with these matters now, precautionary work and the objective of preventing future difficulties can be used to justify very large amounts of expenditure. I genuinely believe that if I was to include that as a use of the contingency reserve fund it-----

**Deputy Jonathan O'Brien:** No. That-----

**Deputy Paschal Donohoe:** Just let me finish answering the question. If I have the Deputy's question wrong, I will deal with that. As I said, if I was to include that as a use of the contingency reserve fund, I think I would never get it set up and it would be in withdrawal all the time.

**Deputy Jonathan O'Brien:** The question was more about how the Minister evaluates what should be spent in the precautionary stage as opposed to having something in a contingency fund for after the event. I used flooding as an example. We are looking at €1 billion being needed for the flood defences. Obviously, if we had the €1 billion and it was spent, that might mitigate any longer-term risks for using a contingency fund for that particular event.

**Deputy Paschal Donohoe:** The Deputy is correct regarding that particular event but I do not believe investment in precautionary measures would offset the need for a reserve fund in the future. That is for two reasons. The first is the variety of different events that might require use of a contingency fund. In the papers I referred to a natural phenomenon. For example, what would happen if we had another episode of foot and mouth disease here? That is something a lot of effort and focus goes into seeking to prevent happening but it could well happen. If a natural phenomenon like that happened which we were unsuccessful in preventing-----

**Deputy Thomas P. Broughan:** If, say, we had a housing crisis-----

**Deputy Paschal Donohoe:** I am only in the early days of making-----

**Deputy Thomas P. Broughan:** If, say, we had a terrible housing crisis.

**Chairman:** Deputy, please, allow the Minister reply.

**Deputy Paschal Donohoe:** I am only in the early days of answering questions on this and already I am being interrupted by Deputy Broughan. I look forward to answering his questions

in a moment but I will continue answering the questions put to me by Deputy O'Brien. For that reason, I do not believe that investment in precautionary measures will offset the need for a reserve fund in the future.

Regarding withdrawal criteria and their role in primary legislation, I believe they should be inserted in primary legislation because in the year-to-year effort of trying to form budgets, if we do not have the contribution to the rainy day fund set aside, it will undermine our ability to set up the rainy day fund in the first place.

In regard to putting it on a constitutional footing, I am not in favour of doing that. I believe it is a matter that should be dealt with exclusively by the Oireachtas. We have enough in our Constitution. It is up to the Oireachtas and the Government of the day to set up this fund and it is clearly open to any future Dáil to change its mind on the way that fund is set up.

Regarding deposit criteria and whether one of them could include an increase in particular tax heads or forms of tax collection, the answer to that question is "Yes". As part of the debate we will have on this, I would be willing to consider whether we should examine the possibility of putting higher than expected levels of tax receipts in a fund like this one. However, that is one of the many matters we need to conclude in the coming weeks.

**Deputy Jonathan O'Brien:** I have a follow-up question. Regarding the deposit criteria, for example, if we have an increase in tax receipts in a particular area and we are looking at a rainy day fund or a short-term contingency fund, the Minister said he could have the contingency fund for those unusual events like flooding or foot and mouth disease as part of an overall rainy day fund, with particular withdrawal criteria. Is that still something he is open to and considering? There is no definitive-----

**Deputy Paschal Donohoe:** The inevitable question is that if we are faced with some kind of very significant difficulty to which the Government must respond clearly, the political challenge will be to use the rainy day fund. The best way of dealing with it is to define the criteria of how a fund would be accessed and to acknowledge upfront that even in using the language of "crises", there are different forms of crises that have a different cost. A flooding event or a natural phenomenon of some kind that causes a huge amount of harm to people's public property is a clear crisis to which the State must respond but the State going into a lengthened and very difficult recession would also be a crisis. It would be sensible to define the different ways in which a fund like that could be accessed in future. It might not be possible to do all of this in primary legislation but some of it could be done that way.

**Deputy Lisa Chambers:** I welcome the opportunity to engage with the Minister on this matter. It has certainly been a proposal of the Fianna Fáil Party for quite some time now that we would establish a rainy day fund. The consultation paper as published indicates that in an Irish context, it is envisaged the rainy day fund would primarily operate along the lines of a defined purpose instrument to address specific events and shocks. Following on from the crash in 2008, the fund is envisaged to be counter-cyclical, in that we would address cases of deep recession and we should also have the ability, when the economy is overheating, to withdraw funds from the economy and try to stabilise it.

We had an interesting discussion last week with the Parliamentary Budget Office. I agree with its view that a contingency reserve is probably of little benefit to the country in cases of deep recession or overheating. Flooding is an easy example to bring up but the various Departments should be robust enough to deal with those types or occurrences. There is an opportunity



cost when we save money, such as the €500 million proposed for the rainy day fund, so if there is no real benefit in terms of counteracting a recession, is there really a purpose to a contingency reserve fund? Using it in a counter-cyclical way is probably the intention and we are all of the view that we are trying to avoid what happened ten years ago from happening again. A contingency reserve probably would not stop that happening.

The figure put to us last week from the parliamentary budget office was that we would probably need in the region of €20 billion to put a counter-cyclical fund in place. With €1.5 billion going in initially and €500 million going in thereafter up to 2021, it would take us nearly 40 years to put the fund in place with such a level of contribution. Is that sufficient or if it is not possible between now and 2021, will the Minister would ask for feedback on the contribution post-2021? If we are serious about putting in a counter-cyclical fund to deal with times of recession, the amount being put in must be greater. The Minister's Department and this committee would need to investigate the opportunity cost to the State were we to go that far.

