

DÁIL ÉIREANN

AN COISTE UM FHORMHAOIRSIÚ BUISÉID

COMMITTEE ON BUDGETARY OVERSIGHT

Dé Céadaoin, 11 Iúil 2018

Wednesday, 11 July 2018

The Select Committee met at 3.30 p.m.

MEMBERS PRESENT:

Deputy Maria Bailey,	Deputy Martin Heydon,
Deputy Richard Boyd Barrett,	Deputy John Lahart,
Deputy Declan Breathnach,	Deputy Michael McGrath,
Deputy Thomas P. Broughan,	Deputy Jonathan O'Brien,
Deputy Barry Cowen,	Deputy Eamon Ryan.
Deputy Pearse Doherty,	

DEPUTY COLM BROPHY IN THE CHAIR.

BUSINESS OF SELECT COMMITTEE

Business of Select Committee

Chairman: We have a quorum and I will commence the meeting in public session. Apologies have been received from Deputy Lisa Chambers.

The select committee will meet the Minister for Finance and Public Expenditure and Reform, Deputy Paschal Donohoe, to discuss the summer economic statement at 5.30 p.m. Before we do so, I propose that we go into private session to deal with committee business.

The select committee went into private session at 3.38 p.m. and resumed in public session at 5.30 p.m.

Summer Economic Statement: Discussion

Chairman: I remind members and delegates to turn off their mobile phones as interference from them affects the transmission of the proceedings.

I welcome the Minister for Finance, Deputy Paschal Donohoe, who is accompanied by Mr. John Kinnane, Mr. Brendan O’Leary, Mr. Stephen McDonagh and Fearghal Ó Brolcháin. I thank them for making themselves available to the select committee. They had a prior engagement and I appreciate their rescheduling it to accommodate the committee. We acknowledge the Minister’s willingness to regularly come before it. This is its final public meeting before the recess. Earlier we engaged in some productive work on our interim budget statement. We are meeting the Minister to discuss the summer economic statement which was published in June.

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. However, if they are directed by it 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 their evidence. They are directed that only evidence connected with the subject matter of these proceedings is to be given and asked to respect the parliamentary practice to the effect that, where possible, they should not criticise or make charges against any person or an entity by name or in such a way as to make him, her or it identifiable.

Members are reminded of the long-standing parliamentary practice to the effect that they should not comment on, criticise or make charges against a person outside the Houses or an official, either by name or in such a way as to make him or her identifiable.

Minister for Public Expenditure and Reform. (Deputy Paschal Donohoe): I welcome the opportunity to be here. I will go through my opening statement briskly in order to deal with the select committee’s questions and comments.

The committee will be aware of the objectives I have set for the medium term in terms of future budgetary choices, ensuring steady growth in living standards, how we can rebuild budgetary capacity, the need to be careful in spending choices, the need to avoid pro-cyclical fiscal policies and ensuring budgetary policy will focus on ensuring fiscal safety. Colleagues will be aware of where the economy stands in terms of growth forecast for this year and next. I expect that in the year after next, all things being equal, we will see a growth rate that will move more

into line with the potential growth rate of the economy, rather than the heightened figures we have seen recently.

The committee will be aware of where we stand on employment. The unemployment figure in June was 5.1%. The figure for those unemployed for more than one year fell from 200,000 in 2012 to 50,000 in the first quarter of 2018. We potentially face new challenges as the economy moves towards full employment this year. As we approach that point, we have seen more gradual improvements in living standards, rather than an all or nothing approach which characterised some choices in the past. Because of this, I want to be careful to ensure our policies can be consistent in coming years. I have laid out my views on how that can be done in the summer economic statement.

This year, to date, has seen very positive Exchequer returns. They have increased by 5.4% cent year on year, which is ahead of target. I am confident that we are well positioned to achieve the overall annual tax target of €54.2 billion for 2018. Against this, I plan to broadly balance the books by running a very small deficit next year of 0.1% of GDP. The main driver of this is the plan to increase capital spending substantially in 2019, bringing capital expenditure to in excess of €7 billion, an increase of one quarter on the figure for this year. I will not put in place any taxation or spending measure that will result in a deficit of larger than 0.1%. If that is accepted, it will accommodate a budgetary package of €3.4 billion, of which €2.6 billion has been pre-committed to expenditure measures, leaving €800 million for further allocation. Any unfunded taxation or expenditure measures that go beyond this figure will necessarily involve even more borrowing and result in a subsequent increase in the deficit position. If that deficit position worsens, it will mean borrowing more and spending money we are not raising within the country.

There are choices which are open but which I will not pursue. For instance, targeting minimum compliance with the expenditure benchmark allows an additional figure of €900 million, but it would increase the deficit by 0.3%. If the rainy day fund was also used instead to increase expenditure by the same amount, it would be a further deficit of 0.5% of GDP. If both were pursued, it would increase the deficit from 0.1% of GDP to 0.6%. That would be highly inappropriate at this stage of the cycle and ensure we were in breach of the fiscal rules as we would miss our medium-term objectives next year.

I will refer to why I believe we need to take a different point of view now on the fiscal rules. We need to avoid the adoption of pro-cyclical policies. Our debt is still high; external risks are beginning to develop and I want to use a different approach by moving away from fiscal space into the approach of a budgetary stance. The approach to public expenditure I want to take next year is to take care regarding pre-committing to large increases in expenditure. We have many demands in place on the budgetary framework, not all of which I will be able to meet fully. If expenditure continues to exceed revenue and we are still borrowing to meet the shortfall, even if more resources are allocated, the deficit will be even larger and our debt will increase. From our current economic position, borrowing to meet a higher rate of Government expenditure could create further risks.

In the medium term I have outlined the capital framework I propose to follow in terms of Project Ireland 2040. It is looking to increase capital expenditure and integrate it within a better planning framework. In addition, I indicated during oral parliamentary questions this morning - I will say the same again this afternoon - that what I would do as part of budget 2019 was publish a longer term budgetary framework than I had to date. My economic forecasts have been for a two to three-year window. What I will do - I have asked my Department to begin the work

on it - is publish a five-year outlook for what we think will happen in the economy in order that all parties will have information on choices that will be open to me on budget day and beyond.

On other developments in expenditure, I will be publishing, as I did last year, papers on the comprehensive spending review which I can debate with the committee at another point. They will lay out observations we have agreed on 40 areas of Government expenditure. One of the reasons it is important is, with the €60 billion we spend in any given year, the focus is always on the increment in terms of what more we will spend, but we need to be aware of efficiencies and opportunities to do better with what we are spending. I am also very much aware from a revenue point of view that we need to ensure any commitment we make regarding spending in the future is based on revenue we are confident we can continue to collect.

While the latest economic data point to an economy with very considerable momentum, a continuation of robust growth in the future cannot be taken for granted, given the increasingly uncertain external environment. The United Kingdom's imminent exit from the European Union, changes to the international corporate tax landscape and the possibility of disruptions to the global trading system are just some of the risks we face. More generally, it is important to consider that the reasonably favourable external conditions we faced in recent years were just another wave of - to quote the American economist Paul Krugman - a great moderation. If these conditions were to deteriorate in the coming years, what would the impact be on the economy? It is for that reason I want to take a careful approach to where we are with the deficit and establish a rainy day fund. If expenditure or tax commitments move beyond the budgetary framework I have outlined, we will have to be able to establish how it will be paid for.

