DÁIL ÉIREANN

AN COISTE UM FHORMHAOIRSIÚ BUISÉID

COMMITTEE ON BUDGETARY OVERSIGHT

Dé Máirt, 11 Meitheamh 2019

Tuesday, 11 June 2019

The Select Committee met at 1.30 p.m.

Comhaltaí a bhí i láthair/Members present:

Maria Bailey,	
Richard Boyd Barrett,	
Declan Breathnach,	
Thomas P. Broughan,	
Peter Burke,*	
Joan Burton,	
Lisa Chambers,	
Barry Cowen,	
Pearse Doherty,	
John Lahart,	
Michael McGrath,	
Eamon Ryan	

* In éagmais/In the absence of Deputy Martin Heydon.

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

The select committee met in private session until 1.45 p.m.

Fiscal Assessment Report: Irish Fiscal Advisory Council

Chairman: I remind members and witnesses to turn off their mobile phones as they may interfere with the quality of the sound transmission of the meeting. I welcome Mr. Seamus Coffey, chairperson of the Irish Fiscal Advisory Council, IFAC, and thank him for attending today's session. He is accompanied by council members, Mr. Sebastian Barnes, Mr. Michael Tutty and Professor Michael McMahon. Mr. Eddie Casey is also present. A number of Mr. Coffey's colleagues are seated behind him. They are Mr. Niall Conroy, Mr. Killian Carroll and Ms Friederike Vogler. We thank all the witnesses for their presence. Twice a year we have an opportunity as part of the EU semester to meet IFAC to consider issues raised in the fiscal assessment report. The report was published this morning and it raises a number of issues directly relating to our committee's work in terms of our budgetary scrutiny role. We look forward to hearing what Mr. Coffey has to say.

Before we commence, in accordance with procedure I am required to draw the attention of attendees to the fact that by virtue of section 17(2)(*l*) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to the committee. However, if they are directed by it to cease giving evidence on a particular matter and continue to so do, 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 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. With that piece of housekeeping out of the way, I now invite Mr. Coffey to make his opening statement.

Mr. Seamus Coffey: I thank the Chair and members of the committee for inviting us to meet them and for the opportunity to discuss our latest fiscal assessment report. As the Chairman outlined, joining me today are council members, Mr Sebastian Barnes, Mr. Michael Tutty and Professor Michael McMahon, the latter being our newest council member. I wish to put on the record of the committee our recognition of the positive contribution made by Dr. Íde Kearney during her four years as a member of the Irish Fiscal Advisory Council. Also joining me are Mr. Eddie Casey, chief economist and head of the secretariat, as well as members of the council's secretariat, Mr. Niall Conroy, Ms Friederike Vogler and Mr. Killian Carroll. We continue to value these engagements.

The council's latest report, published today, covers all aspects of our mandate, as set out in the Fiscal Responsibility Acts 2012 and 2013. It is important to note that the council's mandate does not cover commenting on the choice of individual tax measures or spending items or priorities, but rather to comment on the overall fiscal stance.

The domestic economy has shown continuing strong growth since about 2013. It has recovered from a deep crisis and is now operating near capacity. That is most visible in the labour market with the unemployment rate falling to about 4.5%. The percentage of the population employed in prime age groups, those aged between 25 and 54, was above its pre-crisis peak at the end of last year. Efforts up until 2015 to turn around a large budget deficit were successful.

The Government's debt ratios are on a downward path, creditworthiness has improved and the budget balance appears to be close to a balanced position when the effects of the cycle are accounted for.

However, the outlook for the economy is unusually uncertain. On the one hand, the domestic economy could continue to outperform. It could significantly overheat if housing construction expands at a faster pace than is expected or if migration flows and credit growth rates follow more typical patterns for a mature phase of an expansion in the economy. On the other hand, there are severe downside risks. A disorderly Brexit poses profound risks to the economy and public finances, as do changes to the international tax environment, an escalation of protectionist measures, the onset of a cyclical downturn in major trading partners and adverse financial developments, including those possibly arising from Italy.

Since 2015, there has been little progress to improve Ireland's budget balance, excluding interest costs, and Ireland's net debt ratio remains the fifth highest in the OECD when measured appropriately. Reflecting this, creditworthiness is still vulnerable to rapid changes. Government spending growth has accelerated in recent years and the Government has also allowed a pattern of spending drift to take hold. Annual non-interest spending rose by €2.4 billion in 2017; €5.2 billion in 2018 and budget 2019 sets out plans for a rise of €4.5 billion this year. The pace of spending growth has risen from 4.5% in 2015 to 6.7% in 2018. Spending increases within the year, over and above what was originally budgeted for, have also contributed to a faster than planned pace of expansion. For 2019, there is more evidence of this. In October, the Department estimated that gross voted spending would be approximately €1 billion higher than planned for the year. As it turned out, it was closer to €1.3 billion higher than planned, with additional spending increases occurring in the final months of the year. The overruns are evident even more so in the general data published by the CSO. The council's critical assessment last November, for example, was based on a 2018 general Government expenditure increase that was €500 million lower than shown by the eventual CSO outturn data published in April when one-offs are excluded. On this basis, a within-year spending revision of €1.9 billion is evident for 2018 compared with the stability programme update, SPU, 2018 estimates. The additional €300 million overrun appears to have been driven by anticipated underspends in non-health areas not having materialised - these were factored into the budget day Estimates for 2018 - and higher than estimated social payments, including health service, housing assistance and other social protection schemes.

The council has adopted a new principles-based approach the aim of which is to make the assessment of the fiscal rules simpler and more robust, including using the Department of Finance alternative measures of the cycle. On this basis, the objective of a structural balance of no worse than -0.5% of GDP was achieved in 2018 as the structural balance was estimated to be +0.2% of GDP. However, there was a significant deterioration in the structural balance in 2018 and Government spending breached the limit for the spending rule in 2018. This reinforces the council's view that the net spending increases in recent years have not been conducive to prudent economic and budgetary management. The lack of progress comes against a backdrop of significant favourable factors. The economy has experienced a continued cyclical upswing, meaning lower unemployment related payments and higher tax revenues, while corporation tax has surged. Both of these factors are likely to prove temporary.

The council's report shows that between €3 billion and €6 billion of the €10.4 billion corporate tax receipts received in 2018 could be considered excess. In other words, beyond what would be projected based on the economy's underlying performance and based on historical or international norms. Unlike typical revenue windfalls, these gains could persist for a number of years before reversals could be expected. They also represent a net injection to the economy given that foreign-owned multinational enterprises contribute four fifths of corporation tax receipts. As much of the improvement in Government revenues in recent years may be cyclical or temporary, this suggests that the structural position - looking through these effects - has deteriorated.

The council assesses that the Government should be cautious, reflecting the risks associated with a hard Brexit, the reliance on corporation tax, possibilities of overheating and the rapid rise in spending between 2017 and 2019. For this year, the Government should stick to its existing plans as contained in SPU 2019. This means that no additional within-year increases, including the payment of a Christmas bonus for weekly social welfare recipients, should be introduced without offsetting measures. Further slippages, which imply a looser fiscal stance and contribute to overheating pressures, should be avoided. To stem the increasing reliance on corporation tax receipts, any additional unexpected receipts should be allocated to a prudence account during the year and then to the rainy day fund or elsewhere.

For 2020, the Government should stick to its plans as set out in SPU 2019. This would imply some €2.8 billion of budgetary measures for 2020, including amounts already earmarked for increases in public investment, public sector pay, provision to cater for demographic changes and for assumed tax cuts in 2020. This approach would mean minimal new tax and spending measures on budget day. If further discretionary measures are to be introduced beyond SPU 2019 plans, the Government should introduce additional revenue-raising measures or scale back planned spending increases and tax cuts to preserve overall sustainability. A smaller expansion than the €2.8 billion would also be desirable, again, recognising the severe risks now faced. This could include not using the €600 million that is currently set aside for assumed tax cuts and unallocated spending increases.

The Government's budgetary plans for later years lack credibility. Specifically, the medium-term spending forecasts are based on technical assumptions that appear unrealistic as they do not reflect either likely future policies or the future cost of meeting existing commitments. The projections imply an implausible slowdown in spending growth, which leads to increasing surpluses in later years. For example, gross voted expenditure is assumed, as a technical assumption, to grow at 2.5% per annum over the period 2020-23. The spending growth forecasts for the later years would also be insufficient to cover the council's estimates of the standstill scenario of maintaining current public services levels and income supports, given demographic and price pressures.

The Government needs a credible strategy for the medium term. A better approach to budgetary planning could be built around four key elements. First, the Government's debt ratio target should be revisited. It should be lower to reflect Ireland's volatile growth rates, should be restated as a percentage of modified GNI*, should be clarified as either a ceiling or target and should have clear staging posts. Second, a clear statement of the sustainable growth rate at which net policy spending can grow is needed. This could be informed by the Department's alternative estimates of potential output but any approach should try to correct for the risks of pro-cyclical bias present in such estimates. Third, departmental three-year expenditure ceilings should be reframed around this medium-term growth rate and forecasts should be more realistic. The current ceilings are evidently not working. A better approach would see more realistic spending plans set out in advance and a strengthening of subsequent spending controls and monitoring. Fourth, a budgetary position less reliant on corporation tax receipts should be an overarching principle guiding fiscal policy in coming years. Using a prudence account, as the council suggests, could help to achieve this.

I thank the committee for providing us with the opportunity to attend this meeting. We look forward to taking questions and hearing the views of members.

Chairman: I thank Mr. Coffey for his opening statement. As discussed in private session, we will commence with an initial round in which all Deputies will have five minutes for questions.

Deputy Michael McGrath: I welcome Mr. Coffey and his team and I commend them on a very comprehensive report, which comprises a large amount of data and analysis that will take some time to go through. My compliments to the team for all their work on it.

In the short time available to me, I would like to cover three areas. In regard to corporation tax, the council's conclusion is that between €3 billion and €6 billion of the €10.4 billion of receipts collected in 2018 could be considered excess or outside of the normal economic cycle and the underlying performance of the economy. Is the council of the view that we cannot rely on that revenue reoccurring on an annual basis?

Mr. Seamus Coffey: Our view is that the performance of corporation tax, CT, has been exceptional and we are trying to get some handle on the size of that outperformance. A review of historical norms and the performance of the economy would suggest that a significant share of it is not explained by the historical patterns or the performance of the domestic economy. Given it has risen so quickly, it could fall as dramatically as it has risen in recent years. It should be recognised that these are not forecasts or projections. Rather, they are a modelling approach to identify what excess exists. Our view is that we should not be reliant on receipt of these revenues over the medium term. They could persist for a number of years but it is likely that there will be some reversal at some stage. Public finances that are very much dependent on these potentially temporary receipts should be avoided. We are not predicting a catastrophic collapse in corporation tax but our analysis suggests that we need to weigh up how much of it is an excess. It is significant. For example, in 2014-15, the forecast for corporation tax receipts at this point in time was approximately €5 billion. As it is, those receipts are approximately €10 billion. As such, our estimate of the excess is not very different from the huge out-performance we have seen relative to the forecasts over the past three or four years.

Deputy Michael McGrath: Given that the receipts to date have been banked and commitments made on the back of them, can Mr. Coffey explain the proposal for a prudence account and how it would work going forward? For example, if there is an estimate of corporation tax receipts for 2020, is it only the excess that Mr. Coffey says should be put in a prudence account and the rainy day fund?

Mr. Seamus Coffey: One would be looking at the forecast for 2020 and the profile during the year. If there is out-performance relative to that, the money should be taken out of the Exchequer account. In the last number of years, these excess receipts from out-performance have remained in the Exchequer account and been used, by and large, to mask overruns and additional spending across a range of areas, particularly in health. In overall terms, the Exchequer and budget balance look to be reasonably positive, but an issue is that it has been hugely flattered by these corporation tax receipts. If one were to take those out and set them aside in a prudence account and have them available to use elsewhere, any overruns in health and elsewhere would become much more visible and would require decisions to be made that we have not seen over the last number of years.

Deputy Michael McGrath: How disruptive to public finances and the economy would a disorderly Brexit be? All of the Government's projections in the stability programme update, or SPU, and so on are based on the central case scenario of an orderly Brexit by the end of 2020. Can Mr. Coffey characterise for us the position if that does not transpire? No one can predict what will happen, but what is the council's assessment of the impact on public finances and the economy of a disorderly or crash-out Brexit?

Mr. Seamus Coffey: There is potential for a disorderly or crash-out Brexit, as the Deputy refers to it, to have a very negative impact on the public finances. Our analysis is based on some of the scenarios created by the ESRI and Central Bank on the impact on Irish growth and carrying that through to the impact on the public finances. If there was a dramatic slowing down in the Irish economy, an increase in unemployment-related spending and a drop in tax revenues, the deficit could become significant over a two or three year period and threaten some of the targets and ceilings set out in the Stability and Growth Pact. Equally, we could see our debt ratio, which is currently in a downward projection, change direction. In a very adverse scenario, one could begin to see the debt ratio start to rise again. Some of the benign financial conditions we have seen in recent years could reverse. One thing that has happened over the past number of years is that financial markets have paid very little attention to Ireland. We are small and they simply look at a couple of headline numbers. If one of the headline numbers on which they focused was debt to GDP, they might get a very misleading view of Ireland. If our debt ratios began to start to rise and they were to start to look a bit closer at debt to GNI* not debt to GDP, where the former was heading for 100% and continuing to rise, the benign borrowing conditions of the last number of years could reverse quickly. Not only do we have a large debt to refinance, a hard Brexit could mean a large deficit to finance and the current benign financial conditions would no longer prevail. One of the consequences of recent fiscal policy is that we have not given ourselves sufficient room to absorb the potentially very large shock a hard Brexit could present to the Irish economy and public finances.

Deputy Michael McGrath: On the medium-term fiscal projections, Mr. Coffey says the Government's medium-term plans are not credible. Until recently, we had only three-year projection on the fiscal side. In April's SPU, we got five-year projections. Mr. Coffey makes the point that there is a technical assumption underpinning it that current spending will grow by 2.5%. Considering that we have a national planning framework which runs to 2040, a national development plan which runs to 2027 and a good handle on the demographic changes that are well under way and given the current pressures in the health sector, including home care, caring for the elderly, nursing home care and so on, can Mr. Coffey talk us through how the council reached the conclusion that the plans were not credible? The council's report deals with the fact that the ratio of workers to pensioners will change significantly in the next 20 to 30 years. There will be fewer workers paying into the tax pot to fund pensions. As such, do we need a radical overhaul of how we do medium and, indeed, longer-term fiscal projections and budgeting?