On the design, operation and purpose of the fund, I agree that we have far too much in the Constitution as it is and there is no place in it for such matters. It is for the Parliament of the day to decide on this. The Minister is also correct in saying there should be defined criteria. I also suggest there should be parliamentary control and this should not just be down to the Department of Finance to decide when cases meet the criteria. I am not suggesting we need 100% agreement, as we will never have that, but some sort of parliamentary control would be desirable. I suggest a built-in review, perhaps every three or five years, to assess whether it is working and the ongoing opportunity cost to the country of putting aside substantial amounts of money on an annual basis. It should also assess whether the amount decided to be put aside would continue to be sufficient. Were that amount to be insufficient, we obviously would need to address that.

The Minister wanted feedback on the purpose of the fund and I believe its purpose must be counter-cyclical or else there is no point to it. I would welcome the Minister's view on that. I would also welcome his view on how we can go about assessing the opportunity cost and dealing with an ongoing review within the Parliament.

**Deputy Paschal Donohoe:** I agree with the Deputy's first point that it must be counter-cyclical. Her second point indicates the difficulty in this regard. I have never had anybody in this Dáil calling on me to spend less. It never happens. All the demands - many of them legitimate - are to spend more. That is why it is valuable to have a precursory discussion about the matter before we move to the legislative stage. The moment somebody in the Dáil stands up and asks me to spend less in a Department, I want to ensure I am there to hear it.

**Deputy John Lahart:** The communications unit would be an example.

**Deputy Paschal Donohoe:** The moment somebody comes up with a serious idea of how we could spend less in a Department, I would appreciate it if I could get a call so I could at least be there to hear it.

The Deputy spoke about the number of years involved with putting together the rainy day fund and the opportunity cost, and this is the challenge we will face. The moment this or a future Government starts setting aside money, the Opposition in the Dáil will call for that money to be spent now. Perhaps it will not be all the Opposition, although I suspect it will be. They will argue there is a better use for the money now. That is why there is value in a legislative approach to examining this concept. We need legislation to set it up anyway but the value of

the Oireachtas making a decision is in creating a framework within which that kind of debate can happen.

I differ with the Deputy on the role of the Opposition. The Constitution is crystal clear that matters relating to the spending of money must sit with the Government. That is why the Government has the unique role relating to money messages. I would not support the set-up or access of this fund going beyond the role of the Government. It should sit with the Departments of Finance or Public Expenditure and Reform.

I agree with the Deputy about a built-in review but I do not have a strong view on whether it needs to be laid out in primary legislation. We should in particular review how much we are contributing to the fund and how long it will take to get to the right level of funding. When we have it up and running, it should be a minimum of €500 million. We should also consider that if one-off tax gains become available to the State, it would provide an ability to more rapidly build up the size of this fund than many years of individual contributions from tax revenue.

**Deputy Lisa Chambers:** If we get one-off tax returns that are unexpected, additional money could go to the fund and it would be a very prudent and wise approach to take. The question can be asked of what happens when we reach the desirable target. There will always be a necessity to have the ability to withdraw money from the economy if needs be to prevent overheating. That would go beyond the desired target.

No matter what we do, there will always be recession and a return to growth. It is a cycle every economy goes through and we are no different from anywhere else. There should be further investigations around the opportunity cost of this and when will be the review. I appreciate the point made by the Minister around money messages being confined to the Government and Departments. There needs to be some element of parliamentary control. This could relate to changing the criteria of the fund down the line. Although we will make the decisions now with the best available evidence, there must be an ability for a future Dáil to change the criteria if evidence or information changes. We should be open to that as well. I thank the Minister for his responses and I welcome the interaction.

**Deputy Paschal Donohoe:** I have a brief response. My expectation is that the easily measurable and more easily quantifiable interplay between the setting up of a rainy day fund and use in the here and now will probably be the choice we will face regarding whether we set up a rainy day fund or pay down debt. There will be an opportunity cost in doing this and we will struggle to quantify it because it will mean not doing something many want us to do. The more easily measurable one, therefore, will be whether we pay down debt or put the money into the fund. It becomes particularly interesting, of course, if we do it in a low interest rate environment. One of the challenges we face in holding money is that it is difficult to preserve the value of a very large amount of money.

With regard to parliamentary control, I have outlined my answer and the Deputy understands why I am saying it. Something that perhaps might be examined is, in the event of withdrawal, what are the criteria in which it will happen. I would be very cautious in ceding power away from the Government to determine when it can contribute or withdraw because it could create really big practical difficulties in the future.

**Deputy Thomas P. Broughan:** The Minister has given us examples of contingencies which might arise. Have the UK Government's budgets always included a contingency amount, going back several centuries? The Minister is speaking about contingencies such as an outbreak of

foot and mouth disease. He is presiding over a homelessness and housing crisis. Every Deputy receives messages hour in, hour out from people who are in desperate situations. This morning I raised with the Minister's colleague, the Taoiseach, the issue of the health budget and whether the Government had made a grave error in the health Estimates for 2018. I cited one specific waiting list for children on the autistic spectrum who needed early intervention assessments. The Minister may know because it is also his district that the waiting list is well over 300 children, 150 of whom have been waiting for more than a year and some for almost two years. These are contingencies for which he should have provided in normal budgeting.

I remember that the Minister said about something else that it was bonkers. That seems to be a favourite word of his, but is it not bonkers to be thinking in these terms when the Government is not meeting the essential needs of the people? Clearly it has not met them in the areas of health and housing this year and perhaps in education and others also. If it cannot meet them, why are we talking in a nonsensical way about setting up a rainy day fund? I look back at the record of the Minister's predecessor as Minister for Finance, Deputy Michael Noonan, about which people will be incredibly critical in the future but not the media that tends to puff up Fine Gael. However, others will look back at it and see the real austerity and setbacks people had to endure during the period, which we need not have had to endure because the Minister and others voted in favour of a blanket bank guarantee. At this stage of our development, I look back on it as being bonkers and cannot see any basis for it. The country has a debt of €42,000 per citizen, one of the highest national debt figures anywhere and still greater than 100% GNI. Why would we let it sit there? If the position will be better in 2019, 2020 or 2021, why would we not use the resources to try to get back to where we were before the Government made the errors it made and the errors made by the previous Government in 2011? At this stage in our history, the basis seems to be incredibly flawed.