To end on a positive note, while there are risks, I continue to believe there are great opportunities. Clearly, there are important things we have to deliver at home, but there are also opportunities for Irish companies and the economy abroad. As I have always said, economic growth is a means to an end, not always an end in itself. It enables us to pursue our goals and what we want to do in our society in terms of how we can promote inclusivity and continue to improve public services, all of which have the objective of trying to deliver better living standards and a better society in our republic.

Chairman: A number of members have indicated. The first to indicate was Deputy Michael McGrath.

Deputy Michael McGrath: I welcome the Minister and his officials. I thank him for abbreviating the opening statement. I will pick up on one point he mentioned, which he also mentioned in answer to oral questions.

On forecasting, in the budget the Minister will project over a five-year period, to 2023. Is that right? There will be fiscal and economic projections which will encompass the full suite of measures, including growth, unemployment, debt, deficit expenditure, tax and so on.

Deputy Paschal Donohoe: The answer to much of what the Deputy said is "Yes". It will be a five-year framework to 2023. There are a number of reasons I want to do this, one of which is there has been commentary from the committee on how we could have a longer horizon for planning. I am also increasingly conscious that the IMF will put forecasts in place up to 2023 and we should also be able to do so. They will be our economic forecasts of what we believe the budgetary outlook will be each year. What I will not be doing within them is making choices for how resources should be allocated between tax or expenditure or anything like it. They will just be what we believe the outlook is and beyond a certain point, all other things being equal,

where the economy will stack up and what the impact will be on based on the different financial indicators.

Deputy Michael McGrath: I thank the Minister.

Chairman: I meant to say before Deputy Michael McGrath started that a very large number of Deputies had offered. To allow for the time constraints on us, I ask Deputies to try to have an initial round of questions with five minutes per Deputy. They can come back in if we have more time. That should take us up until about 7 p.m.

Deputy Michael McGrath: I will be brief. If it can be quick-fire, over and back, I will be happy to deal with it in that way.

In terms of the fiscal stance next year, the Minister set out in his opening statement that if he had made the choice to spend the extra €900 million within the expenditure benchmark, as well as the figure of €500 million, the headline deficit would be 0.6% and the structural deficit, 0.9%. Would Ireland be in breach of the fiscal rules if we were to do so?

Deputy Paschal Donohoe: Yes.

Deputy Michael McGrath: Why? Is it because we are not reducing towards the MTO?

Deputy Paschal Donohoe: Yes.

Deputy Michael McGrath: With regard to the MTO in the current year, the estimate is 0.9%. That is due to the spike in GDP in 2017 and the figure of 7.8% for contract manufacturing-----

Deputy Paschal Donohoe: Yes, there was a particular quarter-----

Deputy Michael McGrath: Does the Minister anticipate a recurrence in the current year? Corporate tax receipts are again quite strong.

Deputy Paschal Donohoe: The answer to the Deputy's earlier question is "Yes". The particular impact on the structural deficit was due to the impact on contract manufacturing in a quarter. I cannot answer the question about whether I am anticipating another change later. The figures from the Central Statistics Office are shared a little with me before they are shared with anybody else. At this time it is difficult for me to give an indication as to whether another surge is likely.

Deputy Michael McGrath: The Minister is looking at a significant increase in capital expenditure to about €7.3 billion of gross voted capital expenditure next year, which figure includes a €500 million increase for the Department of Housing, Planning and Local Government. What is the overall allocation for housing within the figure of €7.3 billion? Does the Minister have details of what will be delivered next year?

Deputy Paschal Donohoe: I do not have the total allocation for housing with me, but we will get it as the meeting goes on and I will come back in on it. In terms of the granular detail of what will be delivered, I dealt with the matter with Deputy Barry Cowen on the last occasion there were parliamentary questions to the Department of Public Expenditure and Reform. I have figures which show how many more social houses the Department wants to deliver and what it wants to do with LIHAF, but for particular estates or projects, I do not have the information with me.

Deputy Michael McGrath: In the Minister's concluding remarks he identified some of the principal risks. The three he identified were Brexit, changes to the international corporate tax landscape and possible disruptions to the global trading system. From his perspective as Minister for Finance and the overall guardian of the economy, does he regard them as the top three risks we face as a country? We are all aware of the risk matrix, the stability programme update and so on, but are they three risks that may result in the headwinds we could be facing?

Deputy Paschal Donohoe: They are certainly three external significant risks we face. There are additional things internally that are of concern to me such as ensuring I do all I can to make sure prices and wages continue to grow at a moderate level and try to make progress on the issue of how we can deliver more homes and better schools without it generating inflationary pressures within the economy. More generally, even though the economy is growing quickly and was growing particularly quickly in the first half of this year, the rate of expectation of what I might be able to do next year is always growing at a quicker pace. When I finish the summer, there will be an array of demands on the Exchequer and how we manage them, while trying to maintain the budgetary outlook about which I have talked, is always a risk.

I will address one question I could not answer when it was asked about the Department of Housing, Planning and Local Government. The total allocation for 2018 is €1.6 billion moving to €2.03 billion in 2019. Specific funding within this allocation is set aside for the Action Plan for Housing and Homelessness in the amount of €325 million this year, rising to €400 million in 2019.

Deputy Richard Boyd Barrett: I worry about the constant use of terms like “prudence”, “fear of over-heating”, “caution” and so on. Does the Minister not believe the greatest challenges facing us now from a social and economic point of view include, at the top of the list, housing? This is now a severe crisis that is making it impossible for people to live here, especially young people. In consequence, we have to significantly ramp up from the level where we are to make it affordable and possible for people to live here. The same applies in areas like education, water infrastructure and public transport. There is talk about the fear of overheating and the need for caution but all these areas are suffering major deficits in investment. Does the Minister not believe we need radical increases in levels of investment in these areas? Otherwise, we are actually going to exacerbate the overheating measures because we will not have sufficient people here. We are now talking about labour shortages. We must ask ourselves how we are to resolve labour shortages. It seems to me we can only resolve labour shortages if we educate far more young people to do the jobs that need to be done, get people back into this country and prevent them leaving.

We are in something of a vicious circle in that sense. At the heart of resolving the vicious circle is the question of housing. It is not simply a matter of absolute supply, although we must have that too, but the supply of affordable housing. Does it concern the Minister that the last time the supply of housing increased, price went up as well and it led us into a big crash? There are real signs that could be happening again. We need a far greater supply and we must have a plan for that but, crucially, that supply cannot remain unaffordable. We cannot have a situation where supply increases but price increases with it. Otherwise we will simply be doing what we did the last time. Does the Minister recognise that as a problem? Does the Minister fear that we could be about to repeat the mistakes of the past?

Deputy Paschal Donohoe: I recognise as a significant problem that we have to get families out of bed-and-breakfast accommodation and we have to get to a point where we are delivering affordable homes for people and building more homes. At the same time, as the Deputy said,

we are already experiencing the so-called capacity constraints in some parts of our economy. That is code for not being able to get people to do the work in sufficient numbers or not being able to reach agreement on the price at which a project should go ahead. It is a concern regarding how we manage this in future.

We need more homes in particular and we have to find a balance for delivering more homes without, at the same time, kicking off an inflationary trend within the economy because of two things. The first would be if houses were at a price that kicks off the spiral to which the Deputy referred. The second would arise if, in our efforts to build more homes, we find out that we do not have the people available to do it. That, in turn, creates another inflationary spiral within the economy.