Mr. Michael Tutty: Our main difficulty with the medium-term projections is that they are technical projections rather than policy ones. Current expenditure is being projected to grow by a fixed amount of 2.5% rather than the Government looking at what it expects to do over the next number of years. That 2.5% is very far below what has been happening in recent years and below what the economy can reasonably bear over that time. We have seen over time that projections like that are never followed through but are in fact exceeded substantially in succeeding budgets. We are looking for realistic projections which take account not only of demographic realities and inflation but of policy changes any Government will be likely to introduce. That does not happen, however. In my time in the Department of Finance it never happened either. I am preaching things I was not able to do but the Government has been developing much better three to five-year forecasts in recent years. However, the only time they tend to be realistic is when an actual plan is published, as we saw during the days of the IMF and ECB. Outside that, all that seems to happen is that the Department of Finance says it does not have Government projections and therefore makes an assumption which is always very low.

It would certainly be desirable for the next three to five years to be able to set out exactly what it is planned to do. One does not have to set out every expenditure measure one wants, but one should look at the level of expenditure that is likely to take place and how it will affect the economy and public finances rather than make technical assumptions which show a nice surface developing all the time which is just not going to happen. To make projections in the more medium term is certainly desirable. From a demographic point of view, it is very desirable indeed to make projections even to see what it will cost to maintain existing services. That is not being done on a very sound basis at the moment. One of the biggest difficulties with the Department of Finance's projections is that they assume there will be no pay increases other than the ones which have already been agreed. The Department is reluctant to include anything in a forecast that suggests there might be more pay. In summary, its projections are not realistic at all.

Professor Michael McMahon: Deputy Michael McGrath's question also addressed the longer term, which is very important. I wanted to add two things in that regard. One is that the secretariat is undertaking larger research to think about the impact in particular of pensions, demographics and health spending on longer term projections. Hopefully, we will be in a position to report on that in future sessions. I make two points to emphasise what Mr. Tutty just said. Even though some of these are long-term issues, they are also biting in the medium term. By 2023, for example, the stand-still scenario presents a much less rosy picture for the surplus, largely as a result of these pressures. Of course, the national development plan is built into the stand-still scenario and into the forecast. That is to be encouraged and welcomed. One point of concern mentioned in the report is that overruns of some of those plans will squeeze out other future plans for capital expenditure, which also needs to be thought about.

Chairman: I ask that mobile phones are switched off or switched to airplane mode. I call Deputy Eamon Ryan.

Deputy Eamon Ryan: I thank the Fiscal Advisory Council for this very worrying report. I am long in the tooth here and the witnesses are saying with clarity that we risk making the mistakes of the past. Expenditure is going up by 7% in a year. There is an attitude that we should spend money since it is there. There are possible risks of losing a tax base on the horizon. In the past, it was construction tax revenue. It could now be corporation tax. All of those warnings strike home with clarity. It is funny how things turn. If I recall rightly, approximately a year ago, when we were here for our early autumn meeting, it was not as concerning, by and large. The witnesses changed their stance after the budget when the overrun was €300 million more than the expenditure the Government had projected. The witnesses are now saying that they are even more worried again. That November statement was very stark. They then found another €500 million overrun that we only really discovered when the CSO turned out data. When did those data become available and is this the first statement since the scale of the overrun became apparent?

Mr. Seamus Coffey: This is our first statement since the overrun became evident. The CSO published the data in April. There was evidence of it in the Exchequer figures from early January. This was exacerbated by the CSO, which provided a more detailed and granular breakdown of Government spending on a more consistent basis in April. That was a further €500 million.

Deputy Eamon Ryan: When Mr. Coffey cites some of the areas where there is overrun, he states that higher than estimated payments include housing assistance. Various policy effects come into this, with a substantial increase in housing assistance payment, HAP, and other housing expenditure.

Mr. Seamus Coffey: We are still waiting for some clarity on this. The figures have not been out for long. They will hopefully be reflected in updated figures from the Department of Finance as we progress through the year, especially for 2019. Communication with the CSO has indicated that these are some areas where there is a difference between what the Department of Finance showed in October, towards the end of the year, and what the CSO has published for the full year. These are areas where savings that were expected to materialise did not materialise and spending turned out to be higher than was built into the figures.

Deputy Eamon Ryan: In the witnesses' very good report, in the summary on page 9, they make a point at the end that should two of these adverse shocks materialise simultaneously, with a real fear of a combination of a Brexit cut in demand and an international issue such as corporation tax, trade war or the Italian issue, we could have a reasonably quick turnaround from an economy that is growing at full throttle to one that might have weakening demand. The witnesses say in response that the Government should, in principle, act to support the economy insofar as possible during any period of unusually weak demand. What could that unusually weak demand be? From my perspective, I would be coming with a "Green New Deal" proposal as a major expansion of investment in the decarbonisation programme we have to do, retrofitting buildings, building renewables, building grids and in public infrastructure. A significant investment programme is required for a "Green New Deal". Would that be one band? The New Deal was the original counter-cyclical investment programme from Roosevelt. Would that be a credible tool that we could use if we ended up, although please God we will not, in such adverse circumstances? Would it be a credible economic strategy for the Government to use that to support the economy in those circumstances?

Mr. Seamus Coffey: As an economic strategy, we would be in favour of supporting the economy if there was to be a downturn such as that to which the Deputy referred. The actual process and programmes through which that happens are something we are agnostic on. It is about offering fiscal support to the economy at a time when there is a significant downturn. Our concern is that if that downturn were to be significant and sufficient space is not created now, when the economy is running well, we may face the trade-off that we faced in 2010, 2011 and 2012, when there was clearly a need to support the economy but there was also a need to restore the financial viability of the State. Those worked in opposite directions. Supporting the financial viability of the State at the time made austerity, tax increases and expenditure cuts necessary whereas support for the economy would have involved the opposite, perhaps undertaking some form of investment programme in line with the suggestion that the Deputy made. Our view is that we should avoid that trade-off. If we are to face a situation where there is a significant downturn, we should have resources available and it is then up to elected representatives and the Government to decide how those resources can be used. We want to avoid facing a situation where rather than boosting the economy and offering support, we end up making a cyclical downturn worse, which we have done repeatedly over the past 40 years. We should make the space available to counter the downturn and if the space is available, we should use it.

How those are achieved is a matter for the political process.

Deputy Eamon Ryan: An advantage of the "Green New Deal" is that it may involve substantial private financing and help from the European Investment Bank and others that may give us the necessary vehicles if we are fiscally constrained.

I accept Mr. Coffey's agnosticism on spending priorities. I was impressed that, in one of his previous meetings with us, he said that one of the risks facing the economy is the cost of meeting our climate emissions reductions if we did not make real emissions change. He said that the scale of the risk of that was large and that the impact was also large. The national development plan which was agreed last June had no climate assessment done whatsoever, as we have since discovered. The modelling that the Oireachtas joint committee did of the system to see what it would deliver showed that it would only deliver one third of the emissions reductions that we need. In those circumstances, we are facing a fiscal cost of €200 million for next year already. In the medium term, we could be looking at a cost of €600 million to more than €1 billion each year. Have the witnesses further assessed the risk of that? Have they included it in their mid-term projections, given that our national development plan is completely unfit for purpose and has to change? The financial risks if we do not do that are increasingly clear.

Mr. Seamus Coffey: I think our position has not changed. This has been a significant risk. We have sought not to promote or propose various areas where spending should be prioritised but to try to identify risks within the public finances. Just as we identified corporation tax as being a potential source of risk, when it comes to expenditure we clearly identify climate change and renewable energy targets as clear risks. We placed them second in our matrix of fiscal risks about half-way through the latest fiscal assessment report. It is still there, we have identified it and it clearly poses a risk. We have not done any further work since we were last here but we will not remove it from our risks to the fiscal situation in the medium term. It is clear that it is important.

Deputy Eamon Ryan: I want to conclude on the background analysis that the Joint Committee on Climate Action has done, showing that the risk has grown even larger.

Chairman: Deputy Ryan is over time. Deputies Lisa Chambers, Lahart, Burke, Pearse Doherty, Burton, Breathnach and Cowen are all offering, so that is roughly the order in which I will call them. It is a long session.

Deputy Lisa Chambers: I thank the Chairman and Mr. Coffey. He can see that we will be here for a while yet. We have many questions. I thank the witnesses for the work that they have done. The report makes for sober reading and should serve as a wake-up call about getting back on track and managing the economy prudently. I will address the windfall of corporation tax receipts. Given that 45% of corporation tax receipts come from ten companies, one would think that we would have been able to get under the bonnet a little better at this point to understand why we have this substantial windfall and tax returns coming in. They seem to be broadly unexplained. Nobody seems to know why. The Government has at times suggested that it is because of aviation leasing or intellectual property but I think that is questionable. Does Mr. Coffey have a view on that? Could he outline why we are having these significant windfalls that cannot be anticipated or explained?

Mr. Seamus Coffey: They remain unexplained but we can, perhaps, identify some things to which they are not related. The aircraft leasing and IP onshoring we have seen in recent years are not drivers of the increase in corporation tax that has taken place. Some links have been drawn between the two but while the aircraft leasing sector pays some corporation tax, it is not of the scale that we have seen. The amount of additional corporation tax linked to the onshoring of IP in recent years is close to zero. There may be payments in the future but they remain at zero currently.

Deputy Lisa Chambers mentioned that the top ten account for a significant amount. What is also the case is that there is significant movement - under the bonnet, as it were - within the figures. The Revenue Commissioners are giving us lots of good information on what is happening but we would always like more. One thing the information shows is that the top ten change from year to year. Certain companies drop out and make lower payments and are replaced by other companies making higher payments. It is not the same top ten every year. We can take it that most of the top ten are foreign-owned but the share is significant.

As to how we can explain the increase in corporation tax, one way to do so is look at a comparison across other EU countries. Other countries have experienced significant rises. Since 2011 and 2012, corporation tax receipts in Germany and France have doubled. That may be comparable to what we have seen here. Some of it could be a fallout from the end of the economic crisis, although our doubling took place in a shorter period and receipts have more than doubled. Those countries have shown steady increases. We had a bounce in 2015 and another bounce in 2018.

Moving away from the IFAC view to a personal one, we have not tried to explain why it has happened but it is possible that the nature and the type of companies in Ireland is playing a significant role. If one looks at the type of foreign direct investment we attract, it tends to involve large and successful companies. If companies are large and loss-making, there are limited advantages in coming to a low tax jurisdiction. If a company is likely to generate losses, it wants to have a high tax rate against which to offset those losses. The companies that tend to be here are large and profitable. It may be that our corporation tax receipts are excessively linked to the international business cycle. As there been an improvement in the position internationally, there is probably a higher elasticity of Irish CT receipts to the global economy. The potential is that if the global economy suffers a downturn and we have that excess elasticity, we could then suffer a much greater drop in our CT receipts.

As Deputy Lisa Chambers stated, the receipts are largely unexplained. It could be down to changes in rules by the OECD or the EU or just the general activities of tax collection agencies around the world, but it does remain a risk.

Deputy Lisa Chambers: I thank Mr. Coffey. This is a matter in respect of which the committee should do further work.

I will move on to Brexit. IFAC looked at the ESRI and also the Central Bank. There is quite a gap between the forecasts or predictions of those two entities. The committee previously discussed the fact that Government projections are all based on the central-case scenario to the effect that there will be an orderly Brexit. We can all accept that the possibility of a no-deal Brexit has increased. Nobody knows what type of Brexit we will get or when we will get it. My question is for either Mr. Coffey or Mr. Barnes. In terms of the adjustment to the public finances that might be required in the event of a hard Brexit, I am looking at the percentage of GNI* -the outlook from 2019 to 2023 for the budget balance. This year, we are looking at 0.3%. In the event of a hard Brexit, on the basis of the ESRI figures it will be -1.9%. The figure in the Central Bank's analysis is -3.2%. It continues in that manner right along to 2023, showing that we could face a significant problem. We could require a major adjustment in the public finances. How does that compare with ten years ago? If there is a hard Brexit, what adjustment might be needed? What kind of space are we in? Let us take, for example, the national broadband plan in respect of which there are promises that the bulk of the spending will take place in 2022 and 2023. In the event of a hard Brexit, we could be looking at the debt ratio going up to 111%. In effect, it would be going backwards. How do our guests think we will cope with those major capital projects? What kind of adjustment will be needed?

Mr. Sebastian Barnes: This is an important matter. It is hard to know what the likelihood is of that happening. There is also much uncertainty regarding these estimates and that is conditional on a hard Brexit. We thought, however, that it would be useful to think through the consequences in different cases. I think the question from the Deputy is trying to do that as well. We have taken two sets of estimates. One came from an exercise led by the Economic and Social Research Institute, ESRI, and the other came from the Central Bank of Ireland. Those exercises give us slightly different versions of a hard Brexit. The version from the Central Bank is a much worse estimate. These exercises illustrate well some of the uncertainties and different scenarios that might happen, even if there is a hard Brexit.

I will take the scenario from the ESRI first. It is not quite as bad as that from the Central Bank but we still see a fairly reasonable deficit opening up in the next couple of years. By 2020, that would be at -2.3%. Turning to the version from the Central Bank, it is much worse. It presents a scenario where the deficit opens up much faster and reaches much larger numbers. I should state that relative to the analysis of the ESRI, for example, the fiscal impacts we present are much larger. That mostly reflects a methodological difference. We take a different view of how much the slowdown in the economy would feed through into the public finances. It is an area where there may be legitimate disagreements but we think ours is a more realistic estimate based on our reading of the evidence.

The important aspect following that point is what the policy response could be. It must be taken into account that a tightening of policy would also have a second round effect and would weaken demand. The exercise we have done looks at what would be required to stabilise the debt ratio over a period of time. The shocks considered are big enough to mean that, in some cases, not only would the slowdown in the GDP to debt ratio stop but it would actually go up again. Trying to bring about stabilisation over a few years would have a major impact. The simulations we referred to suggest €4 billion would be needed if the fiscal adjustment was done very quickly. If that was done over two years, then that total would accumulate to about €5 billion. These are, therefore, big adjustments. They are smaller than what Ireland experienced in the wake of the financial crisis. Nevertheless, these adjustments are very large and very different from the kind of scenario we would have in the baseline scenario. That is why I think it is useful to raise this issue. It also, however, underpins our policy advice to be cautious. The better the starting position, the less that will have to be done if things go wrong.

Deputy Lisa Chambers: I thank Mr. Barnes. Is he stating that a €4 billion adjustment in one year might be required? Looking at 2020, where the baseline is 0.6% of a surplus, the Central Bank analysis suggests the deficit could reach -4.7% in the event of a hard Brexit. The variance is colossal.