The Minister spoke about deposit mechanisms. Has he given any consideration to hypothecation? If he were to do this in the future and we were running significant surpluses, perhaps we might look at a surtax on very wealthy earners which might be hypothecated into a fund. We had a pension fund which was our wealth fund. We were not in the league of the Norwegians or the Saudi Arabians, but we had a significant wealth fund which the Minister's predecessor and former Deputy Brian Cowen totally got rid of, diminished and blew away. The NTMA is holding a net €14 billion, but it has to engage in significant refinancing in 2018 and 2019. As the Minister's colleagues in the Department of Finance know, the situation is still dodgy enough in refinancing the national debt.

The Minister spoke about emergencies. I will take flooding as an example. We have always known it. It dates back to the time of the de Valera Governments in the 1930s and was something the State did not address. To be fair to some of the Minister's colleagues, we are beginning to address it, but we always knew about it.

The Minister mentioned Estonia. There is a group of Deputies who interact with others in some of the Baltic countries. Estonia suffers from grave infrastructural deficits and has a very small population. I do not know, therefore, whether it should be used as a model. By the way, Finland has a countercyclical fund, as we are told in the report of the Minister's Department. Again, one wonders as the Finnish experience is different from ours. There is no point in comparing Ireland to the United States because it cannot run a deficit or borrow. I do not know whether this is fantasy or, to use the Minister's own words, just bonkers?

**Deputy Paschal Donohoe:** When historians look back at the verdict on the former Minister, Deputy Michael Noonan, they will see that he was a Minister who, despite the profound

crisis facing the country, made choices that enabled the country and our society get to a point the Deputy said we would never reach.

**Deputy Thomas P. Broughan:** We took a different approach.

**Deputy Paschal Donohoe:** The Deputy is someone who for many years-----

**Deputy Thomas P. Broughan:** We had a different policy.

**Deputy Paschal Donohoe:** The Deputy is someone who for many years said-----

**Deputy Thomas P. Broughan:** Luckily the Greeks carried him through one of the crises.

**Deputy Paschal Donohoe:** -----the recovery that is now happening would not happen and that the economic resources now in place would never be available.

**Deputy Thomas P. Broughan:** No.

**Deputy Paschal Donohoe:** On his contribution and all of the contributions he makes, I agree with him on the level of need and the many challenges we face in public services, whether it be health or housing, and I am committed to addressing them. On the same side of the coin let us also acknowledge that we are now in a position where it is very likely later this year that we will have more people at work than we ever had, that we will be investing more in public services, in other words, schools, hospitals and public transport, than we were able to do for many years. The Deputy's overall contribution proves the point Deputy Lisa Chambers put to me, that it is a matter of an opportunity cost. It is a fair point that if we spend money in setting up a rainy day fund today, it will mean that there will be other things we will not be able to do, but setting up a fund is a good idea, one that could be of help to the country in the future when we will again face some difficulty. Whether it is a house, home or country, it is sensible to have money available to deal with it when we get to that point.

**Deputy John Lahart:** I thank the Minister for his contribution. Where I am coming from is the principle of keeping it simple. When I think of the concept of a rainy day fund and from where it originates, it is about the notion of putting something aside until a real need emerges. If families can afford to do so, they put something aside for a rainy day when something will arise which cannot be met from existing or normal resources. It is unpredictable and the money is to meet such strict emergencies.

I welcome the debate because the issue becomes provocative the deeper we dig into it. I am interested in what Deputy Thomas P. Broughan said. Perhaps he might regret mentioning the example of the foot and mouth disease outbreak, but it is provocative too as it gets us to think deeper. For me, one of the principles of such a fund is that it should benefit the common good as opposed to being for use in dealing with a sectoral disaster, for example. Will it or can it make money while funds are sitting in it?

**Deputy Paschal Donohoe:** It is unlikely that it will make a significant return. One of the reasons for having it is that one would be able to access it if it was needed. If one is to access it when one needs it particularly quickly, it means that there will be a trade-off in that regard in terms of a return. It would be a low level of return versus longer term options that would be open to the State.

**Deputy John Lahart:** What is the quickest time in which it is possible to access National Treasury Management Agency, NTMA, funding in the event of an emergency?

**Deputy Paschal Donohoe:** It depends on the type of instrument involved. We would be able to access money in a matter of days if we needed it.

**Deputy John Lahart:** What are the advantages of a rainy day fund over the NTMA managing a fund in the way it manages its current funds?

**Deputy Paschal Donohoe:** There are no particular criteria for how NTMA money can be used. That money is on the balance sheet. The benefit of setting up a rainy day fund such as this is that there will be specific criteria for how that funding may be used and one will do it in such a way that it is compliant with the fiscal rules.

**Deputy John Lahart:** I was really seeking clarification, but I am keen on two principles, one of which is that, in the event of it being established, it be used, in so far as possible, for the common good as opposed to sectoral interests. The second is that we keep it simple. It is for unforeseen and unexpected consequences. For example, families have debts, mortgages, car loans and insurance that require monthly repayments to be made which they meet from their existing income. However, it is traditional for a few quid to be put away, if people can afford it, to meet the unexpected or the unknown unknown that we know will emerge and that falls outside the normal. It could be somebody in the household losing a job; therefore, it would allow the household to keep going. We could use that as a metaphor. I welcome the paper and the opportunity to continue discussing it before bringing it before the Dáil.