How are we going to manage it? There are two ways. I am outlining the difficulties Deputy Boyd Barrett has touched on. This is why the rules of the Central Bank on macro-prudential lending overall are really important. What is different for our economy now is that we do not have the same levels of credit within the economy as we did the last time. That is one important point of difference. Even if we were to see a change in the property market in future, since we do not have that quantity of credit the situation does not offer the kind of doom loop we had in the past. We need to stand by those rules. The second point is that we have to look at measures to try to move capital and workers better around the economy. Deputy Boyd Barrett recognised this at the time. The taxation measures we put in place in commercial property were not only about trying to get a yield; they were also an attempt to make an effort to shift economic activity into houses. We need more houses. The third point relates to how we increase capital expenditure. We are increasing capital expenditure by a quarter next year with an additional €1.5 billion into the economy. It is not clear to me at the moment that were we to go significantly beyond that next year with an Exchequer contribution, that we would be able to translate it into more construction and economic activity at a price that we could all afford. It is not clear to me that we could do that. This is why it is important that we pace increases in capital expenditure in a way that we are confident will not create further risk or lead to problems in the supply of more homes or investment in higher education.

Chairman: You have about a minute, Deputy.

Deputy Richard Boyd Barrett: While keeping on the housing thread, I will speak about one other significant bugbear. Every publically-built house that remains in public ownership requires an initial capital cost but then revenue starts to come back. In other words, that revenue replaces current expenditure, which is now going out in housing assistance payments or rental accommodation scheme payments, with a capital expenditure that is once-off and then brings back revenue. If the Minister is concerned about excessive spending, why does he not significantly ramp up in this regard, with the intention of eliminating spending on social housing that will continue to escalate as current expenditure? The majority of the Rebuilding Ireland plan, even with the somewhat increased plans for public housing, remains dependent on major levels of current expenditure going out in the form of RAS and HAP. That represents a drain on the public finances. Why does the Minister not radically shift on that? I am asking not only from a public housing or social point of view but from a financial point of view. Is it not better to start to eliminate or phase out massive annual expenditure going out to the private sector in favour of having a far greater stock of public housing?

Deputy Paschal Donohoe: Deputy Boyd Barrett made a point on additional expenditure. It is not that I am for any reason against additional expenditure. I have overseen expenditure move ahead over the past two years as Minister for Public Expenditure and Reform. My key

point is that if we have expenditure that goes beyond a certain level, then we must have additional taxation plans to be able to pay for it. Of course, if that is paid for out of additional taxation within the economy, that intervention should be neutral. This is because what we are getting in additional expenditure we are paying for through higher taxation.

Deputy Boyd Barrett asked about the mix between current and capital spending at the moment in our involvement in the housing market. Over time, I want to see our current expenditure in these programmes go down as people go into public housing that is provided by the State. I want to see that change for many of the reasons that Deputy Boyd Barrett has outlined. However, if we did not make available current levels of expenditure for HAP or RAS payments, then our housing difficulties would be even more acute. In those circumstances I imagine the Deputy would be calling for me to bring in such programmes.

Deputy Barry Cowen: I will be brief. I spoke about commitments made during Question Time some weeks ago. A total of €1.5 billion was committed to the national development plan as part of the 2040 programme. Will each Department give the Minister information about the extra capital expenditure and what it will be allocated for in the coming weeks and months?

Deputy Paschal Donohoe: Yes.

Deputy Barry Cowen: They will. Will that information be made available to us?

Deputy Paschal Donohoe: Yes, it will.

Deputy Barry Cowen: That is fine.

Chairman: That was definitely inside the time limit for both the Deputy and the Minister. I call Deputy Pearse Doherty.

Deputy Pearse Doherty: I welcome the Minister. Will he outline the structural balance in 2018? Is it 0.9%?

Deputy Paschal Donohoe: It is 0.9%.

Deputy Pearse Doherty: We have moved away from the medium-term budget objective, MTO. We failed to meet it this year. It moved in the wrong direction by 0.4%. Is that correct?

Deputy Paschal Donohoe: Yes, it is.

Deputy Pearse Doherty: Did we breach the fiscal rules?

Deputy Paschal Donohoe: No, we did not.

Deputy Pearse Doherty: Why not?

Deputy Paschal Donohoe: The European Commission was of the view that we delivered our MTO objective.

Deputy Pearse Doherty: Which is what?

Deputy Paschal Donohoe: It is to deliver the MTO. The European Commission was of the view that we delivered it despite that deviation.

Deputy Pearse Doherty: Is it not the case that there is a deviation but it only kicks in when there is a significant deviation of 0.6%?

Deputy Paschal Donohoe: Yes-----

Deputy Pearse Doherty: That is fine.

Deputy Paschal Donohoe: -----and the Commission was of the view that we delivered our MTO.

Deputy Pearse Doherty: If we were to achieve the same structural balance next year, if there was no disimprovement, would that be a breach of the fiscal rules?

Deputy Paschal Donohoe: If our structural deficit was not to improve, my view is that the European Commission would view that as a breach of the fiscal rules. It would say we are not meeting our MTO and not improving our structural deficit.

Deputy Pearse Doherty: We did not breach them last year when it disimproved significantly. If it stayed the same, however, we would breach them this time?

Deputy Paschal Donohoe: I have explained the extenuating circumstances to Deputy Pearse Doherty. There was a shift in a single quarter.

Deputy Pearse Doherty: The rules are that a significant deviation is 0.6% of the structural balance. Is it not the case that the European Union looks at the expenditure benchmark as the way to achieve a structural balance?

Deputy Paschal Donohoe: That is correct.

Deputy Pearse Doherty: If we were to use the €900 million that the Government is refusing to invest into the Irish economy, would we breach the expenditure benchmark? Would we breach the fiscal rules?

Deputy Paschal Donohoe: Yes, we would.

Deputy Pearse Doherty: I refer to the €900 million on its own.

Deputy Paschal Donohoe: Yes, that is the case.

Deputy Pearse Doherty: There would be an improvement in the structural balance in that case and a deficit of 0.4%, without taking in second round effects.

Deputy Paschal Donohoe: The Commission would be of the view that we are increasing borrowing in our economy at a time that we should not.

Deputy Pearse Doherty: In respect of borrowing and the fiscal rules, that is nonsense. It is not true. Borrowing does not come into it. The Minister knows that.

Deputy Paschal Donohoe: I am clear that if we were at a point where we increased borrowing and our structural deficit was to disimprove-----

Deputy Pearse Doherty: No, sorry, that is not the point I made.

Deputy Paschal Donohoe: Let me finish.

Chairman: Let the Minister finish.

Deputy Paschal Donohoe: If we were to increase borrowing and our structural deficit dis-

improved as a result, that would be viewed as a breach.

Deputy Pearse Doherty: The €900 million the Government is refusing to invest would result in an improvement in the structural deficit according to the Government's own figures. It would reduce it by 0.2%. Will the Minister accept, therefore, that we would not be in breach of the fiscal rules in that scenario?

Deputy Paschal Donohoe: No, I do not accept that.

Deputy Pearse Doherty: For what reason?

Deputy Paschal Donohoe: I know from my engagement with the Commission that it would argue we were increasing borrowing at a time when we should not.

Deputy Pearse Doherty: That is a policy point of view and not the fiscal rules.

Deputy Paschal Donohoe: No, this is based on the engagement I have with the Commission. Will the Deputy give me an example of an economist or anybody in the Commission, or elsewhere, advocating that we should be borrowing more when the economy is moving toward full employment?