Mr. Sebastian Barnes: Yes, it is very large.

Deputy Lisa Chambers: It is frightening to read.

Mr. Sebastian Barnes: This comes back to what we were discussing previously. A small shock would be difficult but we hope it would be relatively manageable. The Government could still, essentially, allow tax revenues to fall, spending to rise in a cyclical way and the balance to increase. If there was a large and serious shock, however, the Government would likely have to take action to consolidate. It would have to do what was done following 2008 and follow a pro-cyclical policy. That would contribute to the downturn but that action would be required to stabilise the debt ratio again. That is why we have not given explicit advice about what to do in the event of a hard Brexit. It really depends on how severe the shock turns out to be. It could just be a bad problem or it could be a very serious problem. We do not want either of those two scenarios to happen but there is a major difference in the options available in each.

Deputy Lisa Chambers: My final question concerns the point made about the importance of the position we are in when this shock comes, whatever its size. Given that we have a large level of debt and our debt ratio is high, we could regress in the years ahead if Brexit goes the wrong way. What kind of position are we in if we need to borrow?

Mr. Sebastian Barnes: One way of thinking about that is that it is very hard to know the probability of a hard Brexit. We have been discussing an extreme outcome so it is hard to know how much that should be factored into these decisions. There is no way to smooth the possibilities out so that it would be possible to end up in the same place no matter what the state of the world. We are stating that a bigger budget balance today means the amount of consolidation that would need to be done in a very bad scenario would be that much less. It seems to us that it is prudent and sensible to be cautious now and to have a slightly bigger budget balance than might have been the case otherwise. If things did go wrong then, it would be possible to be that far advanced regarding the actions required.

Deputy Lisa Chambers: I thank Mr. Barnes.

Chairman: I thank Deputy Lisa Chambers and I call Deputy Lahart.

Deputy John Lahart: I thank Mr. Coffey and his team for their public service. Representatives from the Irish Fiscal Advisory Council have been with us on several occasions since this committee was formed. This sounds like this Government's "soft landing" moment. Everything said today has been said on the last two occasions the witnesses have appeared before us as well. The remarks on corporation tax have been stated on three occasions. I notice that the Minister for Finance, Deputy Donohoe, tweeted today that he will take the advice of the IFAC. He also wrote that such advice was dismissed in the past and there were consequences as a result.

This advice, however, was simply not available in the past. All of the big agencies predicted a soft landing in the past, with the exception of Morgan Kelly. The IFAC has been consistent, along with the EU Commission, the International Monetary Fund, IMF, the ESRI and the Governor of the Central Bank. Representatives from all of those organisations have been before this committee. There have been two common themes in what the IFAC has been stating in the last three years. The first is the over-reliance on corporation tax. The second, in the last two years, was the Government's aligning itself to a benign Brexit scenario.

There is an interesting aspect to the fact that the Minister for Finance intends to heed the advice of the IFAC. He appeared before this committee two weeks ago and he got very strong advice from his Secretary General in respect of broadband. The Minister was pressed repeatedly on that issue. The advice supplied to him included mention of risks to the reputation of the Government regarding economic management and competence and, indeed, the Government's reputation in general. The Minister for Finance is still adhering to the view he is taking on the broadband issue, however.

That is the context for my questions. As with everybody who appears before us, the language used concerning corporation tax is very soft. It includes words such as “could be”, “maybe” and “possibly”. Why can the IFAC not tell us why corporation tax is going up and why it may go down?

Mr. Seamus Coffey: It will go down. I do not know when but it will. Corporation tax is the most volatile of our main taxes and this issue shows the raised level of volatility. Without seeing the individual tax returns of these large companies, it is hard to get a handle on what is driving the increases. We have seen those increases happening in a stepped fashion. There was a greater than 50% increase in corporation tax receipts in 2015. The increases then levelled off for 2016 and 2017 before we saw another large stepped increase in 2018. It is hard, therefore, to identify what happened in 2015 and 2018 to cause those increases. There are a number of factors. We have more information about the 2015 increase because the Revenue has published the aggregate information from the tax returns it received. It seems like the legacy of the crash was washing through accounts, with issues regarding companies returning to profitability and certain losses being exhausted.

There also seemed to have been a timing issue in 2015 for companies identifying this increase. Looking at those company accounts, much of the additional tax revenue was due to profits that arose in 2014. Those taxes were not paid in cash terms, however, until 2015. The stepped increase in 2015 should possibly, therefore, have been spread out over a number of years. That would then point to a more gradual increase. We are not any different from other people analysing corporation tax receipts. If there was a clear answer to be had, it would be made available. Regarding the extent to which Irish corporation tax is exceptional, we can compare it to other EU countries that have also experienced large increases in their corporation tax revenues. The difference is that our increases happened over a much shorter period. The increases tend to be confined to over two years. It is right that the language regarding corporation tax is couched with “could be” and “maybe” because we simply do not know for certain.

Chairman: I will interrupt Deputy Lahart for a moment. Regarding questions addressing the same issue, I ask Mr. Coffey and his team to keep their answers as tight as possible on subsequent occasions. I make that request because there so many Deputies who want to ask questions. I call Deputy Lahart.

Deputy John Lahart: Turning to the prudence account, what would the final amount have looked like at the end of 2018, if it had been in place?

Mr. Seamus Coffey: We would compare it to the profile for the year.

Deputy John Lahart: I am asking about a situation where the prudence account was in place and money was being set aside. I will come back to that question while the answer is being sought. Time is an issue. An email we received from the Department of Finance dated 5 June stated that a notable feature of this month’s fiscal monitor was that corporation tax was €223 million behind target and also 13% lower than it was at the same point in 2018. Do the witnesses have any comment to make on that? Is it too early to tell whether this forms part of a trend? When might we know if it is a trend or is there an explanation for it being behind profile?

Mr. Seamus Coffey: The monthly receipts are something we keep an eye on. Corporation taxes tend to be highly volatile, even more so on a monthly basis. It is, therefore, hard to identify anything from a number of months of data. In general, we hope that the setting of fiscal policy and the discussion of fiscal policy would move away from whether corporation tax is up or down. We should put fiscal policy on a sustainable and sound footing. Reducing the space available for tax cuts because corporation tax is down is something we do not want to hear. Spending overruns in certain Departments being masked by corporation tax outperformance is something we do not want to hear either. We would like to see a move away from the emphasis on corporation tax and its impact on fiscal policy. We would like to discuss what the sustainable rate of spending growth we can manage in Ireland is, rather than being reliant on this one highly volatile tax head.

Professor Michael McMahon: To directly answer the Deputy's question, Table B.1 essentially shows that in 2018 projected corporation tax was €5.7 billion and actual corporation tax was €10.4 billion. That would add €4.7 billion to a prudence account. That information is shown in the box but the figures go all the way back to 2015 and show the cumulative difference it would make.

Deputy John Lahart: Page 109 of the report features a fiscal risk matrix, with health overruns at the top, followed by climate change and renewable energy targets. Corporation tax concentration risks come after that. Will the witnesses elaborate on the climate change and renewable energy targets and the reason the council considered them such a high risk? Are the potential fines payable to the European Union the reason?

Mr. Eddie Casey: It is related to the size of the fines over the medium to long run. The Deputy can see that they seem to accumulate significantly in the estimates that have been made. If we take Joseph Curtin's estimates as an example, they rise to €2.7 billion and then €5.5 billion, which is high. Those estimates seem to be plausible. In the case of the corporation tax estimates, we have identified an excess of between €3 billion and €6 billion, although it is not clear how hard those numbers are by comparison.

Deputy John Lahart: Mr. Casey is saying that in terms of liabilities to the State, the fines due as a result of our failure to date to meet climate change targets have the potential to outstrip the risks associated with corporation tax.

Mr. Eddie Casey: Based on the raw numbers, that is one way to assess it. However, given that we potentially have more time to address the risk with these fines, one might say that gives us more time to change course and respond. With corporation tax it is slightly different in that the risks could materialise next year. It is unclear when they will emerge.

Deputy Peter Burke: I welcome Mr. Coffey and the other witnesses from the Irish Fiscal Advisory Council. The report is detailed and welcome. The Irish Fiscal Advisory Council makes a key contribution to the budgetary process, one which makes it more robust and ensures it is transparent. Under the current budgetary process, better and more detailed information reaches those who are making the decisions. The Irish Fiscal Advisory Council acts as a key adviser on the spring and summer economic statements. We also have the national economic dialogue for the various sectors, tax strategy papers, the mid-year expenditure report and the key work this committee does in adjudicating on the work of the relevant agencies. How much has this process assisted in making better decisions in the budget and how can it be improved? We had a history in previous decades of big announcements being called off on budget day and rabbits being pulled out of the hat without notice and with no stress testing done.

Mr. Seamus Coffey: The most significant impact we can have is on discussion of some of the issues. I think back to the previous credit-driven expansion and many of the risks were underemphasised and downplayed, whereas now there is much more of an openness to discussing these risks, not only through the existence of entities such as ourselves but even among the documents the Deputy mentioned there which are published by the Department of Finance and the Department of Public Expenditure and Reform. Previously, it would have probably been unheard of to have some of these risks outlined in such a clear fashion, such as in the annual debt report and the annual tax report that the Department of Finance publishes. They are now clearly identifying Ireland's high level of debt and Ireland's reliance on corporation tax as significant risks to the public finances. The presence of the Irish Fiscal Advisory Council helps in that discussion. There is a group out there that brings these matters out into the open. It is not just us who are talking about these matters. We clearly imagine that these matters are being discussed within the various Departments. The fact that they are willing to publish documents that reference and include these issues is a major step forward. We are not the policymakers but we can inform the debate. We can inform the elected representatives here and the wider electorate. Politicians have a number one aim, namely to get re-elected and one way to do that is to give the electorate what it wants and if the electorate wants poor fiscal policy, by and large that is what it will get, but if its gets a message from us and that somehow feeds through into their thoughts, maybe that will get across to the Members of these Houses.

Deputy Peter Burke: One of the key matters that the-----

Deputy Barry Cowen: We are not all like that.

Deputy Peter Burke: The Secretary General of the Department of Finance was before us in the Committee of Public Accounts two weeks ago and we could challenge him in a number of ways in terms of the various different concerns that arose in one of the Irish Fiscal Advisory Council's previous reports. In July 2018, the Irish Fiscal Advisory Council carried out a report on designing a rainy day fund that can fit in with the fiscal rules in terms of deploying it in a counter-cyclical manner. I note that the Irish Fiscal Advisory Council mentioned the establishment of a prudence fund to put additional corporation tax receipts into. How would the deployment of same work with the fiscal rules? Could the witnesses expand on that aspect a little bit?

Mr. Seamus Coffey: One restriction or limit on the fiscal rules is that there might not be a benefit in the bad times for setting aside resources in the good times. The fiscal rules are based on a relatively flat use of fiscal resources and the estimates are pro-cyclical so the rules allow for more to be done in the good times and are somewhat restrictive in the bad times. It would be different if there was a well functioning and well designed rainy day fund. One reason to have it is for use in the event of a rainy day. If the fiscal rules were to prevent that, it would limit the effectiveness of having that policy because the reason money is set aside in good times is to use it in bad times.

We looked at various ways in which that can be achieved. The fiscal rules themselves are perhaps too restrictive and do not give sufficient benefit to setting aside resources in the good times. There are various ways it can be taken into account. One suggestion would be to count it as spending when the revenue is raised and when the rainy day fund gets the money put into it in the good times so that it makes the deficit appear worse at those times. Then it is just spent at a subsequent time so it does not count against the deficit in the future and the capacity is there to spend it. However, because of the way the system of accounts is designed and because of the way the fiscal rules are designed, that would be difficult to achieve. It is about striking the balance between getting the benefit in the bad times for setting aside the resources in the good times. There are various ways in which it can be done. We have just set out a couple of proposals but it would require decisions at a higher level to be made in order for that to be operable. It just shows that a mechanism such as a rainy day fund can be effective.

Deputy Peter Burke: Has the Irish Fiscal Advisory Council looked at what more a prudence fund would require to be operable and to adhere to the fiscal rules so that it could be deployed in that manner?

Mr. Seamus Coffey: The prudence account is more linked to the excess corporation tax receipts and looking at outperformance relative to profile so that any excess funds do not remain within the budgetary arithmetic and in a sense mask some of the poor performance and bad budgetary management we have seen. If there are overruns in the area of health, for example, they should be visible and we should see the consequences of those decisions. What we have seen over the last number of years is that large overruns in certain areas have been masked by those corporation tax receipts. The prudence account is probably more linked to these volatile and perhaps temporary revenue sources, taking them out and making visible the consequences of some of the bad practices over the last number of years.

Deputy Peter Burke: Obviously, it is not to be deployed at a particular time and it is there to be kept like a rainy day fund. Is that the idea behind it?

Mr. Seamus Coffey: Yes. With regard to deploying that, it is question of whether it would be affected by the fiscal rules in terms of the expenditure levels.

Mr. Sebastian Barnes: One of the things about the prudence account is that it is very much focused on the inter-year Exchequer accounts and is a way of making sure that the discussion that is had every month when the Exchequer returns come out is not driven by the fact there is some corporation tax that could be used somewhere else. It is very focused on that and it does not really have a direct implication for the rules. As Mr. Coffey said, if that money were put into the rainy day fund, because of the way the rainy day fund is currently designed, it might be hard to access that money, as with any other money in the rainy day fund. This is an area to which we think the Government should give some thought in terms of the design of the rainy day fund. We welcome the principle of having a rainy day fund but the way it operates at the moment seems to us-----

Deputy Peter Burke: Would a prudence fund require primary legislation?

Mr. Sebastian Barnes: I am not sure. It depends on how it is set up. It could be set up in different ways, some of which could really-----

Deputy Peter Burke: I want to be clear on the difference between it and a rainy day fund in terms of how it is deployed. The witnesses are obviously talking about ring-fencing receipts in a prudence fund. Is that correct?

Mr. Sebastian Barnes: Basically. Every month, when the Exchequer returns come out, if there is a situation where the corporation tax receipts are ahead of what had been assumed, that money would be put in some notional account where it would not be touched. When people talked about the Exchequer balance, it would be the Exchequer balance once the excess money had been paid into the prudence account. Therefore, if one suddenly had an extra €1 billion in corporation tax, it would not make the Exchequer balance €1 billion better because it would have been siphoned off into this prudence account and, at the end of the year, one would have to do something with it, like put it into the rainy day fund.