**Deputy Joan Burton:** The proposal and the elements the Minister has outlined are strange and baffling. In terms of the language used by the Minister, it almost feels we are in a “Back to the Future” moment, with extremely Bertie Ahernesque language being used in referring to there being more people at work than ever before, things being better than ever and so forth. I sat in these and similar rooms ten years ago when I was very sceptical about that type of language. At the time, I warned about some of the inherent dangers. I can understand the reason the Minister is delighted that more people are back at work because I am delighted too. I doubt that anybody in the room is not delighted. However, the tone of the language of quasi-celebration, with fist pumping almost taking place, except that we do not do that in the Dáil, is strange.

The crash happened from 2008 onwards because as the economy collapsed we could not borrow internationally. Around September 2010, the markets rated Ireland’s debt costs as extremely high, to the point where we could no longer afford it. Once the debt interest rate went over 7% - John Palmer knows these figures - we were basically out of the game. There were many discussions about when the IMF would arrive with a package and the model it had adopted at the time. Incidentally, it subsequently did not adopt that model for France, Italy and Spain because they were bigger EU countries.

What I am hearing from the Minister is both intriguing and confusing. At the time, we had the National Pensions Reserve Fund which, if memory serves, was up to €18 billion. It was certainly over €17 billion. It was nabbed by the troika as our first payment under its package. The money had been set aside, not in law but in general indicative commitments similar to the ones the Minister is indicating today, to pay for Civil Service pensions in the era after 2025 and potentially, although it was never clarified, retirement pensions paid by the Department for Employment Affairs and Social Protection. I was never clear on the second point, but they were the indications. I see Mr. Palmer nodding; therefore, my recollection is right.

We face the very same challenge on pensions, except that it is closer and higher. If the Minister said he was going to set aside funding to pay for the demographic changes occurring

in the country, for example, I would understand it. However, the last such fund was taken in its entirety by the troika. I stood in a room with a tall Hungarian - I was in opposition at the time - who asked me if we were prepared to give everything up. The troika specifically had in its sights on all public utilities, led by the ESB. The Government of which I was a member held it off and there was a difference of views on what should happen in that Government.

I am really confused. Technically, I do not understand the status of the rainy day fund in respect of our debt level. I agree that the current level of debt is a negative in the assessment of Ireland. There is a profound argument that if surplus funds are available, they should be used, as has been done by the Department, something on which I have supported the Minister 100%, to recycle debt to cheaper debt at lower rates of interest or to pay down debt when it becomes opportune and advisable to do so. Even in the scenario outlined by the Minister today, that would be the most sensible argument. We would then have an enhanced or enlarging capacity to meet at cheaper debt rates in the current markets.

I realise it was the Minister's predecessor who came up with this idea and that the Minister inherited this horse, camel or giraffe - to be honest, I do not know what it is. I also understand and accept his comments on the contingency reserve fund. I was Minister in a Department which every year had to expend millions to deal with flooding, including in the Chairman's constituency. A couple of months after we took office there were extensive flood waters coming down from the Dublin Mountains into various rivers; therefore, I accept the remarks made on the contingency reserve fund. There is also the pensions issue. Dealing with all of these issues would make much more sense. The Minister has not yet said what the rules for this fund will be in the context of withdrawals, except to indicate that it will come out of public expenditure. That is what I understood him to have said.

**Chairman:** The Deputy can come back in during the second round. I want to-----

**Deputy Joan Burton:** Will the Minister tell me, as far as he knows, how this will be treated for accounting purposes, particularly as there is a double bind on it? When money is put in does it reduce our debt? When money is taken out, it counts as expenditure. In a sudden crash of the economy, that could become a very difficult issue. It certainly did on the most recent occasion.

**Deputy Paschal Donohoe:** What is the objective of this fund? The objective is that if the economy gets into difficulty in the future, money will be available to us which we can invest in the economy to offset that difficulty. I am struck by the fact that some of the countries that have been most successful in doing this, although they are asset rich, are those of a socially-democratic persuasion politically. When they get into difficulty at a point in the future, they will be able to invest in capital programmes in order to employ people at a time at which unemployment would otherwise be rising. For me, it is as simple as that. It operates on a countercyclical basis.

On the other questions the Deputy has put to me, her description of the bind is correct. If we put money in, it will reduce our net debt, although it will not affect our gross debt, as the Deputy well knows. She is also correct that when the funds are used, it will count as expenditure. However, we could get to a point at which we would have a choice between borrowing to fund expenditure or having access to a bank account in order to fund that expenditure ourselves without having to incur high interest payments. Amid all of the complexity, which the Deputy was right to raise, that is the simple insight on which I am trying to hone in. The Deputy is putting a number of questions to me and is saying that there are things which need to be teased out. There are. One of the reasons I am before the committee this afternoon is to hear the views of

its members on the matter.

If I can just say one more thing on the questions the Deputy put to me, there was no fist-pumping on my behalf at all. In fact, I was at pains to acknowledge the great difficulty in which people still find themselves. I am painfully aware of it. I was simply making the point that, in contrast with what Deputy Bruton said, there are some good things happening in our country and the economy. If people like myself and, indeed, the Deputy - because she acknowledges that it is good that more people are back at work - do not point that out occasionally, we give way to the kind of political attacks that are capable of undermining what the people of Ireland have achieved.