Deputy Pearse Doherty: We are borrowing anyway and the Government is borrowing in this 2019 budget-----

Deputy Paschal Donohoe: The Deputy is proposing we borrow more. That is a legitimate policy choice that he can advocate. Will he, however, give me an example of anyone - an economist because he frequently quotes economists, the Commission and other agencies to me - who would say that with debt as high as we have, with an economy moving to full employment, with growth as high as it is and with the capacity constraints we have in our economy, that we should borrow more?

Deputy Pearse Doherty: I point the Minister to his own advice in respect of his own Department officials, to the Commission's report and to other reports done by external agencies that tell us very clearly that the best way to stave off any type of further shock, from Brexit or anything else, is investment in capital infrastructure. The major domestic risk of shock to the economy is the issue of housing. It is nice sitting in here in a cosy chamber but when interest rates are below 1% and the fiscal rules allow us to carry out an additional level of borrowing, I would tell the people in emergency accommodation today that I would borrow. I would borrow to invest in building houses for those people and their families in emergency accommodation, to invest in the education system to ensure we do not slip any further down the international rankings and to ensure we strengthen the foundations of our economy. I would borrow to deal with the level of investment the Minister's Government refused to do, as did the previous Fianna Fáil Government, which resulted in a decade of lost investment.

Deputy Paschal Donohoe: I represent the people in homeless accommodation too. I represent the people who want more housing, whether that is public housing or more affordable housing. I represent those citizens as much as does the Deputy. I have as much engagement with them as he does. I did not ask the Deputy if he wanted to increase borrowing more because I know that - he does. Out of all the agencies and economists he has regularly quoted to me, I asked him for any backup or evidence of anybody supporting the view that we should be borrowing more at a time of near full employment and with the capacity constraints we have. I did not ask for his view, I asked for anybody who would support such a strategy.

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Deputy Pearse Doherty: I pointed to international agencies that are telling us the risk to the economy is in those sectors and that is what the Minister needs to do. His own Department, in a private note to the Minister, referred to investment in capital infrastructure as the best way to strengthen the foundations of the economy and prevent any risk in the future. We can have this debate today-----

Chairman: I am sorry Deputy, we cannot have this debate going on for ever. I have been fair to everybody with about five minutes, so you have about 30 seconds. We will be coming a second round once we have had every Deputy who indicated. Three or four have not had a chance to come in.

Deputy Pearse Doherty: On the projected overrun in the Department of Health, how will that impact on a supplementary budget this year for the Department? How will it impact on the fiscal space or budgetary stance the Minister has outlined with discretionary amounts of €800 million? Has he identified, with his colleague in the Department of Health, if any of that spending was what might be deemed wasteful or was it just that there was inadequate provision for the health budget given the level of demand?

Deputy Paschal Donohoe: I will answer the Deputy's three different questions. A form of additional funding will be needed for the Department of Health at some point this year. That has been the case in previous years and I will have to work on that later in the year. On whether that can be done in such a way so as to not impact on the budgetary parameters for next year, that is what I am aiming to do. I have work to do on that and I anticipate it will take me through until September. On the degree of wasteful spending, I have had much engagement with the HSE and the Department of Health on this matter and a key factor is that a massive number of additional people have now joined the HSE and our health service over the last 12 months. Up to the end of April this year, just under 400 additional workers were recruited every month.

Deputy Pearse Doherty: Were none of them budgeted for?

Deputy Paschal Donohoe: I do not doubt they are doing good work but it is a higher level of recruitment than was anticipated and planned for. That is one of the key drivers of the current level of HSE spending.

Deputy Pearse Doherty: That is not true. The HSE makes it clear it is a demand-led service and to blame having more nurses or doctors for overspending is wrong. What was done was that health was underfunded.

Chairman: I am sorry Deputy-----

Deputy Pearse Doherty: That is why we have a crisis in the health services-----

Deputy Paschal Donohoe: I am sorry. Regardless of the Deputy's point of view-----

Deputy Pearse Doherty: It is not my view, it is the HSE's.

Deputy Paschal Donohoe: -----what I stated is a fact. Up to April this year, an additional 350 to 400 people have been working in our health service every month. I did not blame anybody for that. I certainly did not blame the people doing the work. I just made that point.

Deputy Pearse Doherty: The Minister is making the point that is the cause of the overrun-----

Chairman: I call Deputy Broughan.

Deputy Pearse Doherty: -----and if he is suggesting that was not budgeted for then he can provide the details to this committee.

Chairman: I have been very fair to Deputy Doherty and to all of the Deputies. I will give Deputies equal time and allow the Minister's response. There will be extra time, depending on how much other Deputies use up, and Deputy Doherty will have the opportunity to come back in.

Deputy Thomas P. Broughan: I welcome the Minister and his colleagues from the Department. The Minister has changed some of the words this year, but he is giving us the same old tune, particularly regarding tax expenditures. Is it still the Minister's intention to cut income tax significantly? A figure of €266 million was thrown around at one stage. Do I detect tension between the Minister and the Taoiseach in that area? Given his ideological positioning of the Minister's party, it seems the Taoiseach would like to see a major tax giveaway and the Minister and his Department are trying to hold the line against this.

To broaden that out, as reflected in the discussion with Deputy Doherty, it seems to be a no-change scenario. For example, the Minister talked about stable and predictable tax revenue, expanding the tax base and so on, but there is no evidence of any thought about that. We have large tax expenditures in the area of research and development and so on. Will the Minister quantify our current tax expenditure? What is the total tax expenditure and what kind of redistribution of that expenditure is possible? Could the Minister ease our budgetary pressure by allocating it somewhere else?

When I was questioning him about crime this morning I intended to ask the Taoiseach about the profile of the Department of Justice and Equality, which has had a supplementary budget every year since 2004. Is that the case? Will there be a supplementary budget for the Department of Justice and Equality as well as for the Department of Health? Is there some way for the Minister's Department to produce budgets that do not keep needing supplements later on?

Deputy Paschal Donohoe: The first of the Deputy's four or five different questions was whether I am planning significant tax reductions in the next budget. The answer to that question is that I am not. I have stated, including in the Dáil this morning, that any changes I make to tax levels will be gradual and affordable. I believe the era-----

Deputy Thomas P. Broughan: The Minister just does not have the money

Deputy Paschal Donohoe: The Deputy has asked me five questions and I will answer all five.

Deputy Thomas P. Broughan: Why is the Minister borrowing to do this?

Chairman: The Deputy must let the Minister reply.

Deputy Paschal Donohoe: I believe that taking the approach of very large tax reductions in any particular budget is not the right way to go. The Taoiseach shares that view. I do not have a figure on tax expenditures available to me now, but I will get it for the Deputy during the committee meeting. Could I reallocate that tax expenditure to additional expenditure or additional investment? My answer to that question is that I do not think there is a massive opportunity to do so. My experience of tax expenditure to date has been that it is either delivering something

in our economy that we want to deliver or it has become an integral part of how people calculate their take-home pay and disposable income at the end of a week or month.

On the question of supplementary budget for the Department of Justice and Equality, I cannot give any indication at the moment except that I am planning one. I am working on that with the Department of Justice and Equality at the moment. An Garda Síochána has a budget of between €1.5 billion and €1.6 billion this year.

Deputy Thomas P. Broughan: I think the actual Garda budget is €1.65 billion.

Why would the Minister borrow to finance cuts in taxation? This again seems to be an incredible ideological position. Sometimes listening to the type of words that are used, “prudence” and so on, one could be listening to the Minister’s predecessors back in the 1920s or 100 years ago. They took a very narrow view of the new independent State’s finances. It is ultra-cautious. There sometimes seems to be a tension between the Minister and the Department of the Taoiseach in that regard.