Deputy Peter Burke: There has been a significant increase in capital expenditure and, over a five-year period, it is up almost 90%. The question arises of the payback to the wider economy. In a previous period when there was double-digit growth in current expenditure, credit increased quite rapidly, whereas credit is almost at stalemate at the moment and the macroprudential rules are acting as a safeguard to prevent the property market overheating. In addition, there are more than 2.1 million people operating in a very diverse employment market. Will the witnesses give a view on the issue of investing in capital expenditure given those significant increases, in particular when one views that compared to current expenditure increases, and the risks therein?

Mr. Michael Tutty: We certainly support the strong growth in capital expenditure that has taken place over the past year or two. We were very concerned that, during the downturn and the budgetary cutbacks, so much emphasis was put on reducing capital expenditure. It is the easy one to hit rather than cutting social welfare benefits or health expenditure, and so on. We very much support the increase in capital expenditure that has taken place as long as it is wisely spent, with good cost-benefit analysis done beforehand and, hopefully, with the costs identified in advance. However, even with capital expenditure, there is a limit to what can be spent in an economy. If the economy is growing very fast and starting to overheat, one cannot just keep putting in more and more capital. Nonetheless, to the extent that we can prioritise investment over current expenditure, it is certainly good for the long-run development of the economy and we will get benefit from it over time. We are very much in favour of that at this point in time.

Deputy Peter Burke: With regard to how additional corporation tax receipts are channelled, obviously, the rainy day fund is due to be established at the end of this year, there is a significant increase in capital expenditure and there is also the measure to reverse the reduction in VAT in the hospitality sector to bring in additional revenue. How significant are these three individual items in terms of responding to the challenge of the volatility of corporation tax receipts?

Mr. Seamus Coffey: The rainy day fund that we would envisage would be somewhat different from the rainy day fund that is currently set out in the Government's plans, which has a fixed €500 million contribution per annum that does not really change in response to either economic conditions or corporation tax receipts. It is just a fixed amount. In fact, in a previous iteration, the contributions were €1 billion per annum, but they are flat and unchanging and unlikely to have any significant impact on fiscal policy or the economy. We would look for something that is more dynamic and more in response to economic conditions than what we have seen heretofore.

Deputy Peter Burke: With regard to the large investment in capital infrastructure, in the council's view, does that create less of a risk to the economy than current expenditure in terms of the payback through improving our infrastructure, given we had a lost decade, with no real investment at all in capital infrastructure?

Mr. Seamus Coffey: As Mr. Tutty said, we have assessed the changes in capital spending. We look at it as taking us from a position of being relatively low in EU terms, as we came out of the crisis, to now moving to middle and maybe high in EU terms. The concern is that we would try to do everything - try to ramp up capital spending, try to increase current spending and try to reduce or erode the tax base. These are some of the problems we have faced before. Therefore, we feel it is appropriate that capital spending has been increased but it should not be done at the same time that we try to do everything else. One of the concerns would be that if capital spending has got back to what one might consider normal levels, in the next downturn or the next fiscal crisis, that is the area that will be cut again. We often turn to the pro-cyclical issues, and as capital spending is the one that can be perhaps adjusted that bit quicker, it exacerbates that situation. Rather than, as Deputy Eamon Ryan suggested earlier, increasing capital spending at a time when the economy might need support, we have a history of doing the opposite and cutting back on capital spending just at the time when the economy could do with that level of Government activity.

Deputy Pearse Doherty: I want to add to the comments of my colleagues in regard to the excellent presentations and report that the council has submitted to us, which are of a high quality and standard.

I want to pick up on some of the line of questioning from Deputy Burke, particularly around the so-called rainy day fund. The witnesses outlined how IFAC would design a different rainy day fund and it has also introduced in this report the concept of the prudence fund. The report talks about pro-cyclical and counter-cyclical measures. My concern, which I want to tease out with the witnesses, is with the rainy day fund, which is counter-cyclical at this point in the cycle but is not counter-cyclical in a downturn. The work done by Eddie Casey of IFAC outlined that very clearly in the paper. Has the council's analysis changed? As we know, in a downturn the current legislation only allows for moneys to be withdrawn to mitigate exceptional circumstances, which are natural disasters, recapitalisation of banks and major structural reforms, such as pension reforms, and not to support social welfare payments that may need to be supported because of rising unemployment, or additional investment in capital. Has the council's analysis changed in regard to the rainy day fund in the sense that it will not act as a counter-cyclical balance in a downturn?

Mr. Sebastian Barnes: That is a concern we have expressed before and it is still the case. The design is still the same and I think that is a big problem. Were the slowdown to occur, it would obviously be much better to have a rainy day fund that was designed to be used in those circumstances than to find oneself scrambling for a solution. Given, in particular, the kind of risks we have discussed with regard to Brexit, some of these problems may not be hugely around the corner. Obviously, there is not much money in the fund at the moment so it is not going to make a lot of difference in that sense but it is still an important concern.

Deputy Pearse Doherty: On the prudence fund, I hear the witnesses' clear view that the design of the fund is secondary to the concept of the need to just delete that from the accounts and separate it in terms of looking at what resources are available. Is the council concerned in this regard? The report states that it can be put into the rainy day fund but the problem is that it is then locked away and cannot be used for Brexit mitigation measures under the fiscal rules, as we know. Would it not be more appropriate not to do that at this point in time, given the fact a hard Brexit risk has intensified since the council's last report?

Professor Michael McMahon: The report also states "or something else", and that something else could be debt reduction. To reiterate what Mr. Coffey said earlier, the issue is fiscal space when something adverse happens. If the use of the prudence account were to build greater fiscal space then it would make it less likely that this trade-off between having to take counter-cyclical actions with the budget deficit or pro-cyclical actions to try to rebuild credibility one would change the likelihood of having to do that. It would be an alternative option to build in exactly that space to take action when it is needed.

Deputy Pearse Doherty: Mr. Coffey made the point that one cannot do all three at the same time, which I appreciate, in terms of eroding the tax base, increased spending and ramp-ing up capital investment but there are also social needs when it comes to capital investment. Obviously capital investment must be at a level that is consistent with where we need to be in the future and we may be there or very close to it at this point in time. We lagged behind for most of the last decade but we have caught up. Is there now a need for a catch-up fund? We are probably closer to the downturn now than we are from the last downturn yet we have serious issues with housing construction and investment. We also have inadequate investment in third level education that builds up our skills competitiveness and a competitive economy. We have serious challenges in terms of the restructuring of the health service. Some of that, though not all of it, materialised as a result of the lost decade. Does the fiscal council believe we need a catch-up fund that is not permanent but compensates for the lost decade?

Mr. Seamus Coffey: I am not sure I grasp what is meant by a catch-up fund. When it comes to the spending areas and the priorities that the Deputy has identified then our view is that sound fiscal policy in identifying and responding to those priorities are not an either-or situation but can be achieved at the same time. For example, we have outlined that last year Government spending rose by €5 billion. This year, Government spending was planned to increase by something approaching €5 billion. Maybe there will be slippage and I could see that figure increase. There are significant amounts of additional spending being undertaken. If they are not going in areas that the Deputy has identified as priorities then maybe the choice should be among the reallocation of the additional expenditure of €5 billion per annum. If then one wants to go beyond that, one does not necessarily need a catch-up fund. One just needs to find additional and sustainable revenue sources that will fund spending increases beyond those currently pencilled in. The plans at present see a spending growth of in and around €5 billion per annum for each of the last two years. Therefore, I do not see what additional catch-up fund is needed if that is being achieved. If additional priorities are identified then either reallocate funding from within that or identify additional but sustainable revenue sources. One issue that the fiscal council would like to get across is that those who are in favour of an increased Government provision of services, and goods and capital spending across the economy should perhaps be more in favour of what we are suggesting because when a downturn hits, if it was to be quite adverse and led to some of the trade-offs that we have mentioned here, then those who will be affected, by definition, are those who are the most vulnerable.

Deputy Pearse Doherty: I am running out of time and I want to make another point. However, I shall clarify what I mean by a catch-up fund, particularly in terms of the fiscal council's view of the mid-term or long-term sustainability of corporation tax receipts and us trying to move away from having between €3 billion and €6 billion. Would it not be appropriate for us to now consider actually investing in projects that are deemed to be stand-alone and one-off catch-ups as opposed to current investment in housing?

On the issue of corporation tax, the delegation has clearly highlighted the risk but the concentration has increased. Ten groups now make up 48% of all corporation tax receipts and 73% is made up of the top 100 companies so there is a serious risk. The Department and the Government still believe that the impact is not high. What measures do we need to take in budget 2020 to begin to separate from that concentration and reliance on corporation tax receipts? Is it a case that the international changes being talked about by the G20 and others is a case of not if but when changes will take place that will negatively affect our corporation tax receipts in this State?

Mr. Seamus Coffey: To conclude on the previous point about capital spending, by definition every capital project is a once-off but capital spending is something that the Government should do on a continual basis.

Deputy Pearse Doherty: Yes.

Mr. Seamus Coffey: On corporation tax, it is clear that the risks are quite significant. We would view and assess that a high impact would be more appropriate for the concentration and concerns around corporation tax.

What would be the appropriate response? As we have said repeatedly, the appropriate response would be to remove corporation tax from the discussion about how fiscal policy should be set and move towards a discussion of what is sustainable over the medium to long term so what happens to corporation tax then becomes something that we observe happening rather than something that becomes central to the way fiscal policy is set. Regarding most of these resources being used over the last number of years on which we have now become dependent, if there was to be a significant shock to corporation tax receipts then a significant deficit would open up. If we had set fiscal policy in a more sustainable fashion over the last number of years then we would be in a position to absorb that shock. Our hope would be that we could move away from the discussion of corporation tax being a driver of fiscal policy and more towards what is sustainable in the medium term.

Deputy Pearse Doherty: Is it not the case of "when" as opposed to "if" international changes will negatively impact on corporation tax?

Mr. Seamus Coffey: That is very difficult to assess. We have had these international changes for a number of years. I remember being here when the Organisation for Economic Co-operation and Development, OECD, first announced the base erosion and profit shifting, BEPS, project and that was viewed as a very significant risk. It is possible that the OECD process has contributed to the large receipts that we have seen here in Ireland. There is no doubt that there are risks but at this early stage I would be reluctant to say in what direction they will go.

Chairman: There are approximately five Deputies offering and before we started this session we agreed that we would try to conclude at about 3.20 p.m. Even if we run a little bit late we will have between 20 and 25 minutes left and the Minister is due to arrive at 3.30 p.m. The next to speaker is Deputy Burton.

Deputy Joan Burton: It is nice to see the witnesses in here again. Spats between IFAC and the Government are to be expected as par for the course. I wish to discuss the summer economic statement of last year and later this month we will see another one. In hindsight, last year's statement had significant areas of fiction to the point where I would christen it the "summer economic novel". I say that because it is full of exciting potential but some of it is fiction. In terms of the structural work of assessing how finances are run in this country, has IFAC given consideration as to why the statement was such a disappointment on the reality front? Was it a mistake to abolish the Department of Public Expenditure and Reform, DPER, as a separate, independent Department? I know that the delegation members are not policy people but that was a mechanism for assessing what the likely costs and so on were to be. Has that assessment suffered since? More important, do we have room for tax cuts? Clearly, the Taoiseach has earmarked around €500 million for tax cuts. As far as one can see, they are mainly at the upper end in terms of income tax. While we are expanding spending, does IFAC think we have room for tax cuts?

Briefly, what happened last year, and most of the other years after about 2013, is that figures in November, which is after the budget, turned out to be vastly bigger than what had been anticipated in the budget. Has the identification improved of what the November receipts are likely to be? From my own professional experience, that is identifiable in a serious way from after July. Has IFAC had any interaction with the Department of Finance to find out? One gets a surge from the self-employed or the November receipts and then the Minister finds €1 billion for the health service down the back of the sofa. That is what we were all subjected to last year, which basically made a joke of the work of this committee. Are we likely to have that experience again? Will the €500 million be back of the sofa money once again?

In the statement and detailed statement, the witnesses also referred to echoes of the previous boom and crash, thereby indicating a sort of soft warning about the potential for a difficult period ahead. What do they think has been left out? They referenced the national children's hospital and broadband. The Government's response is that there will be costs of between €200 million and €400 million per year, there is nothing to see there and nothing to worry about. However, this is cumulative and we do not know whether the figures will be flat each year or whether there will be bumps in expenditure in some years.

We have lost all sight of pension provision because that seems to have been long-fingered by the Government. Have the witnesses had any discussions around it? Where have the pension figures gone because we are not hearing them?

There is no green fund for the economy. We have just declared a climate change emergency. I estimate, conservatively, that it will cost roughly €1 billion per year after the first 18 months for public transport, retrofitting houses and farm greening measures. A climate change emergency has been declared by the Dáil. I think we can anticipate some element of a climate change budget.

I have always been an advocate of a minimum effective tax rate. I do not know whether anybody else in the Dáil has ever agreed with me. At this late hour and with the corporation tax structure as it stands, is there is still an argument for bringing in a minimum effective tax rate? I drafted a Bill to this effect some years ago but it did not make any progress.

Mr. Michael Tutty: The Deputy suggested that the Department of Public Expenditure and Reform has been changed by no longer having a separate Minister but as far as I can see, it is playing exactly the same role as it did when there were two Ministers. I know that one of the difficulties in government is that there is a limited number of Ministers. Therefore, if there are two separate Ministers in the Departments of Finance and Public Expenditure and Reform, respectively, some other area loses out. As far as I can see, it is the same Department of Public Expenditure and Reform as was there when there were two Ministers.

Room for tax cuts depends on what other things Governments want to do. The more one wants tax cuts, the less expenditure one can have and *vice versa*. In looking at what is possible in the next budget, we certainly see that there is some more room for manoeuvre beyond what is committed already by Government. A choice can be made between tax cuts or further increases in expenditure without reaching what the stability programme update suggested would be spent in the next budget. I will leave others to respond to other questions.

Professor Michael McMahon: One of the comments was about investment and the national development plan. I refer to the answer I gave earlier, which is that we welcome the national development plan. There are issues relating to overruns, particularly the extent to which they squeeze out other projects. We spoke about how capital investment projects need to be well assessed in terms of cost-benefit analysis and the benefits one can get for further growth further down the road. Of course, if one squeezes out projects by spending a lot more on one project, one will not necessarily get as much of a boost.

I also raised one risk that comes with big capital investment projects, namely, that they generate a maintenance and upkeep cost. This has implications for current spending in the future which also need to be carefully thought through, even in the case of one-off projects, as all of these projects are. Certainly, the issue of pensions and health is one on which the secretariat is actively working. I hope, at a future date, we will be able to refer to that work in a longer answer.

Mr. Seamus Coffey: On the role of the Irish Fiscal Advisory Council and a possible conflict with the Department of Finance, it is worth mentioning that our sponsoring Department is the Department of Finance. Ours is officially a Government-funded entity.