**Deputy Joan Burton:** With respect, we still need some technical answers in respect of this fund. Can we get an explanation which sets out the debt impacts, the spending limitations and any other implications which this fund will have? The Chairperson knows as well as I that when the rating agencies come to examine national debt, the gross national debt is the figure many of them use, as do the US markets. The Minister can tell them that we have a given number of billions stashed away but unless he was to use the model of wealth fund Norway or some states in the Middle East and the Far East use, it would not count because it would be, in a certain sense, relatively small potatoes. That is why the National Pensions Reserve Fund just got chopped at the time. The Minister is talking of markets. The markets are very tough. I just do not get the technical explanation. Although I am not putting this forward as a proposition, it would seem that if the Minister's objective is to improve the country's debt position, there is an argument for improving the country's gross debt situation because, in the long run, that will stand to us more in the context of the markets because they will see that debt is on the decline. The Minister can argue, and I would argue, that-----

**Chairman:** Deputy Burton will have to make this point very quickly.

**Deputy Joan Burton:** The Minister has calculations of net debt balances in the NTMA and so on, but that is not the way in which the market firms that rate countries operate. I am really at a loss as to why he would do this.

Finally, we have serious problems in housing-----

**Chairman:** I am sorry Deputy Burton, but no. There is a second round.

**Deputy Joan Burton:** I am about to finish on this.

**Chairman:** The Deputy can come back in on other points on housing and so on.

**Deputy Joan Burton:** We also have problems in the area of health and a ginormous problem in respect of both public pensions and public service pensions. In fact, we also had a discussion yesterday about a supplementary pension that the Government has been unable to kick-start. There are much more valuable objectives which we could discuss as alternatives. We need a technical explanation of this proposal which can stand up to scrutiny.

**Deputy Paschal Donohoe:** My explanation does stand up. I am not putting this proposition forward with the direct objective of reducing our gross national debt. I never presented this proposition in such a way. As I have said on a number of occasions, this is about creating the capacity for the State to deal with an external shock in a way that avoids the need to borrow in the future at what would be a higher interest rate. That is the policy objective I am trying to address. A consequence of setting up such a fund is that it would reduce our net debt level, but

not our gross debt level. However, I am not proposing that we set up a fund to affect our debt metrics because, as the Deputy is correct to say, if that was my objective, the simpler way to do it would be to reduce the national debt in the first instance and pay it off.

On the view of the rating agencies in this regard, one of the interesting things is that the external rating agencies, which made grave mistakes in the run-up to the financial crisis, were actually more alert to the difference between Ireland's gross debt position and our net debt position than many of the analysts and opponents at home who were predicting imminent default at every point as the country worked its way through grave difficulty. The other choices which the Deputy has outlined illustrate the scale of the choice involved in this because, if we decide to put money into the rainy day fund, it means that we are deciding not to put it into health expenditure. The Deputy is correct on that. That is why, before I move this into the legislative arena at all, I thought it valuable to have a discussion about the costs and benefits of the policy I am proposing.

**Deputy Martin Heydon:** I thank the Chair, I have the joy of being last.

**Chairman:** There will be a second round for anyone who wishes to speak. I have two indications so far, so Deputy Heydon is not last. He need not worry.

**Deputy Martin Heydon:** I am last on the first round. I thank the Minister and his officials for coming in. I am mindful of the fact that a number of my colleagues on this committee from Opposition parties have highlighted the fact that they have been calling for this measure for some time. If one was to be cynical, one could argue that members of the largest Opposition parties would be very keen to see the Government and Minister for Finance lock away much of the money we are earning from our prudent fiscal approach and save it for them to spend when they get into power. Perhaps that is what they are thinking. However, it makes sense to have a contingency reserve. Really what we are talking about here is the process - what it would look like and how it would play out. Will the Minister outline the kind of events he could see triggering the use of a rainy day fund in practical terms? I know there has been upset at some of the examples which have been given. How would this look to people?

On the funding beyond 2021, it obviously becomes harder to predict what these things will look like the further into the future one looks. This is a medium-term approach, however, so I presume that the Department would have a view on how it could continue. Would it continue at the same rate or does the Minister believe it would need to be ramped up in the future as budgets allow? That would be my main point. The Minister has already outlined that the purpose of this proposal is to provide a bit of extra security and a buffer for things as they arise. It is hard to plan for every eventuality but I would like to get a clear idea of the type of circumstances in which he sees the need for this arising and the type of circumstances for which he would not see this fund being used.

**Deputy Paschal Donohoe:** The kind of things I see it being used for include global recession, which has a significant effect on a very small and open economy; a natural disaster of some kind; some event happening in the financial markets; or as a result of policy choices made here at home that lock us out of access to the financial markets again. I used the example earlier of a disease that affected our economy and has grave consequences for it. I was simply making the point that a Government can invest a lot of money in trying to prevent particular phenomena from happening but those or other phenomena can still happen and there has to be a response. From my experience of being involved in trying to do that, particularly regarding extreme weather events, I think it is a good idea to have a way to access funding like that in a



more predictable way than at present. This would help a number of Departments, particularly the Departments of Transport, Tourism and Sport and Housing, Planning and Local Government, to maintain their day-to-day commitments while dealing with the kinds of events that happen every few years to a country despite the best efforts of everybody most of the time. I absolutely envisage contributions extending beyond 2021, otherwise, as Deputy Burton touched on, we would not get the fund up to the critical scale that would enable it to deal with the kind of events to which countries need to respond. As a result, it will need to continue beyond 2021. I do not see us being in a position to take billions of euro out of day-to-day expenditure and put it into this fund because of the pressures the Government faces each day in using tax receipts to fund public services. The more likely sources of that money are one-off gains to the Exchequer, particular tax headings doing exceptionally well for a period, and putting in place an amount of money each year that is genuinely sustainable and which we are confident we can maintain for a number of years. To approach it in any other way would set up expectations that no Government would be able to meet.