We have had many submissions from all kinds of interest groups. For example, we have had submissions from IBEC on entrepreneurial tax relief and so on. How does the Department evaluate those? Does the Minister foresee any significant tax giveaways in response to them? The Minister has received the same submissions from the property sector and other sectors. Most of us on the committee believe these are not worthy of consideration. We need to run a tighter ship, but we need to be able to raise more revenue and address the great needs of our society.

Deputy Paschal Donohoe: I have four points in response to what the Deputy said. First, I am interested in his use of the word “ideology”.

Deputy Thomas P. Broughan: Yes.

Deputy Paschal Donohoe: When he talks about me having an ideology, it appears to be a bad thing. When he talks about his own ideology, it appears to be a set of beliefs. I also have beliefs regarding what we should do in regard to political choice and policies.

Deputy Thomas P. Broughan: To coin a phrase, I think my ideology is for the many, not the few.

Deputy Paschal Donohoe: I have already mentioned the very close working relationship I have with the Department of the Taoiseach in regard to choices. In response to the Deputy’s third question and his somewhat odd attempt to attribute some kind of Herbert Hoover mentality to me, I point out that this year I have increased capital expenditure by €800 million. A further €1.5 billion is planned for next year. That is a 25% increase in capital expenditure for next year, which is as far from Hoover economics as one can possibly get.

As to the Deputy’s final question about how we analyse submissions to the Department, there are two different ways in which that is done. It is done on the advice of my officials at the end of August and into September as we frame tax choices. It is also done through the tax strategy group, TSG, papers that we publish, which will come out at the end of the month. In those papers, of which there are a number, we go through nearly all of the different options that different groups raise with us. We cost them and my Department gives some top-line views on them. Those TSG papers frequently end up being the source of budgetary submissions the following year.

Deputy Thomas P. Broughan: The Minister was looking-----

Chairman: To be fair, we must move on.

Deputy Thomas P. Broughan: I was just about to recommend a book to the Minister, one written by an economist.

Deputy Paschal Donohoe: What would that be?

Deputy Thomas P. Broughan: It is *The Entrepreneurial State* by Mariana Mazzucato.

Deputy Paschal Donohoe: I have already read it. Has Deputy Broughan read the one that came after it, *Theory of Value: An Axiomatic Analysis of Economic Equilibrium*? It is very good.

Deputy Thomas P. Broughan: I have read it.

Chairman: I thank the Minister and the Deputy for the book club advice, but I must move on to Deputy Lahart. I hope he does not have any more books for us.

Deputy John Lahart: One never knows. I welcome the Minister and his officials and thank them for their service to the State and for attending when requested. It is very much appreciated by committee members. Can we be reminded of IBEC's submission to the Committee on Budgetary Oversight concerning €800 million? I am not being antagonistic, but the Minister asked what expert groups had recommended. While it was not necessarily borrowing, IBEC recommended that €800 million of the money the Government has indicated it will not spend should be invested in higher education. It actually suggested-----

Chairman: I am told that IBEC recommended investment of €800 million in the university sector instead of the rainy day fund.

Deputy John Lahart: I stand corrected. I thank the Chair. That question is then null and void.

As the Minister will be aware, the committee does not take a view on the issue of equalisation between diesel and petrol. We heard recently from representatives of the Irish Road Haulage Association and the Minister will have received representations from the association as well. It was a very interesting discussion. There is not yet an alternative to the pulling power of diesel for industry and farming. Some of the evidence given by Professor Edgar Morgenroth on the 2008 changes and the reduction in car tax gave the impression that these were successful in that they led to a switch to diesel cars, as intended. Yes, it was successful in that there was a switch to diesel cars, which was the intention, but the saving which was abiding by the science at the time, that if one switched to diesel it was more environmentally friendly, according to the science available in 2008, was off set by the fact that people bought bigger diesel engines because the tax was cheaper. Many people, up to this year, have opted for diesel engines thinking they were doing the right thing, but science now tells them they were not doing the right thing. Any change must be sensitive to purchases that consumers make.

The scientific evidence at the time suggested switching to diesel was environmentally friendly. However, the environmental benefit was offset by the decision of many people who bought diesel vehicles to opt for bigger engines because the tax was cheaper. Many people opted for diesel engines thinking they were doing the right thing, but science now tells us they were not doing the right thing. Any change must be sensitive to purchases consumers make.

Professor Morgenroth referred to 300,000 Volkswagen vehicles parked in a desert in the United States. They were returned or were unsold because Volkswagen lied to people about the emissions standards. We learned yesterday that Nissan has done exactly the same. We have devised policy around automotive science which has been lying to us, and we did it in the best interests of the environment. This leads to a question for the Minister for Finance and the Minister for the Environment, Community and Local Government. Members of the public have followed this debate and have adapted to it by adopting measures in the belief that this is in the interests of reducing their carbon footprint. There is a move towards equalisation because it is an environmentally good thing to do. What does the Minister say to those who bought a diesel vehicle in 2017 or 2018 given that the value of their cars will potentially decrease? How can that be addressed?

Another question, which is aligned to the same point, came up in the context of electric vehicles. Given the impressive range of incentives to switch to electric cars, has research been done to show why there has not been a significant take-up of these vehicles? Without giving them away for free, what additional measures could be implemented to encourage people to buy electric vehicles?

The European Commission described the Government's proposals for a rainy day fund as vague. While they are obviously still under development, will the Minister share his thoughts about how his proposals will develop?

Deputy Paschal Donohoe: On the Deputy's broad point, what is now apparent to all of us is that the purchase of certain kinds of vehicles and tax policy for these vehicles were based on deceit. Expectations of the performance of vehicles were created which turned out not to be the case. This is a serious problem for the environment and for governments across Europe in terms of how we will respond to it, not to mention for the families and citizens who have these cars. I have not made any decisions on taxation in response, particularly on something as sensitive as how we equalise diesel and petrol or change taxation on diesel. No decisions have been made but any decision in that space can only be implemented gradually. Many citizens bought diesel cars on the basis of expectations that we now know were not true. I can only assume there has been some form of impact on the price of diesel vehicles given everything we know now.

In regard to the take-up of electric cars, a large suite of different options and supports is available. In the most recent budget we made further changes to encourage greater supply and purchase of these vehicles. One thing that will make a difference is that as the travel capacity of these vehicles begins to increase, more and more citizens and families will want to own them. That is now happening because technological developments mean they are now capable of travelling further.

The European Commission's views on the rainy day fund were offered before we published legislation on how the fund will operate. I hope, now that we have published the legislation, that the Commission's concerns about the perceived vagueness of how it will work have been addressed.

Deputy Jonathan O'Brien: Now that the rainy day fund legislation has been published, will the Minister explain why he is confident that any decision to withdraw funding from the fund, if and when it is needed, will not breach the fiscal rules?

Deputy Paschal Donohoe: The Commission has indicated that ideas such as rainy day

funds are part of what it sees as the future budgetary resilience framework for economies, especially in the eurozone. I am confident that anything that will build up the economy will be assessed as being inside the fiscal rules.

Deputy Jonathan O'Brien: Is the Minister's confidence based on an explicit guarantee given by the Commission?

Deputy Paschal Donohoe: The Commission has not yet given an explicit guarantee. I would not be this far down the road unless I was confident that this will not create any foreseen risks in regard to the fiscal rules.