Going back to the points raised by Deputy Burke about the maturity and advancement of the debate in Ireland, we are given the opportunity by the Government to criticise it. That shows a big change from where we were ten, 12 or 15 years ago.

On the summer economic statement, we would prefer if all of the information was provided in the Stability Programme Update which is published in April. There is a recognition that there are a lot of moving parts and that the figures can change, but it would be better to receive the summer economic statement earlier and if there was greater adherence to what was contained therein.

Deputy Joan Burton: Does Mr. Coffey agree-----

Chairman: I am sorry-----

Deputy Joan Burton: I asked about the November figures. It is extraordinary that every year in November we have this usually pleasant surprise.

Chairman: The Deputy has made that point. Will the delegates respond briefly to the Deputy's point about the November figures?

Mr. Sebastian Barnes: It is an inherent feature of the tax system that revenue comes in quite late in the year. In some places the Department of Finance uses relatively prudent assumptions, which means that often one will have this kick-in. It has, however, got worse because of some of the changes in payment dates. Therefore, it has become harder for the Department to predict. One issue we raise in the report - we did not look it at very carefully in the past - is that if one looks at the monthly spending profiles, they are very strange and assume a large fall in December which often does not happen or, at least, not to the same extent. It is important to have accurate monthly profiles, but it is very odd to have this one. I am not sure why the Department does it, but all of these good budgeting practices need to be implemented in order that things will be as predictable as they can be, while recognising there will always be some uncertainty.

Deputy Declan Breathnach: Most of the questions I wanted to ask have been asked. I am coming at it not as an economist, accountant or forecaster. I am a schoolteacher by profession. I always say every day is a learning day and that we are supposed to learn from the mistakes of the past and advice we are given. I thank the delegates for their presentation. Having a budgetary oversight committee is relatively new in Ireland. Surely systems have been in place over the years in other countries. While I know that this is a small economy and that we cannot necessarily control outcomes or some of the issues that arise, surely we learn from best practice. The delegates have said there are political decisions to be made and that the council endorses assessments and gives us advice. Based on what they know, if they were involved in the political system, what would the delegates do in taking the corrective action needed? They talk about GDP and GNI*. Is there a system that is acceptable in forecasting across Europe and seen as best practice? If not, should there be one?

I return to the question asked by Deputy Lisa Chambers. The delegates said there was €4.7 billion more coming in in corporation tax receipts from ten companies. Would they advise that somebody should be able to give us information on why corporation tax receipts are so buoyant and good? Would it not give us a clearer picture of the data?

I started by saying I was not an accountant. It is good for us, as politicians, to hear the delegates' advice. Based on the forecasts they are presenting, will Mr. Coffey give us a layman's assessment for the person who bothers to listen to the proceedings of this committee of what the average family can expect to happen by 2023 in the context of Brexit, the United Kingdom crashing out of the European Union or if we do not take control of the delegates' advice? I apologise if this is a very open question but we need to hear the advice of the Irish Fiscal Advisory Council. Would the council give this Government's performance a green or red card?

Professor Michael McMahon: I will answer two of the questions and leave the hard ones for everybody else. I was asked what I would do. I was on the radio this morning giving exactly this answer. As Mr. Coffey noted, while things are going quite well, this is an incredibly uncertain time. For this reason, I would be as prudent as I can be. I would take steps which, at the very least, stuck to my plans. This is the exact point of view that is driven home in my report. I would err on the side of caution, in layman's terms, and take a very careful position.

On the Deputy's second question on GDP versus GNI* being agreed across Europe, the rest of the European economies and most economies across the world use GDP as the accepted measure. It is precisely in the case of a small number of mostly small, open economies that GDP ceases to be a relevant measure. I do not imagine that we will be successful in convincing the rest of the world to move from GDP to GNI*. However, what we can do is ensure that all the bodies that are assessing the Irish position use the GNI*, which we believe gives a much clearer and appropriate picture of the situation.

Mr. Seamus Coffey: It is difficult to give a laymen's assessment of what the average family can expect given the huge level of uncertainty, as Professor McMahon outlined. If I was to say what I would like fiscal policy to achieve for the layman or average family by 2023, it would be that Brexit would not see a return to forced austerity and that we will have put in place policies that would allow us to absorb this shock by having adequate room to do so. If we take the economy in the period from 1999 to 2015-16, looking only at the end points, we would consider it a remarkable performance, with huge increases in employment, income and living standards. That would be to miss out the bit in the middle, however, which is that we surged way too high in 2008, dropped in the years to 2012 and then made a rapid recovery. If we had achieved stable growth from 1999 to 2015-16, taking exactly the same end points, it would be considered a remarkable performance but there was great volatility in that period. What I would look for from fiscal policy in the period to 2023 would be to have a stable and sustained increase in living standards and avoid a return to forced austerity.

Deputy Declan Breathnach: Will Mr. Coffey be listened to?

Deputy Barry Cowen: The witnesses said that the electorate might get poor fiscal policy, which is not to say that it deserves or wants it. Deputy Lahart may have been correct in saying this is similar to the soft landing point in the economic cycle. The difference now, apart from voices on the Opposition benches and an over-reliance on regulators, is that we have at our disposal EU fiscal rules, departmental ceilings and the Irish Fiscal Advisory Council. We still have volatile tax returns, however, and it appears that the figures being presented by the Government do not take account of the potential for a crash-out Brexit.

According to the advisory council, Government projections are not credible and are irresponsible. I will deal with capital spending as I do not wish to rehash the many questions that arise on other issues. The council correctly states that capital spending should be provided for on an ongoing and properly costed basis, the benefits of capital projects should be analysed and funding for their delivery should be provided into the future. As has been recently exposed, none of this occurred in the cases of the national children's hospital and the national broadband plan. The Government is now faced with the predicament that it must find an additional €1.5 billion in the years to 2027 under the contract it is considering signing. In addition, a further €477 million may be required between 2019 and 2022, giving a total of almost €2 billion. There is an overspend of €447 million in total in the children's hospital, €99 million of which is being provided for this year, leaving €116 million per annum to be found over the next three years.

That amounts to €2.35 billion. The Secretary General in the Department says that in order to meet that demand, the projects in the national development plan may well have to be forgone across a wide range areas that are pertinent and demanding of any Government, as to education and health, to name but a few such areas. The Minister and the Government disagree - I do not want to be political but I must be factual - and say that this will not be the effect, and that these funds will come from future revenues.

Does the Fiscal Advisory Council believe that this is credible? Is it not the case that these funds must come from either tax increases, new borrowings, or from current expenditure? If the FAC rightly says that the country and electorate do not deserve poor fiscal policy, the least they deserve is the truth and they do not deserve fairy economics.

Mr. Michael Tutty: Money can only be spent once, and if extra money has to be spent on those particular projects it cannot be spent on others. I am not sure what the Minister was really saying there. If there is money that has not been fully committed to other projects, then all of the ones that have already been committed to can still go ahead.

Deputy Barry Cowen: He specifically stated that no other project would be forgone as a result of this overspend and that all of the moneys needed to meet the demands of the overspend would be met from future revenues. The FAC is saying that future revenues and the forecasting of the Government lacks credibility and is irresponsible. I want to know if it is irresponsible and lacks credibility to say that such funds can come from that quarter when they are not there.

Mr. Michael Tutty: If there are further, other revenues beyond what has already been taken into account in the forecasts, fine, then they can be used to fund this. I find it difficult, however, to say anything other than the money can only be spent once.

Deputy Barry Cowen: Mr. Tutty finds it difficult to say anything other than the obvious which would be concurring with me, which may be seen to be political from Mr Tutty's perspective. I am acting, however, on behalf of those who put me here to allow the electorate to be informed of the reality.

Mr. Michael Tutty: I certainly agree with the position the Deputy is putting forward.

Deputy Barry Cowen: I thank Mr. Tutty.

Professor Michael McMahon: In answer to the Deputy's first question, I point out as to his reference to the volatility of tax, in particular corporate tax, we raised in the report that this tax has in many ways been volatile and it is difficult to know what is going on. The attraction and the payment of large amounts of corporate tax should in some ways be seen as a good thing.

Deputy Barry Cowen: Of course.

Professor Michael McMahon: The question we are asking is when one does not understand how sustainable and persistent it will be, we are recommending that one takes a prudent approach as to how it is used. This is not to point out that corporate tax is a bad issue. One good issue is that the volatility-----

Deputy Barry Cowen: The revenue the State was receiving from property-related activities in recent times and ten years ago was not a bad thing.

Professor Michael McMahon: No, it was not.

Deputy Barry Cowen: It assisted in putting much of the infrastructure in place today that could take advantage of the upturn when it came.

Professor Michael McMahon: Yes.

Deputy Barry Cowen: It was a volatile income, however.

Professor Michael McMahon: That is the point that must be stressed.

Deputy Barry Cowen: The State was reliant on the Opposition benches to point that out then.

Chairman: The Deputy has one minute remaining.

Deputy Barry Cowen: There are many more avenues, authors and fora where that is now being said, and is not being recognised or taken on board. What have we learned from the past?

Mr. Eddie Casey: To pick up on a point raised by the Deputy earlier, he mentioned three things that have changed in the new post-crisis framework that we have: the EU fiscal rules, the departmental ceilings, and our body, the Fiscal Advisory Council.

I like to think that while we are working well and providing some impact, the other two do not seem to be working well at all-----

Deputy Barry Cowen: Exactly.

Mr. Eddie Casey: -----as we have pointed out. The EU fiscal rules have been used-----

Deputy Barry Cowen: They have been breached.

Mr. Eddie Casey: -----as a crutch. We seem to be complying with them on the face of it. They have been so pro-cyclical as to be really not helpful, as the Minister pointed out in the summer economic statement last year. In the foreword he was clear that the rules were unhelpful, totally inappropriate and acting in a way that was so pro-cyclical as to be not helpful. While it is important to comply with them, it should be acknowledged that they set a really low bar in achieving a prudent fiscal policy.

Mr. Seamus Coffey: To link with previous comments on financial best practice, a move to a multi-year framework would be appropriate.

Deputy Barry Cowen: A multi-annual health budget was recommended in 2015. It was promised, but it has not been delivered on.

Mr. Seamus Coffey: That is what happens in most European countries. Budgets are set out for a two or three-year period such that short-term volatility does not affect decisions.

Chairman: We will now move to Deputy Boyd Barrett. I point out that we are way over time in this session. While I am not going to restrict the final two Deputies, I ask them to be as brief as possible. Even with that, we will still be over time by at least 20 minutes.

Deputy Richard Boyd Barrett: I thank the members of the Irish Fiscal Advisory Council for their attendance. I always enjoy their contributions and reports. I do not always agree with them, but they are always informative. I think I understand their critique which, in layman's terms, is that given the uncertainties in the economy and outside it, including Brexit, a possible downturn, the onset of protectionism and an over-dependence on corporation tax receipts, we could be in a very vulnerable position. In that context, having spending Estimates which may be less than realistic, given the commitments the Government has made, could cause big problems if any of these chickens comes home to roost. That is, more or less, the critique of the council. Of course, that still leaves all of us the political conundrum of what to do with it. It seems that, in broad terms, we have three choices. We can spend less, raise more revenue or manage projects better. The answer would probably include all three, but a trickier question is trying to figure out the key ways to deal with the problem.

I put it to the delegates that, given the size and openness of the economy and its vulnerability to all of the things to which they referred, there is almost nothing we can do *vis-à-vis* the unpredictables. I make that general point, although I am not saying we should not do anything. What I am saying is that if any of those chickens comes home to roost, we are not really going to be in control of the situation. I am interested in hearing the response of the delegates.

Mr. Seamus Coffey: That is a bit defeatist because there is definitely something we can do. While we identify a lot of risks and problems that could emerge, one of the things our analysis shows is that, in general, the response to all of them is the same. Whether it is domestic overheating, the economy running at an unsustainable level of output or the potential for some of the external risks to bite in the next 12 to 18 months, the response to the wide range of risks we present is not to have full utilisation of the fiscal resources now available. The economy does not need a fiscal stimulus. If there are spending priorities, space should be made for those through increased tax revenues. If the downturns are to hit in the future and we want to avoid facing a trade-off between supporting the economy and rebuilding our financial credit worthiness, if we had a better starting point, we would be better able to absorb those shocks. While there are significant risks and we are a small cork bobbing in a very big ocean, we can put ourselves in a much better position to deal with these problems when they emerge.

Deputy Richard Boyd Barrett: The fact that we are such a small cork is part of the problem. In general, the more things the Government can control, the better the control we have, but to my mind, private interests have too much control over what will happen and they will just do it to us, as they did in the past. That is an ideological point. One of the issues on which the council should focus a little more and which is referenced in its analysis is the drift and increase in the cost of housing assistance payments. This is an issue about which we should be talking a lot more because we should not be so vulnerable to it. Is the council concerned? I know that it cannot be too political, but it is flagging certain concerns. Is it concerned about what private property sector interests could potentially do to us, given the dependence of Rebuilding Ireland on it? If I was Minister for Finance, I would grab as much of the extra corporation tax revenue as I could, and more, and barrel it in a massive council housing programme because at least that exposure would be reduced significantly and we would also be dealing with what is a major macroeconomic and social problem. The delegates might not agree with all of my prognosis, but do they agree that we have massive exposure in that area that could be every bit as big as some of the others to which we referred in the context of threats and vulnerabilities?

Mr. Seamus Coffey: What spending priorities one targets is an entirely open question, one on which we do not have a view. The risk posed by housing payments is one that can be identified, but it is not just related to the private sector. Almost all of the rental supports the State offers are linked with market rents. They include the payments to approved housing bodies, AHBs. The supports given to them are based on roughly 90% of market rents. One of the reasons costs are increasing is market volatility and the upward direction of rents.

Deputy Richard Boyd Barrett: That is my point.

Mr. Seamus Coffey: Not necessarily just to the private sector. We have significant housing provided by AHBs and the payments to them are linked with market rents.

Deputy Richard Boyd Barrett: The rents for housing provided by the AHBs are controlled. They are largely controlled, whereas they are not controlled in the private sector.

Mr. Seamus Coffey: The differential rents paid by tenants are obviously controlled, but the rents paid to the AHBs as part of the contract are based on market rents and in some areas market rents are controlled. It does present a risk. It seems likely that last year there was an underestimation of the amounts set to be paid. How one goes about ameliorating that risk is open to debate. Perhaps a different approach to housing should be taken, as we discussed here previously, that is, one based on the cost, rather than market prices, but that is something that takes a long time to develop. Other countries have done it over a period of between 20 and 50 years, but here we have had a process of building council and corporation houses and then selling them which has undermined our ability to do it.