**Deputy Martin Heydon:** I agree with that approach. It could be stated that I would say that. If we take account of the fact that we are coming out of a decade of underinvestment in our public services, there is a balance to be struck as to the best outcome for our country and investment in infrastructure and key services. Investment in our people is just as important as keeping money aside for one element. I agree that it is a matter for Government. Whoever is in government at a particular time should have control over it as opposed to saying it is a matter for the Dáil, which could mean that it would be kicked around as a political football. How prescriptive could the rules relating to the drawdown be? Would it be at the discretion of the Minister of the day? I ask that in terms of the politics involved. Is there a risk that something which might not be seen as a big emergency in some years, a year out from an election, for example, could be used by a Minister to free up €500 million for a slush fund to splash around the economy? How prescriptive can we be to make sure it is used in the targeted manner in future?

**Deputy Paschal Donohoe:** That risk is absolutely there. The policy on it has to strike a balance between being prescriptive enough that it cannot be accessed to deal with the kind of difficulties any Government might face, day after day and year after year, while at the same time not being so prescriptive that a Government can never use the money. The Minister for Finance of the day would be central to that choice.

**Deputy Martin Heydon:** Ultimately, the Minister of the day will be answerable to the House and the people so if he or she was seen to use it in a reckless manner, he or she would be accountable for it.

**Deputy Paschal Donohoe:** Yes. I go back to the point I made earlier. Traditionally, when economies such as our own have had to deal with global events or the kind of phenomena I outlined a moment ago, the way they do it is by borrowing more. That is a perfectly legitimate policy choice to make. It is perfectly legitimate to borrow more and to respond to difficulty. There are many levels of borrowing that can develop which act as automatic stabilisers that an economy triggers as it goes into difficulty. One of the challenges of that is that normally when a Government needs to do that, it ends up paying a higher rate of interest on the borrowing because rates of interest tend to be the lowest when one needs to borrow the least. The core of the idea is whether it is worth trying to set aside an amount of money to offset the effects in our society of tough external circumstances instead of borrowing the money at interest rates that will be far higher than is currently the case. I am trying to portray the idea simply. I am not running away from the inherent difficulties. The moment we set it up and the moment the

money starts being put in, people will ask why we are not using the money to invest in dealing with the difficulties of today. That is the trade-off on which I am interested in hearing the views of members.

**Chairman:** Everybody has had an opportunity to ask some questions at this stage. At least one Deputy has indicated a desire to ask another question. Before I go into a second round, I will ask the Minister a number of questions. The Minister touched on the European view on this matter. It is very early stages. I would have thought our European partners' view would be that budgetary issues are managed within the fiscal rules. If there is no willingness to move from that then expenditure coming out of the fund would have to count as expenditure. We would get no benefit from looking at expenditure going into it. Could there be a European view not in favour of states establishing funds of this sort? Would they prefer to see the budgetary process managed primarily through the current and existing fiscal rules set-up rather than states engaging in this process? If we were to establish a fund - I cannot see how we ever would - that was of sufficient size and scale to deal with a countercyclical issue, the deployment of the fund would probably be in breach of the fiscal rules. How would we handle that with our European partners if we do not have some understanding that the fund can operate in some space parallel or outside the fiscal rules?

**Deputy Paschal Donohoe:** I am optimistic we would be able to do it. Organisations such as the IMF are very supportive of the principle we are looking at here. One of the main thrusts of current EU policy is that expenditure or macroeconomic decisions by governments should take account of where an economy is at a particular point in its cycle. That is why we have so much focus on something that is simple in concept but very difficult to measure, which is the structural performance of an economy. That is an ongoing spread of all EU economic policy at the moment.

On the Chairman's final question about whether the use of such expenditure would breach existing fiscal rules, my view is it would not but clearly we would have to work it all out with the Commission. The reason is the fiscal rules recognise that events can occur within any economy that require expenditure to be incurred to offset their effect. While I cannot prejudge what the Commission would say about it, I am pretty hopeful it would see it as a good idea.

**Chairman:** That works in the process of the fund being a rainy day fund to tackle an event like a natural disaster. That is my understanding of where that exemption sits. If we were looking more at a countercyclical version of it to deal with a recessionary situation and the draw-down in that, is there the same scope within the rules to look at that in terms of the borrowing expenditure limits under the fiscal rules?

**Deputy Paschal Donohoe:** Yes. At that point, it is when the focus on structural measurements of the economy become - for want of a better phrase - one's friend. The European Commission would inquire as to the outputs of the economy on the basis of where it stood in the context of its cycle. If the economic cycle is in such a place where it is in difficulty or where we are going in the wrong direction, it strengthens the case for using expenditure to offset that, particularly expenditure on capital, which, of course, is investment for the future. While I cannot predetermine what the Commission may say about this because we are clearly at a principal stage ourselves, I hope it would be seen in a positive light.

**Chairman:** I thank the Minister. I have had an indication from Deputy Lahart to the effect that he wants to come back in. He will be followed by Deputy Jonathan O'Brien.

**Deputy Joan Burton:** Can I ask a brief question? I have to go to the Dáil. The question is factual.

**Deputy John Lahart:** As opposed to what?

**Deputy Joan Burton:** I made some commentary during my previous contribution. Will the Minister advise us of his assessment of where the off-balance sheet investment rules currently stand in the context of EUROSTAT and the European Union? To my understanding, it is becoming increasingly difficult to have, for example, public private partnerships classified as they have been for a period as off-balance sheet items, such as with the experience of Irish Water. I think this has a great bearing on the country's capacity to invest in key areas such as housing, health and so on, which we referenced. It might be helpful to this discussion to have a note about the off-balance sheet rules. They have become much more Germanic. Many countries have off-balance sheet investments which were allowed a couple of years ago but which are now being put back on member states' balance sheets through EUROSTAT. That means the investment capacity has become more limited.