Deputy Jonathan O'Brien: The Minister referred to capacity and investment in capital expenditure, noting the Government's proposal to increase capital expenditure by 25% next year to approximately €7.2 billion. There is a balance to be struck when increasing expenditure. Are there any concerns about capacity and meeting the needs to implement that policy? Has the Minister had any discussions with the Construction Industry Federation, CIF, about capacity issues? Much has been said about overheating the economy. Will the Minister outline some of the ways that can be prevented, for example, by broadening the tax base or investing in capital infrastructure?

Deputy Paschal Donohoe: I have had engagement with the CIF and other representative bodies on this matter, but I have always met them with other organisations like the Irish Congress of Trade Unions. Much of the engagement we had in the past couple of years involved these organisations calling for increases in capital expenditure to be placed in a planning framework. I believe the CIF now accepts we have planned significant increases in capital expenditure, and our engagement now is largely about how we can make that happen and ensure Project Ireland 2040 takes place.

On capacity constraints, the CIF tells me it is difficult to get the people needed to do big projects. However, it also tells me that what I need to put in place to attract more people to the economy is a longer-term framework for capital expenditure that will allow companies and potential employees to have greater confidence about increased or steady capital expenditure for the years to come. I have done that.

I can take a number of different steps to address capacity constraints and the possibility of the economy overheating. These include looking at the way we manage the wages of people who work for the State, reviewing procurement and the price we set for projects and increasing capital expenditure at a pace the economy can absorb. We have made judgment calls and tried to do the right thing on all these issues. In an economy as open as this, however, it is fair to say that there are responsibilities on others, in particular employers and employee representatives, to ensure that the rates of wage growth delivered inside companies and sectors of the economy are genuinely affordable. That has been the case in many areas this year and last year, but the rates can quickly get out of hand and we need to be careful.

Deputy Jonathan O'Brien: What about broadening the tax base?

Deputy Paschal Donohoe: As the Deputy will be aware, there are two ways to do that. Either we tax new areas or, if it is justified by where the economy stands and we need the revenue to do something in our country, we increase taxation on areas where there are currently very low levels of taxation. In last year's Finance Bill, we introduced a sugar tax, which commenced at the end of April, and we increased stamp duty on commercial property. The tax strategy group,

TSG, papers that will be published at the end of the month will lay out many options for broadening the tax base. I have made decisions on none of them.

Chairman: If Deputy O'Brien is satisfied, I will call Deputy Bailey.

Deputy Maria Bailey: I thank the Minister and his officials for attending. I will ask a couple of quick-fire questions and then a longer one at the end.

In light of current developments with Brexit, how are we planning to safeguard our economy next year and beyond? Would spending more on our health service have a greater impact on outcomes, bearing in mind that our spending is the third highest in the OECD? More focus probably needs to be put on terms and conditions and career paths to recruit and retain staff than on throwing more money at the system.

Interestingly, people always ask why we are not building or spending more, but they never have to say how that policy could physically be delivered. It is easy to throw out a one-liner when one does not have to come up with the implementation process required. The current drought has caused a loss of income to the water sector that was previously going towards servicing sites that were needed for housing. Everything has a knock-on effect. Someone might have a one-liner about getting rid of water charges, but the unintended consequence would be a lack of funding for the area. We are spending €8 billion on Irish Water, but that is just for bringing Irish Water to the point of functioning. The amount Irish Water requires is twice that. These factors are never considered when people throw out one-liners.

We have spent nearly €750 million delivering housing this year, with far more spending needed. However, emphasis is never placed on the question of how to deliver that. It is up to the Government to devise an implementation strategy. It is easy to tell people to spend more and build more without having to say how that can be done. I understand how difficult it is and what the restrictions and complexities involved are. It is great to say that we are spending too much on HAP and RAS - we all accept that - but no one ever explains what can be used in the interim before houses are up and running for individuals and families. I accept that this expenditure on our rental sector is needed while we are getting supply up and running, as I understand the complexities involved. I want sustainability in the construction sector, not populist remarks.

Deputy Paschal Donohoe: As to whether I believe that spending more on health is consistent with not getting better outcomes, the fact is that the State will need to spend more on the health service in 2019 because of the impact of demographics and the decisions that I anticipate the Government will make on the funding of Sláintecare. We will also have to spend more to deal with issues like new drugs. The narrative surrounding the reason for the difficulties in our health service is that the service is significantly underfunded. That is not true, though, given that €60 billion is being invested in public services. In the second half of the year, it is imperative that the work being undertaken by the Minister for Health in respect of governance, how the HSE will be run and how Sláintecare will be rolled out is seen through. We have to make that happen in a way that has not happened in the past. Otherwise, increased levels of expenditure will not deliver the better outcomes that I want.

All I will say about water charges is that, in all of the public and political debate, I made the point that, if we did not have water charges and a separate income stream to support water services, they would be paid for through general taxation. That was acknowledged by those in favour in the abolition of the charges. It is now just a fact that investment in water infrastructure competes with other forms of infrastructure for investment.

Regarding the Deputy's third point on how to translate the calls for more investment in housing into the delivery of more homes, the decisions that have been made on planning guidelines and bringing greater certainty and speed to the planning process have been important. They are not as important as an increase in capital expenditure on housing - clearly, we must do that - but they have had a significant effect. That planning permission was granted for more than 8,000 homes in the first quarter of this year is a positive sign, but I will say no more now. The Deputy will be as aware as I am of the anxiety and stress over housing currently. We are also aware of the risks involved in intervening in the market.

Deputy Maria Bailey: I also asked about Brexit.

Deputy Paschal Donohoe: As to how we can safeguard our economy in the context of a change that still has to happen, there are two crucial elements on which the Government is doing its best. First, Brexit will happen next year; as matters stand, the UK will leave the EU. Things could then happen that have not been forecasted. It will be the first time an event like this has occurred. It is possible that the global economic environment within which we trade could shift because of that. As such, that period of uncertainty is the right time for us to increase investment in our economy. I am aiming for higher spending levels in areas that we can influence at home to take place at the same time as the external environment is dealing with new levels of risk.

Second, we must try to have national finances that are sustainable, with a low level of borrowing and visible progress on certain matters, for example, a rainy day fund. That some colleagues disagree with me on this is fine, but I will put a thought experiment to the committee. If Brexit had happened three years ago when we had a greater deficit and much higher unemployment, it would have happened at a more difficult time for our economy.

Deputy Maria Bailey: I thank the Minister.

Deputy Eamon Ryan: Without trading the books metaphor, I will use Ms Kate Raworth's *Doughnut Economics: Seven Ways to Think Like a 21st-Century Economist* to raise two points. It is looking at economics in a new way whereby we have to live in a safe space that is both socially sustainable, on one side of the doughnut, and environmentally sustainable, and creating that safe space in which to live. It is a good book and well worth reading. It questions how economics is taught. Economics as taught is all about profit maximisation, growth and material measures of progress, and that is the first thing that must change. I arrived late to the meeting because we were setting up a climate advisory committee next door. That is going to do interesting work, including inviting the Department's Secretary General to appear before it in the autumn, to consider our new national energy and climate action plan. We must have a first draft of the plan for the European Union by the end of this year and finalise and sign off on it next year. From my knowledge of what is happening in Brussels that will be the primary plan and we will have to vary our national mitigation plan to ensure it works.