Deputy Richard Boyd Barrett: Can I ask one more question?

Chairman: The Deputy has about 30 seconds left.

Deputy Richard Boyd Barrett: Can Mr. Coffey go into any more detail on what he considers to be sustainable sources of additional revenue? He knows my view on where we could and should get extra revenue, including from a wealth tax, higher or at least effective taxes on corporations and an increase in employers' PRSI to European levels. Is Mr. Coffey willing to give a few examples of sustainable sources of additional revenue as against unsustainable sources?

Mr. Seamus Coffey: They could all be considered to be sustainable sources of revenue. Estimates can be made of the revenue that could be generated and whether it could be generated on a repeated basis. If it can, in our view, it would be considered to be sustainable.

Deputy Thomas P. Broughan: I apologise for my absence. I had to slip out for questions to the Taoiseach in the Dáil.

I thank the Irish Fiscal Advisory Council for, as always, a very interesting presentation and report. To follow on from the last point about broadening the tax base, does the council see carbon taxes of one kind or another coming to the rescue? The Dáil has adopted the Oireachtas committee's report on climate change and declared a climate emergency. Last year some Deputies urged the Minister for Finance to start equalising the excise duties on diesel and petrol, something that would have brought in more revenue. Does the council agree that some of the taxation increases that will inevitably result from our efforts to meet our decarbonisation targets will fulfil some of the requirement to broaden the tax base? Does it have a view on how we can protect more vulnerable citizens in the context of an increase in carbon taxes? The leader of the Green Party has been talking about the green new deal, but many of us in this House are concerned about vulnerable households and fuel poverty. Would the witnesses agree, for example, with a tax and dividend approach, where the dividend would go back to each household or citizen? That is the first point on carbon taxation.

Why does the IFAC still include the debt ratio among its four major approaches to the future, given that on page 98 it is stated that the coupon bonds have largely been refinanced, but after 2021 there may be some bonds with which we might have difficulty? Do we still need to worry so much about debt ratios?

The witnesses might have noticed that a very important drug for a very small number of patients, Spinraza, finally received approval. Most of the Deputies in the room campaigned for it to become available. We heard an indicative cost of €20 million per annum. Previously, we campaigned for a drug, Kuvan, which has also been approved. Year after year, there are cost overruns in the health budget. We could have a three-year ceiling. We have a new chief executive in the HSE, formerly of the Department of Public Expenditure and Reform, who seems to want to relentlessly and ruthlessly control expenditure. Do the witnesses see any way in which we can have a realistic approach to health spending, which might involve an extra €2 billion or €3 billion a year, and get the revenue necessary for that?

Mr. Michael Tutty: I am afraid that in response to the first questions I must go back to what Mr. Coffey said at the start, namely, that the council's mandate does not cover commenting on the choice of individual tax measures or spending. It is not within our remit to get into what particular tax broadening measures we should have or what carbon tax or carbon dividends we should have and we should not comment on it.

Deputy Thomas P. Broughan: Will there not be an inevitable broadening of the tax base as a result of our attempts to meet targets for 2030 and 2050?

Mr. Michael Tutty: Yes, but if the Deputy is asking us what sort of carbon tax we should have, at what level it should be and what sort of dividends to have.

Deputy Thomas P. Broughan: I am not asking Mr. Tutty that. I am just saying that it is part of the mix or the box of surprises. It is not a surprise, however, and we will have to address it seriously. Most Members agree with that. One impact of a carbon tax is that it will broaden revenues but it may have a difficult impact on some of the more vulnerable communities.

Mr. Michael Tutty: Yes, and those are matters on which the Government has political decisions to make. As I said, we are not going to comment on what sort of carbon taxes we should have and how a carbon tax should be mitigated.

On the debt ratios, even though debt interest rates are very low, we still have a very high level of debt as a proportion of our GNI*. We are about the fifth largest in the world, so even with low interest rates we still have a big problem. We do not know how long low interest rates will last. If the capital markets see us getting back into difficulties and needing to borrow more and more, we could have big problems. The best way to mitigate that is to get our debt ratio down as quickly as possible and be less dependent on the financial markets.

Mr. Sebastian Barnes: On the Deputy's question on drugs, some of the new drugs are extremely expensive. This is one of the drivers of higher healthcare costs in Ireland and many other countries. What it underlines is the importance of having good medium-term forecasts and projections for what health spending will be. These forecasts should be based on a realistic assessment of what is driving health spending. That is partly population ageing but it is also things like the new drugs. One of the problems at the moment is that there does not seem to be a realistic baseline and that people do not stick to it. Having a more medium-term approach would be very helpful. For example, the UK has, for the first time, a long-term, five-year plan which envisages quite rapid rises in health spending but those increases are more or less in line with the historical experience of recent years. In principle, therefore, they should provide the headroom to deal, for example, with new drugs, an ageing population, the increasingly complex mix of pathologies and other issues. That shows it would be very helpful if planning was done on that basis as everyone would know where they were starting from.

Deputy Thomas P. Broughan: The witnesses say that some matters are political and some matters are for IFAC and for economic theory and so on but is there any realistic possibility that there would be a prudence account? We had this huge debate about the-----

Chairman: The Deputy has now gone over time.

Deputy Thomas P. Broughan: What are the chances of having a prudence account?

Mr. Michael Tutty: We will hand that over to the politicians. We have suggested it and it is up to them to decide.

Chairman: I will now draw this session to a close. One of the things I have learned from today is that a thesaurus is a handy tool for economists when they want something different. If they look for a rainy day fund they end up with a prudence account and they can keep on looking to see which word comes next. We thank you for coming in to us today. We appreciate the time and the exchange the committee gets to have with you and it forms an important part of our schedule. I apologise for having to bring it to a conclusion but we are well over time and we have another session to go to.

The select committee went into private session at 3.46 p.m. and resumed in public session at 3.52 p.m.

Local Property Tax Review: Discussion

Chairman: I welcome the Minister for Finance and Public Expenditure and Reform, Deputy Donohoe. He is accompanied by Mr. John Hogan, assistant secretary at the Department of Finance, Mr. Keith Walsh, principal officer and chief economist at the Revenue Commissioners, Ms Anne-Marie Walshe, principal officer at the Department of Finance, and Mr. John McCarthy, chief economist, economic policy division at the Department of Finance. The purpose of this session is to discuss the review of local property tax and the report of the international group.

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

I thank the Minister for attending and invite him to make his opening statement.

Minister for Finance (Deputy Paschal Donohoe): I thank the Chairman for the invitation to engage with the committee on the topic of the local property tax, LPT, which was the subject of a recent review. I referred the report to the committee for its consideration in light of the its findings in respect of the impact of residential property price movements on LPT liabilities under a number of scenarios. As the committee is aware, I have deferred the next valuation date for LPT liabilities from 1 November 2019 to 1 November 2020 by order under the Finance (Local Property Tax) Act 2012 with a view to providing time and space within which to engage with the committee and hear its views on the appropriate way forward for the LPT.

In 2015, Dr. Don Thornhill conducted a review of the LPT and made recommendations regarding, in particular, any impacts on LPT liabilities due to property price developments. On foot of Dr. Thornhill's report, the then Minister, Deputy Noonan, proposed to the Government that the revaluation date for the LPT would be postponed from 1 November 2016 to 1 November 2019. The postponement meant that homeowners continued to have their homes valued for LPT purposes on the basis of their 1 May 2013 declared valuation and so were not faced with significant increases in their LPT in 2017 and 2018 as a result of increased property values. LPT liabilities for 2019 are based on the 2013 declared valuations. Absent any change in the LPT legislation, the valuation of properties on 1 November 2019 would have been the basis for calculating LPT liabilities in 2020 and beyond. In that regard, the LPT review indicates that the impact of such a no-policy change would mean, for example, that 27% of residential property owners would see an increase of between €101 and €200, 28% would experience increases between €201 and €300 and 30% would see higher increases.

I initiated a further review of the LPT in 2018, as I considered it was important that the Government was able to make its position clear regarding LPT so that households would be aware of plans for the tax well in advance of the November 2019 revaluation date and the associated LPT liabilities for 2020 and beyond. I also considered that it was essential that the principle that formed a central part of the terms of reference for the 2015 review of LPT, that is, achieving relative stability in LPT payments of liable persons both over the short and longer terms, would inform the deliberations on this matter. By "relative stability" in LPT liabilities I mean that any increases should be modest and affordable and, of course, fair.

The review examined the impact of house price movements under a series of scenarios involving different rate and tax band structures. However, against a background of significant but geographically uneven increases in residential property price levels, I am of the view that it is necessary to engage in further consultation to identify a scenario that would deliver on the condition I set that there should be relative stability for all taxpayers in their LPT liabilities and that any increases should be modest and affordable. The review group found that the key challenge in its analysis is the significant variation of property price increases geographically, which introduced significant complexity to the task of attaining moderate and affordable adjustments to the tax in an even manner across the country.

I am also conscious of the importance of maintaining simplicity in the operation of the LPT, which was a major success factor in its introduction. Details of the scenario analyses are set out in the report. For the purposes of the review, the review group targeted a broad yield of €500 million, a modest increase on the 2018 yield of €482 million and recent years, and on that basis the group considered five different approaches to the calculation of LPT liabilities. The first was a central rate. The second was targeting individual local authority yields equal to the expected 2018 yield without the local adjustment factor. The third was differing rates for each valuation band. The fourth was increasing the valuation band thresholds. I note the review group finding that all of the scenarios involve "winners", that is taxpayers who would see their LPT liability reduced, and "losers", whose liabilities would increase. Moreover, the increases and decreases would be different in each scenario.

The review considered other relevant issues including 100% retention of LPT yields by local authorities, continued flexibility on the local adjustment factor and the need to ensure that adequate funding is available for local authorities. The introduction of LPT addressed three challenges: broadening of the tax base; the provision of a stable funding base; and the strengthening of democracy at a local level.

International experience has shown that property taxes are a secure and stable source of funding, compared with transaction-based taxes. As a measure which is a tax on assets, not employment, the LPT should not adversely affect growth and job creation. I consider that the LPT has the potential to play a more significant part in the overall taxation system. It is important, therefore, that the future of the tax be secured so as to maintain the possibility of enhancing and enlarging its contribution as a proportion of overall tax revenues and, over time, looking at the possibility of it approaching a European norm. At just 0.6% of national income, the LPT yield is low when compared to rates of 2.8% in France and over 3% in the United Kingdom.

The review included a public consultation process. It indicated that the committee was against proceeding with automatic revaluations in 2019 as provided for in current legislation, as they would result in significant increases. I note that the committee supports revaluation with an adjustment to rates nationally to maintain LPT yield or revaluation with an adjustment to rates locally to maintain LPT yield. The committee also recommended the cessation of exemptions for new and unused properties on equity grounds and because it would broaden the tax base. The deferral of revaluation until November 2020 provides time and space for the committee to consider the report on the interdepartmental review and provide its views for me. I hope this session will facilitate that exchange of views.

In my engagement with the committee I am seeking to promote the policy objectives that I consider should underpin any change to the tax. They are protection of the overall yield; modest and affordable increases, if they occur, in LPT liabilities; integration of new properties into the LPT base; maintenance of the tax base with a small number of exemptions; and upholding the progressivity of the tax. I have stated my view publicly that reform of the LPT needs to be based on a model of band widening combined with rate changes. It is, however, challenging to come up with a model where no one faces an increase in their LPT liability. I support retention of the option for local authorities to reduce the LPT rate in their area and have indicated my willingness to engage with the committee on the issue of taxpayers whose property is located in a managed estate on which the owner of the property is liable to the payment of management fees. In order to bring this matter forward, we will need legislation to be enacted by March 2020. Amendments to the LPT legislation are separate from the Finance Bill process as they involve local rather than national taxation. Therefore, it will be necessary for me to be in a position to present a scheme of a Bill in January next year.

I know that there are diverse views among committee members on the LPT, including the view that it should be abolished. Nevertheless, I hope we can have a constructive engagement and work towards achieving consensus on the future direction of the LPT, as I firmly believe there is latent potential for the tax to play a positive role in the overall taxation system. In view of the timeline I have outlined, I would appreciate receiving the considered views of the committee before the end of the current session. I thank committee members.

Chairman: I thank the Minister. Deputy Michael McGrath was first to indicate.

Deputy Michael McGrath: I welcome the Minister and his officials and thank him for his opening statement. I ask him to clarify what he is asking the committee to do. As he indicated, there are diverse views on the matter. We only have to look around the room to realise there will not be consensus on it. We may possibly have a majority view but perhaps not. What is the Minister expecting of the committee? In its report published in March 2018, which he cited, the committee stated it expected the Minister to come back to it prior to the budget last October. That did not prove possible, presumably because the report was not ready. What is the Minister expecting to receive from the committee by mid-July?

Deputy Paschal Donohoe: My key point in my consideration of this issue is that when I looked at the different options I would have considered, the committee independently reached the same view on them, namely, that we either maintain a national rate or that we allow local authorities to deliver the same yield by county but that they have the ability to vary the rate. It became obvious to me that while it was possible to maintain the total yield from the LPT and for it to remain unchanged, it was challenging to provide for every single individual property owner to be in a position where his or her bill would be unchanged. The exceptional geographical diversity here means an unchanged national yield of the LPT is not the same as an unchanged liability for everyone who is currently paying it. That is because of the differing rates of increase in property values across the country. I have furnished to the committee the detail of the different options it considered and which I also considered independently of the committee. If the committee is in a position to form a view on any of the five scenarios I have put forward, this would be helpful for me in what I will need to do later in the year. I am conscious that I need to assemble a majority within this committee to support changes that we will have to enact early next year.

Deputy Michael McGrath: On the timeline, the Minister referred to early 2020, assuming we are all still here at that stage. There are certain exemptions that are due to expire in October. The Minister has said in parliamentary replies that they will be extended on an administrative basis pending the legislation.

Deputy Paschal Donohoe: That is correct. My objective would be to maintain it on a “no policy change” basis until we get to the point at which legislation will be needed to renew this tax in its entirety.

Deputy Michael McGrath: I understand in the region of 60,000 properties are in the main category of newly acquired properties. Will their first liability be in 2020 or 2021?

Deputy Paschal Donohoe: It will be in 2021.

Deputy Michael McGrath: I will ask the Minister to clarify something for me in respect of scenario 2. This is where the LPT yield for each local authority is to be kept more or less the same. An analysis is then done on home valuations in the area. The rate for that local authority can be adjusted based on those revised valuations to ensure that the yield for the local authority remains pretty much consistent with what it was. According to the interdepartmental report, some 80% of properties in that scenario will see an increase from just above zero to over €200. I am struggling to understand how that is the case given that in each local authority area, there will be new properties coming into the mix where the exemption will have lapsed. That will mean extra revenue. The local authority is having a target of collecting the same amount as it did under the old regime. How can it be that some 80% of properties in that local authority area will be facing an increase? Is it to do with the treatment of the local adjustment factor?