**Chairman:** That is a specific and slightly different area. Will the Minister come back to us with a note on that?

**Deputy Paschal Donohoe:** I can answer the question and we can follow it with a note. It has improved slightly because EUROSTAT has issued guidance that allows us to make decisions on a forward-looking basis. As a result, we have a better idea of where policy on the matter stands. All that being said, I continue to be careful regarding the use of off-balance-sheet mechanisms. Even though some may not be on our balance sheet, they absolutely affect the quality of it. That is one of the many lessons that we have learned from what happened to the banking system. We can come back to the committee with a note on that.

**Deputy John Lahart:** It is my understanding that we can ask the Minister any question.

**Chairman:** The Deputy can ask the Minister a question. I cannot stop him from asking the Minister a question. We have areas set out for discussion at this meeting, although, to be fair, we are not just having open questions and answers.

**Deputy Jonathan O'Brien:** I have one particular question on this.

**Chairman:** Deputy Lahart asked me before he left, but if Deputy Jonathan O'Brien has a question directly relating to this, he can go ahead with it.

**Deputy Jonathan O'Brien:** I can address the other issues later. I am developing a bit of understanding from the meeting that we are probably looking at two separate issues. The Minister said that his preference would be a countercyclical approach. The language is important because if we are looking at approximately €500 million, that is not really countercyclical. The Minister would agree with that. We are looking at two separate issues. If that is the case, we will need two separate types of withdrawal criteria. If there is a countercyclical rainy day fund and withdrawal criteria set out in primary legislation, then will annual events such as flooding - which is becoming an annual event - be suitable for a rainy day fund or for the emergency contingency fund? I know the Minister is open to all this at the moment. Is he looking at two different funds right now? Would that be the preference of the Department? I think he has already said that primary legislation would be needed for a counter-cyclical rainy day fund, but I would see difficulty in putting a contingency fund into primary legislation because one would want to access it quickly if it was something like foot and mouth disease or a flooding event.

One would not want to spend three weeks trying to get permission through the Houses of the Oireachtas. Will the Minister make that clear? On the actual funding of the rainy day fund, if there are two separate issues, the €500 million would, to me, be the short-term immediate contingency fund. How will we fund the longer-term model? I know the Minister said that one might be looking at such things as once-off gains to the Exchequer, maybe tax surpluses. In that case, is it not very hard to define how quickly we could actually establish a rainy day fund of €20 billion? We do not know what once-off gains to the Exchequer could be coming down the road or what tax surpluses may or may not happen. Will the Minister give us some insight into his thinking on that?

**Deputy Paschal Donohoe:** I agree with the first part of what the Deputy said. He summarised my own thinking on the matter, which is that we would look at putting together a fund which would have a countercyclical effect on the economy. I will make one point. Let us say we were to set up the fund as I am describing and stop contributions in 2021, for the sake of argument. We would end up with a fund of approximately €3 billion, which could make a difference to the lives of many people in our country if we were to get into difficulty. An unfortunate effect of the awful difficulty we have gone through and are currently trying to get out of is that we have become a little anaesthetised to large amounts of money. A Government dealing with a slowdown in global economic growth or a global recession that had €3 billion or €3.5 billion available to it over a couple of years could make a difference through, for example, putting in place capital programmes or providing additional work to people if they lost their jobs because of what was happening in export markets. Amid all the debate regarding what I am seeking to do, that is the simple idea here and it could make a big difference. The Deputy is correct to say that my current direction of travel is to have a particular fund that would deal with that kind of cyclical experience.

Second, I am putting forward for evaluation by the committee the idea that, either within that or separately, or even held within Departments, we should be looking at the idea of whether we can better plan for when events are more predictable in the future but will have a lower effect rather than being a crisis for the entire country. Much of this is influenced by my time as Minister for Transport, Tourism and Sport, when I had to deal with a series of flooding events. If those flooding events happened towards the end of the year, at which point most capital expenditure had already been committed and most current money was gone, responding at the speed at which communities want could be difficult. That is why I am presenting this idea for discussion. I will see what the committee has to say about it when it gives its own views back to me.

The Deputy has outlined the different ways in which it could be funded. I have outlined them myself. He is right. It could mean that it could take quite a while to get up to a fund that would be of significant critical mass, possibly tens of billions. I think we still lose sight of the fact, in that debate, that billions of euro spent over 12, 18 or 24 months could have a significant effect on people's lives if we were facing into difficulty. The most recent crisis we went through absorbed €120 billion of the State's money on the fiscal side to deal with the difficulty that we were in. I hope we never go through an experience like that again but we will go through different difficulties. That is why I think there is value in this idea.

**Deputy Jonathan O'Brien:** Is the Minister looking at the contingency fund being part of the overall rainy day fund but just having different drawdown criteria, or is it better to have two separate funds? I imagine it would be very difficult in primary legislation to specify what an event would be. One could not give a list of potential events.

**Deputy Paschal Donohoe:** My preference at this point would be to keep it out of the rainy day fund and that is what I will work through with the committee in the coming months. When this idea was originally conceived, regardless of who the parent of it was, it was about having a rainy day fund to deal with global shocks and how an open economy can respond to big events beyond its control. One of the ideas I have just brought to bear in this debate is that there are other things that can happen that are not at that level of difficulty but to which the Government of the day would still need to respond quickly and there are different ways of doing that.

**Deputy Jonathan O'Brien:** My final question is where the consultation goes from here. The committee is looking at a report emerging probably in mid-February.

**Deputy Paschal Donohoe:** What I have in mind now is to get the committee's paper in February. We will have the summer economic statement, SES, in April or May and within the period of nailing down what the SES will be and presenting it to the Dáil, I hope we will be in a position after that to begin to present the heads of the Bill to the committee for pre-legislative scrutiny. We are talking about something that will not be up and running until next year. We will just work our way through it this year.