At a meeting of the Oireachtas Committee on Communications, Climate Action and Environment yesterday we heard the latest analysis from civil servants. Not only are we going to miss our 2020 targets by a country mile, we will be 50 million tonnes short in 2030. It is clear from the analysis that has been presented by the European Commission and experts such as Marie Donnelly, a civil servant in the Commission, that we are facing €500 million a year in fines. We are giving out €500 million in the fund announced by the Minister for Communications, Climate Action and Environment, yesterday, but that is the amount in annual fines we will face in the not too distant future because of this issue. In addition, everybody I spoke to

with an expertise in this area at the national economic dialogue admitted that while the national planning framework got it right in terms of having to bring development back to the core, going low carbon and strengthening local government involvement in decision-making, the national development plan threw all that away and reverts to the same old model. With 63 motorway and national roads projects, the national development plan is sprawl as we go. Everything must change. It is neither environmentally nor socially sustainable. The commuting times and congestion we are about to experience will cripple our economy. That and housing are the two big constraints and they are connected.

How can the Minister set out a budget when he knows that the national development plan on which it is based is no longer fit for purpose and must change? It is a serious economic issue because if we do not do that not only will we be seen, as we are, in international leagues as one of the worst countries on climate it will also have a material effect on the budget. The Commission is not going to go easy on us on this because we have no capital left. We have used up all our political capital in trying to get a soft deal and the European Union and others are saying that Ireland can no longer do that. We are going to get hit by those fines. How do we change our national development plan and the capital plans to start making the changes we have to make to move towards the low carbon economy, which will be a better economy in a range of ways?

I wish to make another point.

Chairman: The Deputy has just under a minute. I wish to be fair to everybody.

Deputy Eamon Ryan: On the other side of the social equation, we are about to get rid of the care for people working in the home in a referendum. I have asked the Ministers for Children and Youth Affairs and Employment Affairs and Social Protection what plans there are to recognise that some people who are not in the paid economy are doing work that matters and is important and valued. We are close to full employment now and we should not create a society such as that described by Senator Elizabeth Warren as the dual income trap, where it is all about the paid economy, those who are not in the paid economy do not count and those who stay at home do not matter. Is there any sign that the budget might stand up for that important community? It could be a range of caring work and should not be sexist oriented. Are there any plans to recognise that carers matter in the budget?

Deputy Paschal Donohoe: Broadly, as I said earlier, economic growth is a vital prerequisite to what we need to do in our communities and society, and I am careful not to see economic growth or profit maximisation as an end in itself. We must grow our economy to create resources to do good things in our society and to create jobs. That is my approach to the role of economic growth.

With regard to climate change and potential sanctions or fines in the future, one of the reasons I am introducing a five-year budgetary framework as opposed to what we did in the past, which was to look ahead for a couple of years, is to create greater clarity regarding issues and risks we will face in the future. The response from the Commission to our position on environmental change could well be one of them. I will certainly examine that. More broadly, I have accepted the vast majority of ideas or proposals that have come to me from the Department of Communications, Climate Action and Environment that I could afford in a given year. The climate change element of Project Ireland 2040 and the capital expenditure associated with it point to big increases in capital expenditure to deal with challenges related to climate change and the agenda laid out by the Minister.

Deputy Eamon Ryan: Some 50 million tonnes out is the projection.

Deputy Paschal Donohoe: I have tried to respond to what he has asked me to do. I am aware of the challenges we face. Like the Deputy, I know the figures. I have moved as quickly as I can to try to accede to the requests that have been put to me.

On the question of what we are doing to support carers, from a social welfare point of view there are a significant number of programmes in place to support citizens who give care in their homes. The carer's allowance and additional benefits are in place. It is not a question of what more we will do; we have programmes in place to do that.

Deputy Eamon Ryan: Can I ask a brief supplementary question?

Chairman: No. I warned the Deputy about the time and I was rigid with everybody before he arrived. Hopefully, there will be a few minutes later. Deputy Breathnach has been here for almost an hour and a half and I have to be fair to him and let him speak.

Deputy Declan Breathnach: I will start by thanking the members for the holiday reading. I certainly will not have time to do all that reading. I thank the Minister and his officials for attending and being so forthright. I will begin with the issue of revenue leakage from our economy. Have we a method of calculating that? I refer to it because I come from a Border county where there is major fraud, illicit trade, leakage from the Exchequer and pressure on the retail sector as a result. There is also online trading, where no rates are being paid and there are no overheads. People are able to get .ie domain names relatively easily and purport to be trading in the economy when they are not. Is there a calculation of those figures? I am aware there was a Grant Thornton report on that a number of years ago, but have the Revenue Commissioners a method of calculating it?

With regard to the labour force, one of my concerns is the issue of full employment. Today a businessman contacted me about bringing 20 labourers from England onto a building site. He was having difficulty securing accommodation and temporary PPS numbers for them. To what extent are we planning for that? Clearly if there is going to be immigration as a result of creating jobs in this country we have to fast-track them.

Finally, there is the issue of demographics. We know from the CSO that our population will grow. The projected increase is in excess of 60% for the cohort aged over 65 years. To what degree is the Department planning for that ageing population and ensuring they have the services they require?

I will conclude on the housing issue. It is great to see the economy growing in various sectors. For example, there have been major factory announcements in my region. However, how will people find a place to live? What planning are we doing for that regional development? There were three announcements of new factories for Dundalk, and I am sorry to be parochial about this. This was massive news, as massive employment will come to the area but no housing. What planning are we doing to ensure we do not end up on a slippery slope on which people will say they can create opportunities in Ireland but cannot create places to live for those who would be critical to those factories?

Deputy Paschal Donohoe: I thank the Deputy and will deal with the various points he has raised. I do not have available to me from the Revenue Commissioners an estimate of the amount of tax revenue that is leaking out of our country. One has not been shared with me over the past year. The only point on which I would caution is there might be different things at play

here. The loss of tax revenue due to illegal purchase of goods and bringing goods illegally into our jurisdiction is tax that is foregone. I perceive tax lost due to Internet and online shopping as being very different, in that we do accrue some tax back in that regard and it is a legitimate legal activity.

On the Deputy's second question about capacity constraints and how we are trying to plan for it, one reason we are implementing Ireland 2040 is to try to have a better plan as to how we build homes and where. In particular, the plan announced by the Minister, Deputy Eoghan Murphy, earlier in the week of putting together a fund to encourage higher density development in our five largest cities is an important way of ensuring more homes are being made available as we either keep the jobs we have or create more jobs.

Our approach to dealing with demographics is that the expenditure plans we publish contain how much we set aside to deal with the impact of demographics in any given year. That is then broken down by Department. We already know what additional expenditure we will be making available, for example, to the Department of Health, to cope with the effect of demographics next year. In the latter part of the final chapter of the summer economic statement, for example, the Deputy will find a considerable amount of text on the impact of demographics in social protection and the State pension. We also lay out there some of the figures we believe we will need to deliver across the coming period to deal with the effect of aging on our society.

Chairman: We have concluded the first round for every Deputy and everybody has had a chance to contribute. I now intend to allow a few supplementals. As we agreed that we would conclude this session at 7 p.m., we have four or five minutes and then we will allow for a concluding remark. I have Deputy Pearse Doherty first and then I will come to Deputy Boyd Barrett.

I also ask the Minister to please keep his replies short.

Deputy Pearse Doherty: When are we likely to see the report on the potential taxiing of the financial institutions which was committed to in last year's Finance Act? I understood that it was to be published by now. My first question then is when will it be published?.

Deputy Paschal Donohoe: The end of July.