Deputy Paschal Donohoe: No. To deal with the first part of the Deputy’s question, as we bring existing households into the LPT net, which we will need to do, the revenue these properties will contribute initially will be a relatively small part of the new LPT yield. In respect of why there is such a variation, even in scenario 2 as the Deputy has identified, there are two reasons. The first is that there has been such geographical variation by county. We have seen very different rates of price changes by county across the country. Even within counties, we have seen very uneven rates of price increases. This is the key point. The uneven degree of price inflation by county and within counties has made it very difficult to come up with a model in which we can ensure there is nobody who does not face a change. In the debate on LPT that has been ongoing on the back of this Oireachtas committee report, and perhaps in my own comments on the matter, perhaps that point should be made clearer before going down the path of bringing legislation into the House on it.

Deputy Michael McGrath: I hear what the Minister is saying. It is really a restatement of what he said earlier. I am struggling to understand how specific councils will bring in the same overall amount as they did under the old regime, before the revaluation. There will be additional properties in the net, but the overall yield will be the same. How is it that 80% of properties will actually give a larger yield?

Deputy Paschal Donohoe: It is because of the price variation within each local authority area.

Deputy Michael McGrath: That does not explain it.

Deputy Paschal Donohoe: I am happy to supply the model underlying the figures to the committee.

Deputy Barry Cowen: Is it that 20% of properties are reducing sufficiently in value that they compensate for the other 80%?

Deputy Paschal Donohoe: Yes, it is because of how uneven the price development is. We have based all our calculations on the figures we collected from the Revenue Commissioners.

This is the yield those data deliver. As the discussion develops, I can ask my officials to come in and comment on the numbers. What I have set out is what our model of property prices across the country has yielded.

Deputy Michael McGrath: Will the Minister revert to the committee with an explanation on that point?

Deputy Paschal Donohoe: Of course.

Chairman: To clarify, we, as a committee, were hoping to have such a briefing with the Minister's officials but we were unable to progress it. I acknowledge that and look forward to a chance to re-engage with them. I invite Deputy Boyd Barrett to put his questions to the Minister.

Deputy Richard Boyd Barrett: People Before Profit, among others, has always opposed the property tax. Given the review that is under way and the fact that, at some point, the Minister will have to make decisions on all these matters, will he consider abolishing the LPT at this time? When it was introduced, the Government said it would provide more funding for local services. It has not done so. We were told it would help to dampen the type of property madness we saw prior to 2008. It clearly has not achieved that objective. In addition, it has proved in its operation not to be fair in the way the Government suggested it would be. Increases in the tax have been deferred several times and the Minister does not know quite what to do in that regard. We are left with a situation where the Government is having to look at all sorts of convolutions to reconfigure it. Is not all of this proof that the tax was fundamentally flawed from the beginning and was always going to be unfair?

The basic problem is that the payment was linked to property prices, something over which householders have absolutely no control, and which have, in the intervening period, gone out of control. It represents an additional payment for something people have paid for already and, moreover, ability to pay - that is, the income coming into the household - is not taken into account at all. All these chickens have come home to roost and the Minister is left in the dilemma of what to do. Without being too political about it, it is surely fair for those of us who opposed the tax from the beginning to say that this dilemma is good reason to reconsider its whole merit. Our view is that it is a fundamentally flawed tax. The Minister must finally deal with the problems arising out of the linkage between the tax and property values, which are going through the roof. If we go ahead with the tax as originally envisaged, those increased property prices will see huge increases in payments due. Even after any changes the Minister might introduce, the problem of the linkage with property values remains at the heart of the issue. Will the Minister now consider that the problem is, in fact, the property market? Will he take on board the other matters we have been highlighting all along? Rather than put an unfair tax on the family home, will he review things like wealth taxes, particularly in the context of the enormous wealth generated by those who are speculating on property? A reconfigured property tax might be redirected away from ordinary homeowners towards those who are profiteering from the property sector, driving it out of control and doing immense damage at several levels to society, including to the people who are trying to put an affordable roof over their head. At this point, the mess in the property market amounts to a macroeconomic threat.

Deputy Paschal Donohoe: I take a different view. A tax code should have the ability to tax assets appropriately. The LPT has got the balance right between having a broad definition of what wealth is and being able to tax it in a progressive way. The more valuable one's home, the higher one's payment. I would have hoped to see that principle of progressivity supported by the Deputy. Ireland is one of the few countries in the world that, prior to the introduction of the LPT, had no property-related form of tax. We see from what has happened with property taxes elsewhere that the first point of revaluation is the most challenging because it normally comes after a period of property price growth, which is what we are facing.

On the question of how we tax people who might be profiting from property development, that was the basis of our decision to increase stamp duty on commercial property. Measures like this go some way to ensuring that those who might profit from commercial development, in particular, make a larger contribution to the delivery of public services.

Deputy Richard Boyd Barrett: The Minister stated earlier that some of the problems he is facing in reworking the LPT are to do with the unevenness of property prices, price increases and so on. How can he say that in one breath and then state that it is fair to levy a tax based on the value of somebody's property when there is no consistency or fairness as to how those prices have, as in most cases, increased? How can he make those statements at the same time when, clearly, the value of his or her property bears no relation to the actions of the householder?

Deputy Paschal Donohoe: I do not agree that my position on this introduces a tension, but I accept that it introduces a difficulty in terms of how we go about the revaluation process. It is a difficulty we must overcome because ensuring that the first revaluation of the LPT is successful offers the opportunity for the tax to make more of a contribution to the delivery of public services into the future. If that happens, it will mean local authorities are able to fund themselves better and have more resources. It will also help to avoid the types of pressures we may face on other forms of tax collection. Rather than a tension, I see a difficulty which I recognised in the decision I made on deferral.

Deputy Declan Breathnach: I thank the Minister and his officials for their engagement with the committee on this matter. Coming from a background in local government, my perspective is that while nobody particularly likes additional taxes, the public generally was accepting of the property tax on the basis that it would be spent locally. The Minister referred earlier to democracy at local level. Accountability at local level is even more important in terms of people seeing where the property tax is being spent. As a local public representative, I was left in no doubt that people wanted transparency in this regard. Some of them, of course, expected the money to be spent outside their front doors. I am not talking about that. I am talking about seeing the money that is collected and that we get value for money at local authority level. That is one of the major engagements that needs to be undertaken, with accountability from the local authorities about exactly where and what the property tax is spent on.

Why is it not possible when a property gets planning permission, and a commencement or completion notice, for the property tax to be collected automatically when the person starts to build the property? We have figures for the number of houses where income could have been generated from 2013 to now had that system been in place. Does the Minister contemplate putting that type of system in place for future builds so that there is equity, and the person who owns the property pays for it?

One in eight houses in the country is vacant. Would the Minister consider where a property is left vacant for a period, for example over 12 months, that an additional property tax would be applied to encourage them back into the market?

Many people put their payment on the long finger. Is there an incentive for somebody who can afford to clear it to do so without incurring massive penalties on the deferred payment?

Deputy Paschal Donohoe: The reason it is not possible to extend the LPT now to new homes that are being built, in the absence of a revaluation for all, is that we would have to tax properties that have just been built on the basis of the 2013 valuation. Then we would be in the situation of taxing one property that existed in 2013 on that valuation and of finding a way to infer the taxable value of a new property to be built that is consistent with 2013 market pricing. The challenge of doing that and doing it fairly is immense. While I accept and want to, and will, change the fact that some properties do not pay the tax at all, we were not able to come up with a system that would allow us to infer the 2013 value of a property built since 2013.

I would be cautious about changing the weighting of the tax if a property is unoccupied because of the experience I had before this committee where I produced a report on unoccupied properties and discussed whether we would bring in a form of tax on them to encourage greater occupation. The two lessons that came out of that report are, first, that the number of unoccupied properties is much lower than people might expect and, second, those properties may be unoccupied for various reasons, for example, because a person is ill or receiving care. We need to take care about whether we tax it, not that the Deputy is suggesting doing that. The incentive for people to pay now rather than pay more at a later date is there because the more they clear of the amount that is due the less they will pay in the future because they will be reducing their interest payments.

Deputy John Lahart: I have heard the Minister use the word "we" more often than usual in his responses today. He usually says "I".

Deputy Paschal Donohoe: I meant this "we" over here, for the purpose of clarification. I was not extending it any further. Perhaps this illustrates the difficulty.

Deputy John Lahart: That is reassuring because in the last few paragraphs he has said a lot about what "we" need to do. This is the budgetary oversight committee, not the budgetary formulation committee. That is the Minister's job. From a budgetary oversight perspective I notice that when it comes to difficult decisions, whether the carbon tax or petrol and diesel equalisation and the LPT, the Minister has failed to make a decision. He seems, however, to have nailed his colours to the mast from a general perspective. That is why I wonder about the "we" in the later part of his contribution. He says LPT has the potential to play a more significant part in our overall tax system. He has indicated a policy stance on that. The more significant part is I presume that he wants the yield to be bigger. To develop that stance further he has gestured to France where the property tax represents 2.8% of gross domestic product, GDP, and to the UK where it represents over 3% of GDP, whereas in Ireland it is at 0.6%. Why put that in unless he is indicating where he would like to see this go? That would represent very significant increases for property owners.

Deputy Paschal Donohoe: In response to the Deputy's points about my not making decisions, for those he has pointed to that I have not made, I would point to the ones I have made, principally the value added tax, VAT, in the hospitality and services sector, the change in the betting levy and the stamp duty on commercial property. He is correct to say that there are some changes I have not made but there are others that I have made, each of which met resistance from some in the House and certainly from those affected by them, and they still do. Experience has taught me that if we are to make further changes, particularly in the area of carbon taxation we need to build up a degree of consensus for doing it as I have done for the other changes I have made.

On the point about the long-term view I would like to see LPT yield more than it does at the moment but the caveat which has influenced what I have not done on LPT revaluation is that any changes must be modest and affordable and I would like to get to a position where the change which I propose to the committee – the Deputy is right that it is my responsibility to propose changes – is one that does not bring change for many, that for some is a change by a single band and for others is related to the value of their property. The greatest increase in yield will come from the number of new homes that come into the LPT net. That is how we will see it grow but we have a long way to go to see enough new homes becoming available to get to the percentage tax yield I referred to a moment ago.

Deputy John Lahart: Would the Minister see the yield rising to a similar percentage of GDP as in France or the UK?

Deputy Paschal Donohoe: I do not see that happening in the short or medium term.

Deputy John Lahart: That would be five or six times the current percentage.

Deputy Paschal Donohoe: Yes. My key consideration in all of this, which is why I made the decision that I did, is that if anybody faces an increase it should be modest and affordable.

Deputy John Lahart: That does not tally with what the Minister said, namely that he would like to see the tax pay a more significant role. He did not say a more modestly significant role, which is an oxymoron. He spoke about enlarging its contribution as a proportion of the overall tax yield.

Deputy Paschal Donohoe: I have explained that I see that coming about as a result of new homes coming into the local property tax, LPT, base as they are built.

Deputy John Lahart: I thank the Minister. I made this point the last time we spoke about this. People who in some cases have been exempt for five or six years will be living side by side with people who have been paying local property tax and paying for local services. Was there not even an opportunity to address that? Do the Minister's officials have an average figure for what the exemption of 60,000 to 70,000 houses costs the Exchequer annually under existing rates?

Deputy Paschal Donohoe: We considered it but we did not find a way of doing it that would be fair to all. It goes back to the point I made to Deputy Breathnach. In order to have a taxable liability we need a way of pricing the asset. We would then face the challenge of trying to assign a market value at 2013 levels to properties that have just been built. We were not able to come up with a way of doing that which would be fair and would withstand challenge. The yield we are forgoing as a result of that is currently between €25 million and €27 million.

Deputy John Lahart: There is some sympathy on both sides of the House for the idea of allowing small landlords to claim some property tax back in order to make their yield on their properties a little bit more attractive. How would the Minister see that applying to the cuckoo funds who are currently buying properties or the developers who are applying to build massive amounts of build-to-rent properties? How would he square that circle? Has he taken a view of that?

Deputy Paschal Donohoe: The person who pays the LPT is the property owner. The Deputy does not need me to tell him that. I would be careful about introducing LPT relief for landlords for precisely the reason he has identified. It is very difficult to make a tax policy measure available on the basis of scale, so that a landlord below a certain size can have it and one above that size cannot. This is one of the reasons I have not introduced several tax measures I was asked to introduce for the rental sector. There is no robust way of making tax policy available only to providers below a certain size. It is not possible to do that, so I would be very surprised if we could find a way of adjusting LPT to account for owners who rent properties.

Deputy Lisa Chambers: The single biggest complaint about the local property tax I hear in my constituency in Mayo is that people feel it is a local tax and expect to see local services from it, but they have not seen any difference in local services since it came into being. The Minister faces a very difficult task in making this an equitable tax so that citizens see a return for what they pay. I agree with Deputy McGrath's assessment; it does not really make sense for local authorities to take in the same amount if there is going to be an increase in LPT for 80% of taxpayers and only 20% will see a reduction. I would like to see the methodology behind that. It does not seem to make much sense. Consider the example of somebody in County Mayo who has a three-bed semi-detached property valued at €130,000 or even less. He or she should be paying considerably less property tax than somebody living in a very affluent part of Dublin like Killiney or Howth, where the level of public services is very different. In rural parts of Ireland there are really no transport services. Far fewer services are available. We must address the feeling among citizens that they do not get anything back for the LPT, that it just goes into the State coffers and is spent on things like overruns on the national children's hospital or the national broadband plan. Citizens have not seen any tangible difference in the provision of local services since the LPT was introduced. I would like to hear the MInister's views on this. Some local authorities are extremely cash-strapped, if I can use that term. They run on deficits and struggle to provide basic services. Other local authorities have additional moneys and can provide lots of local services. The variation between the services local authorities can provide and the resources available to them is so wide. The Minister would need to address that issue to get support for changes to the LPT.

Deputy Paschal Donohoe: I take the Deputy's point. We need to look at how to strengthen the link between the local property tax somebody pays and the local services he or she receives. That is a fair point. To make the Deputy aware I will refer to how the LPT is currently allocated. Of the approximately €500 million raised each year, approximately €400 million is recycled back to local authorities to provide services. Some €100 million is retained centrally. I would like to find a way to ensure that more of the tax raised within a particular area stays within that area. The flip side of that is the need to ensure other local authorities do not lose out as a result. We have to ensure that a local authority that currently receives funds from elsewhere is not penalised as a result of that policy decision. In parallel with bringing in the legislation we must make progress in dealing with that.