**Chairman:** I thank Deputy O'Brien and I call on Deputy Lahart. I do not know what the Deputy wishes to raise with the Minister but to be fair to both of them I advise him that we have a structure for what we are discussing here today. If a question cannot be answered today I am sure the Minister will come back to the Deputy at some point.

**Deputy John Lahart:** Is it correct that the structure includes the HSE and public private partnerships, PPPs?

**Chairman:** It includes PPPs and issues relating to the health Estimates area.

**Deputy John Lahart:** I thank the Minister for facilitating answers to these questions. If he does not have the facts at his immediate disposal a note will suffice.

Is there anything the Minister wants to say on our experience with Carillion recently and PPPs? Does it have anything to teach us? Is the Minister exploring other options to PPPs that might free up capital or take advantage of capital in respect of investment in infrastructural projects?

I have a specific question on the HSE. We have a note here that the HSE is potentially facing a financial shortfall in 2018. Has that been accounted for in the baseline budget figures for 2018? I will relate that to a specific example in my constituency where Tallaght Hospital has two or three major projects, one being an intensive care unit that is at design stage. The other project is a renal unit that had been approved for funding by the HSE. Tender documents issued for it in December with the intention of awarding that contract in March. The HSE has now extended the tender process until October with the hope that it can award the contract in early 2019 when funding may be available. My understanding is that the problem lies with the Department of Public Expenditure and Reform side of the Minister's area of responsibility. The HSE formally confirmed funds last June but it is now citing an unanticipated deficit in the capital budget for 2018 arising from cutbacks applied by the Department in October. That has now caused the delay not just of this project, which is not just a once-off project but is part of a jigsaw of projects about which Tallaght hospital management have been pretty keen and excited. I would welcome the Minister's comments in that regard.

If there is a deficit in the capital budget, could the Minister confirm that funding is avail-

able for the national maternity hospital and where will it come from? What is the status of that project in terms of capital funding?

**Chairman:** I am a constituency colleague of Deputy Lahart and as much as that information is relevant and important perhaps the Minister cannot comment on specific projects but he can speak about the situation in the general context of the budget situation.

**Deputy Paschal Donohoe:** I will have to write back to the committee and to the Deputy on the specific health projects. I am not in a position to answer that question now.

On his point about public private partnerships, they do have a valuable role to play in the economy and there are many other projects that have been delivered well by PPPs. The benefit they have for the State is that we do not make any payments for a project until it is either open or finished. That is why PPPs play a valuable role but I continue to take a careful approach to them in that we must decide on a project-by-project basis whether they are the right thing to do.

I hope and expect that the difficulties regarding the schools that are being built by Carillion will be resolved. I know the National Development Finance Agency is working on that at the moment. I will look to see what we can learn from that particular experience.

**Deputy Jonathan O'Brien:** I wish to just follow up on what the Minister said about PPPs. Is it currently the position that each Department assesses its own PPPs, for example, the Department of Education and Skills examines the PPPs for the building of schools or third level institutions? Is it done on a departmental basis currently? One of the things the IMF included in its recommendations is that the Department of Public Expenditure and Reform would take an overall approach to PPPs. What is the current situation and how does it work?

**Deputy Paschal Donohoe:** The current situation is that the National Development Finance Agency, which is an agency associated with my Department, works with all Departments on PPPs. The Department of Public Expenditure and Reform is increasingly playing a bigger role in terms of policy on PPPs and I anticipate that will remain the case in the future.

**Deputy Jonathan O'Brien:** I mentioned last week on Question Time that one of the difficulties in terms of the cost-benefit analysis is the commercial sensitivity of companies. How does the Minister propose to evaluate PPPs and can he publish the evaluations?

**Deputy Paschal Donohoe:** There are two parts to the question. First, we have a set of PPPs that are either now complete or under way and I am not in a position to publish details on them because of the way they are conceived but we always look at the start of a project to see whether the figures stack up and then we evaluate at the end of a project whether it was the appropriate way to do it. That has informed the view I gave to Deputy Lahart that I believe in many cases, PPPs can be a good way of delivering projects, in particular if there is an income stream delivered by them which can be fed into the business model for the project. However, I look at all those things on a case-by-case basis.

As for what I said in response to the Deputy's parliamentary question last week, I am of the view that for future PPPs, we can publish and make available more information than we do at the moment. I believe we can still meet the requirements of commercial sensitivity while giving the Oireachtas and people who focus on those things more information than is currently available to them. If and when we engage in future PPPs, that is something I aim to do.

**Deputy Jonathan O'Brien:** Is there a role for the Comptroller and Auditor General in that

regard?

**Deputy Paschal Donohoe:** There is a role for the Comptroller and Auditor General in everything. That office looks back at all the work we do. My recollection is that it has focused on the role of PPPs in certain Departments, in particular the Department of Housing, Planning and Local Government. I am notified of any report from the Comptroller and Auditor General and my Department then has to respond back to it so, yes, it does have a role in the matter.

**Chairman:** That is all the questions. I thank the Minister and his officials for attending. We very much appreciate the opportunity for an exchange of views. We will follow up with him in writing.

**Deputy Paschal Donohoe:** Does the Chairman think he will be able to establish a consensus?

**Chairman:** We will hopefully be able to establish something-----

**Deputy Paschal Donohoe:** A majority view, perhaps.

**Chairman:** -----that will enable us to communicate in writing but there are many views, as the Minister heard clearly.

**Deputy Paschal Donohoe:** I thank the Chairman.

The select committee adjourned at 3.40 p.m. until 4 p.m. on Tuesday, 13 February 2018.