Deputy Pearse Doherty: On the issue of the health service and on looking back on the figures from the HSE, on a point of information, staffing costs were less than one third of non-pay costs in relation to the overrun. While we have been talking in generalities here, in the case of my local hospital, Letterkenny University Hospital, the number of people waiting over 18 months has increased by 17% since the start of the year. Every single day last year, an average of 19 people lay on hospital trolleys. Within metres of them lying on those trolleys is a 19-bed ward lying empty, which the management of the hospital want opened. It will cost €1.8 million in staffing costs to open that ward. The ward is available and it used to be open. It was closed under the Government's watch, and it is continually refusing to open it, indirectly, by not funding the HSE appropriately. The Minister can say that we do not need any additional money to deal with some areas of the health service. The reason people will lie on trolleys is that people like the Minister decide not to fund the health service adequately. Consequently, the HSE cannot make the €1.8 million available to enable management to recruit the staff necessary to open that ward. The management has stated it will not have a challenge in meeting those recruitment requirements. This is replicated right across the system. Does the Minister accept that he is in a privileged position, albeit one in which he has to make decisions? As we heard from Deputy

Broughan, the Minister is borrowing €350 million to-----

Chairman: Two other Deputies are indicating. I want to let the Minister reply and then let the two other Deputies in.

Deputy Paschal Donohoe: I accept I am in a privileged position in terms of the office I hold. I am constantly aware of the solemn responsibility I have in discharging it. As to what I said about health, I never said that health did not need more money. While answering the questions Deputy Bailey put to me, I acknowledged the Department of Health will need more money next year, and I outlined some of the reasons. More than €15 billion in funding is going into the HSE and the Department at present. It is the highest level of funding they have received. By metrics provided by the OECD, it is one of the higher levels in the world *per capita*. Within that, I hope and expect that choices can be made to deal with the kind of issues to which the Deputy is referring. The Mater Hospital is in my constituency, Connolly hospital is down the road from me and Beaumont hospital is near my constituency. I am keenly aware of the kind of pressures and issues with which they deal and the worries citizens face if they feel they cannot get into their health service. I try to respond to that by making as much funding available to the health service as I reasonably can, inside the constraints of other choices.

Deputy Pearse Doherty: No, the Minister does not, he deliberately chooses other areas, that is the reality.

Chairman: Sorry, the Deputy is not responding. I am going to be fair to other Deputies, even if the Deputy does not want to be. There are two and a half minutes left and Deputies Boyd Barrett and Breathnach both indicated they would like to come back in. I call Deputy Boyd Barrett now.

Deputy Richard Boyd Barrett: I thank the Chair. I will continue on the housing vein. Given we all accept there may be capacity problems in ramping up the construction sector, what measures does the Minister intend to take to ensure no housing is built that is surplus to requirements and that the housing that is built is the housing we need, that is, is affordable housing? I know of a number of estates that are being built by the private sector in which the price range starts at €650,000 and goes up to €1 million. Is that not a waste of building capacity? The building that we need is public and affordable housing, namely, housing that is built either for the public sector directly or is affordable. Does the Minister intend to address that problem? Does the Minister think it is very foolish to be giving tax breaks, supports and incentives to builders who may build housing like that, when we need housing that is public and affordable?

On the subject of housing assistance payments and the rental accommodation scheme, to clarify for Deputy Bailey and for the Minister my question is far from being a one-liner. The Rebuilding Ireland plan, if it succeeds in its own terms, envisages 87,000 of the 133,000 housing units being annual expenditures, with only 50,000 being capital housing stock. That, to me, is a bad plan. It is not just about this year, it is a bad plan.

Deputy Paschal Donohoe: I do not anticipate any housing being built soon that is surplus to requirements given the current level of demand.

Second, on my views on the building-----

Deputy Richard Boyd Barrett: Sorry, I did not hear the Minister's answer. Could he repeat it, please?

Deputy Paschal Donohoe: I do not believe any homes will be built in the near term that will be surplus to requirements.

Deputy Richard Boyd Barrett: Even if they cost €800,000.

Deputy Paschal Donohoe: I believe any homes that are built will be purchased but that opens up another question regarding mix and the delivery of homes, to which I will now turn.

I want to see a better mix of homes being delivered. I am working with the Minister for Housing, Planning and Local Government, Deputy Eoghan Murphy, on a further contribution the State can make in that regard. We cannot end up in a situation where all 8,000 planning permissions granted in quarter one will be for houses at the higher end of the price range because that will not meet the needs of the economy and our society.

Deputy Richard Boyd Barrett: That is a fair point.

Deputy Paschal Donohoe: We need to look at what further interventions the State can make in this area, which is what I am doing. I have no plans to put in place additional tax reliefs for the construction sector which would lead to outcomes I could then not control. I will not be doing so.

On the mix of expenditure, we are ramping up expenditure on social housing at a quick pace. I know that the Deputy would like more, but one in every four or five new houses built will be a social house. We are doing all we can to increase the stock of social housing, while at the same time accommodating people in need of social housing through the housing assistance payment and others. I supported the Minister, Deputy Eoghan Murphy, in saying we should move from leasing homes for social housing and competing with people who want to buy them to direct build. That is what we are looking to do.

Chairman: I thank the Minister.

Deputy Declan Breathnach: What is the level of communication and dialogue between the Minister's officials and the UK revenue authorities on taxation decisions? For example, when the sugar tax was introduced last year, there was synchronisation to ensure it would have no detrimental effect. Is there dialogue on a regular basis in the run-up to budgetary decisions, in particular on taxation, to ensure there will be balance North and South and the implications in the context of Brexit?

Deputy Paschal Donohoe: It does not happen in the run-up to budgetary decisions, but it does happen on budgetary policy. For example, in the aftermath of the budget I said I would not implement the sugar tax if we were disadvantaged. We had a lot of contact with the authorities in Northern Ireland to ensure that in introducing the tax, we would not disadvantage Irish businesses and consumers. On whether there is a lot of contact between the Department of Finance and the UK revenue authorities, there is significant contact, particularly on illegal trade and counterfeit goods. I recently attended an event at which a significant cigarette factory was shut down. It was a gigantic operation involving UK and Irish police forces and the revenue authorities.

Deputy Maria Bailey: On the provision of housing at market value, I would welcome an expansion of the help-to-buy scheme because it has helped to ensure the construction of houses in Dublin, Cork and Galway within the bracket of first-time buyers. I recognise that one year ago we could not have considered this because the priority had to be the provision of housing

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for vulnerable persons. I welcome the cost rental and affordable purchase proposals which have been issued to local authorities to entice them to come up with more ambitious plans. We are moving in the right direction in that regard and also in the licensing agreements and public private partnerships. I recognise that the aim is that, by 2021, we will have more people in permanent social housing than under the HAP scheme or the RAS. All of the indicators suggest we are moving in the right direction, albeit it has taken time. As I said, I would welcome an expansion of the help-to-buy scheme.

Deputy Paschal Donohoe: I will not be before the committee again this term. In saying that I hope I will not regret it tomorrow. I thank all members of the committee for their huge input into its work. While we do differ vigorously at times, I have never doubt the input of members and take the opportunity to acknowledge it. They might remember these words if the committee considers bringing me before it again tomorrow, which it could do. I thank them for their co-operation throughout the year.

On Deputy Maria Bailey's point about the help-to-buy scheme, we will be dealing with all of these matters after the summer recess.

Chairman: I thank the Minister for his kind words.

The select committee adjourned at 7.05 p.m. until 2 p.m. on Wednesday, 12 September 2018.