The Deputy made a point about the contrast between a property in Mayo and a property in a very affluent part of Dublin. As the Deputy knows, it is likely though not certain that the owner of the property in Mayo will pay less LPT because of the lower property value. This debate cuts into the heart of issues I will have to deal with when I present the legislation to the House. Because property prices have grown at different levels in different parts of the country, any reform will have distributional consequences. Some people will benefit and others will not. My overall point is that made by Deputies Chambers and Breathnach. As part of changing this I would like to build the link between what property owners pay and what is retained and spent in their areas. We can do that. We will have to do it for some local authorities in order to ensure a successful revaluation.

Deputy Lisa Chambers: I want to be clear that someone who has seen a significant rise in the value of his or her property in an affluent part of the country may not have access to liquid cash to pay extra bills. He or she may be in a very difficult situation. Ability to pay has to be a factor regardless of the fact that some people happen to have seen a massive increase in their property values. The Minister notes that 20% of local property tax is centralised. Is this something the Government should reconsider? It is not very genuine to call it a local property tax if 20% goes back to the Central Fund to be spent wherever the Government decides. In a local authority such as Mayo, elected members do not really have the ability to vary the LPT 15% up or down because if there is a gap left - if they vary it downwards - that gap will not be filled by central Government. A local authority with extra resources that is doing very well, is in surplus and has extra funds is better able to give back to its citizens. Such a local authority can vary its LPT and see no negative impact on the provision of services but in a less wealthy area of the country such as parts of rural Ireland, there is no ability to vary the LPT because a hole will be left in the local authority's finances. These are probably the same local authorities that are already cash strapped. I have seen nothing in what is proposed by the Minister that seeks to address that significant imbalance across the regions, particularly in parts of rural Ireland where the provision of services is far less than people would receive in other parts of the country. The message I get back loud and clear is that the LPT is not a fair tax, that it does not stay local and that people have not seen an improvement in their local services. The Government will consistently get push back until those issues are addressed.

Deputy Paschal Donohoe: The Deputy argued that we need to give consideration to ability to pay in terms of the future LPT. I can understand the attraction of that point and why the Deputy feels that way. Legislating for that and changing the LPT to do that would have massive consequences in terms of what this tax would look like in the future and the revenue it could raise. This is one of the issues we need to be careful about as we look at changing the revaluation and the legislation we need to make that happen.

Regarding the Deputy's second point about the effect on local authorities that cut their LPT rate, what the Deputy said is correct. If they cut the rate and there is a gap in revenues as a result, that gap is not filled. Conversely, were we to decide that we would fill that gap, we could perversely create an incentive for the rate to be reduced even further. That is why I believe there is merit in ensuring that in the future, if local authorities decide to cut their LPT rate, they can only do so if they feel they have the resources in place to ensure that it is affordable for them.

However, overall, the point made by the Deputy regarding the connection between paying a tax locally and seeing a local service improve is a fair one. I issued a press statement on the day because it was only touched on in this report because the report looked at how we raise the tax as opposed to how we spend it. That is something on which we need to make progress. To get a sense of the figures against that, we retain around €100 million per year in this tax so making progress towards that objective of what is paid locally being used to pay for a local service without penalising another local authority elsewhere does have significant financial consequences. Over time, we will be able to do a better job on it than we are doing at the moment.

Deputy Pearse Doherty: Are we sticking to the LPT or can we range wider?

Chairman: There is very little-----

Deputy Pearse Doherty: There is very little time. I will focus on the LPT. Could the Minister clarify why there would be an increase for 80% of householders? There will be an increase in cost even though the amount of money is supposed to remain the same. Could the Minister give us some insight into that because if we look at scenario one, which shows that

20% of householders would get a reduction and 80% would get an increase, we can also see that every local authority outside Dublin would have a reduction in the amount of LPT collected. In that scenario, is the Minister committing to making up the deficit for those local authorities if he decides to go with option one?

Deputy Paschal Donohoe: The reason there would be some who would lose out is because of the movement of property values inside the local authority area. Perhaps the next step would be for my officials to come before the committee and take members through the detail of the model that has yielded that insight. They were due to appear before the committee beforehand but that was not possible for scheduling reasons because I was before the committee.

Regarding the question of whether I would commit to making up yield that would be lost were we to go ahead with a particular yield, that is not a commitment I could give now. What I want to do is ensure that overall, the yield we have at the moment is protected and maintained. The way to increase it in the future is bringing new homes into the net.

Deputy Pearse Doherty: It is important when we look at scenario one because it is not really spelled out anywhere in the report. Every single county outside Dublin loses out. Dublin benefits by 23%. About €40 million will be stripped away from councils outside Dublin, which means services will have to be cut unless the Exchequer is willing to fill that hole. So option one creates a major problem for local authority budgets, which are already constrained. I agree with Deputy Chambers. There is significant frustration that a local authority tax was introduced and that on one hand, a local authority was given the powers to raise this tax and on the other, Exchequer funding of equal amounts was taken from the same local authorities. This would represent a very bad scenario for every single local authority outside Dublin county yet this is under active consideration with no commitment to filling that gap.

Deputy Paschal Donohoe: I have not yet said which one of these scenarios we should go for. If I say that I want to maintain the relative yield of the current LPT, the other side of that coin is the reason why I want to do it. If the yield goes down, I know there will be revenue lost in local authorities that will then become an issue for me because the Department of Housing, Planning and Local Government will want that money to be found in other ways. My view of what we will need to do involves protecting the overall yield for people who are paying. At this point, the way in which we will do it will be by a combination of band widening and rate adjustment nationally. I believe that by doing that, we will maintain the yield nationally and by maintaining the yield nationally, we will minimise and, hopefully, eliminate the possibility of any local authority losing revenue.

Deputy Pearse Doherty: I welcome the Minister putting his view on the table. The Minister knows my view on the LPT. I believe it should be a completely different form where all assets are included. Notwithstanding that, we are dealing with this review. So the Minister's position is that he would choose none of the five options that have been presented by the review group. He would choose a variance of a number of those options.

Deputy Paschal Donohoe: I think that with some work, a combination of scenarios four and five offer a potential way forward on this issue.

Deputy Pearse Doherty: It is very difficult because we have a review with five different scenarios showing exactly what every local authority would win or lose. Deputy McGrath asked what the Minister wants from this committee. It is getting more bizarre as we speak because if option one is not on the table, that is a different scenario. Let me go the policy-----

Deputy Paschal Donohoe: Just to be clear, from a process point of view, I will come back before this committee and the Oireachtas later on this year - hopefully, assuming we are all here doing our work - making a recommendation about what to do. If anything, this committee has indicated that there is far more complexity surrounding this issue than might have been apparent initially. The idea that one might be able to maintain yield but individual taxpayers would be unaffected is very difficult to deliver. I am conscious that Deputy McGrath is leaving. I am in front of the committee and know that other matters have been raised today about me and the performance of my Department. I take my relationship with the committee seriously. While I know that in this round of questions the Chairman has focused on the local property tax if members want to raise other matters with me, it is understandable that they will do so. As I say this, I know that I will be causing difficulties elsewhere because there is an event this evening to which I have committed, but I take my accountability to the committee seriously and if members want to raise other matters with me, I am in their hands.

Chairman: I did indicate to members that in prioritising this area there would be some latitude if they wanted to ask the Minister about matters discussed in our first session also.

Deputy Pearse Doherty: Let me make a final point about the local property tax before getting into the Irish Fiscal Advisory Council's report. Before the Minister makes any determination on his options, these models should be provided for the committee in order that we would know who the winners and losers were, who would benefit and lose from a local authority's point of view. It is also important that the Minister outline what his position is on the retention of 100% of the proceeds and getting rid of the equalisation fund. Is he 100% committed to making sure the figure of 20% of the equalisation fund which is shared with local authorities in more rural and disadvantaged areas will be maintained in the context of Exchequer expenditure?

On the report of the Irish Fiscal Advisory Council, it was highly critical of the budgetary stance taken. There is a table, with which I am sure the Minister is familiar, which shows the mid-term projections which the council has stated for the second time in a row are unrealistic and not credible. It has again questioned the fact that the Government is not budgeting for the likes of the Christmas bonus. It has also pointed to health budget overruns, an issue the committee has discussed. There are indications that we will again see significant overruns.

Probably one of the biggest points that sticks out is that the Department and the Minister have not recognised the impact of our dependence on corporation tax in the previous document released by the Department. It shows that the impact is not as high but that the risk is high. The Irish Fiscal Advisory Council has questioned this. Given that the level of concentration is now more severe, at 48% of all tax revenue, according to the TEN Group of Companies, the fact that it is surging and that the Irish Fiscal Advisory Council is stating up to €3 billion to €6 billion may not be available in the medium term, is it time to look at the advice of the council on medium-term expenditure and give credible figures to the committee, the Oireachtas and the public? Is it time to look at having a policy on surges and increases in corporation tax?

The Minister may also be aware of the Irish Fiscal Advisory Council's questioning of the design of the rainy day fund which at this point is counter-cyclical but which is not counter-cyclical in a downturn because it runs contrary to fiscal rules to use it for social protection payments or investment in health or education supports and so on because it is limited in the ways it can be used?

Deputy Paschal Donohoe: I will deal with the four points made by the Deputy. First, he asked if I would publish a schedule to allow committee members, the Oireachtas and the public to see the distributional consequences and what I proposed to do. I will do so.

Second, on my commitment to ensuring no local authority would lose out as a result of any change, that is my policy objective. I want to ensure that if we are able to move to a model in which some local authorities can keep revenue they raise within their own jurisdiction or parameters, no other local authority will lose out because, as the Deputy knows as he understands how it works, at present through the equalisation fund many local authorities receive floats, the importance of same I realise. I make the point that, given that the Deputy has said he wants to abolish the LPT in its entirety, it would create a massive revenue loss-----

Deputy Pearse Doherty: No.

Deputy Paschal Donohoe: -----for those local authorities, as opposed to anything I am suggesting.

Deputy Pearse Doherty: I mentioned direct Exchequer funding.

Deputy Paschal Donohoe: That gap in revenue would have to be filled in some other way.

Deputy Pearse Doherty: Through having a proper asset tax.

Deputy Paschal Donohoe: With respect, the Deputy cannot point at me and ask how I would deal with a revenue loss, given that he is looking to abolish the tax that generates the revenue in the first place. I will respond to the Irish Fiscal Advisory Council's comments on medium-term expenditure by citing the example of public pay. If we were to outline now what we believe increases in public pay will be in 2021, 2022 and 2023, it would have a fundamental effect on those figures by the time we got to agree them with leaders of the trade unions, with whom we negotiate those increases. If I were to indicate now what social welfare packages will be in 2022 or 2023, that would have a big effect on the policy decision made by the Minister for Employment Affairs and Social Protection on the day. Where I differ with the Irish Fiscal Advisory Council's analysis is that I believe that if we were to go down the path of current expenditure modelling, it would, by and large, eliminate policy discretion for the Government of the day in respect of where funding would be allocated between different Departments. We should relinquish that discretion with care.

On the Deputy's point on corporation tax, other documents published by my Department have acknowledged that the concentration risk definitely applies to corporation tax in that a smaller number of companies are paying a large share of that total tax head at the moment. It was for this reason that we increased VAT in the hospitality services, which the Deputy's party opposed. That measure was introduced to begin to broaden the tax base. This was also the reason we calculated our tax figures for this year on the basis of collecting a lower level of corporation tax than we collected last year. While there is a vulnerability which could develop in the future, what institutions such as the Irish Fiscal Advisory Council would argue, and I agree with them, is that we need to broaden the tax base. The Deputy was against all the ways we proposed to broaden the tax base.

Deputy Pearse Doherty: That is not true.

Deputy Paschal Donohoe: It is true. Sinn Féin wants to abolish the local property tax. It was against water charges and voted against the VAT increase and the increase in the levy on the betting sector. That is Sinn Féin's track record. It was against those proposals and its only idea for raising revenue was to increase taxation on intellectual property in corporation tax policy.

That is the very thing the Irish Fiscal Advisory Council is warning against.

Deputy Pearse Doherty: No, it is the very thing Seamus Coffey has been consistently arguing for and the Minister knows he is wrong on that. Mr. Coffey has been critical of the fact the Minister has given an exemption on intellectual property rights. The Minister will also remember that I argued for an increase in VAT, albeit in a two-step manner. I made that argument one year before the Minister introduced the increase. I also argued for an increase in the betting tax but not in the way the Minister wanted.

Deputy Paschal Donohoe: There is always a reason to vote against these measures and the Deputy has taken it at every opportunity.

Deputy Pearse Doherty: That is not true.

Chairman: I reiterate that if members do not use all of their time in the first round, they will have an opportunity to reply to the Minister's comments in the second round.

Deputy Pearse Doherty: The Minister should correct the record on the Irish Fiscal Advisory Council's position on intellectual property rights because he knows he is wrong in that regard.

Deputy Joan Burton: I apologise for leaving the meeting earlier for another engagement. I have a question on the detail in the information sheets on exemptions and deferrals. I want to understand the position in this regard. Some 49,000 claims for exemption were made in 2018. According to the briefing sheet on the review of the local property tax report, 11,700 requests were made for exemption for homes purchased in 2013. Is that figure correct?

Chairman: The Deputy is citing a briefing document supplied by the committee as opposed to the Minister or his officials who will not have seen it.

Deputy Joan Burton: The document states that 49,000 claims for exemptions were made in 2018. What categories of people can avail of exemptions? We understand that deferrals are available to people who are on or below a particular income threshold. How many exemptions were made in each of the years since 2013 and for what reasons? Will the Minister address that broadly?

Deputy Paschal Donohoe: Those categories are charitable bodies; charitable bodies or public bodies providing special needs accommodation; registered nursing homes; properties that have been vacated because of long-term mental or physical infirmity; the residence of a severely incapacitated person; properties that are fully chargeable to commercial rates; unfinished housing estates; properties where there has been significant pyrite damage; certain properties purchased between 1 January 2013 and 31 December 2013; and the trading stock of builders that was unsold on 1 May or sold between 1 January and 31 October 2019.

Deputy Joan Burton: That is fine. Other than exemptions granted for health, medical and other particular circumstances, how many houses, purchased or built, are currently the subject of exemptions?

Deputy Paschal Donohoe: The total number of exemptions is 48,728.

Deputy Joan Burton: The fact that many people who bought their houses some time ago are exempt is a considerable cause of disaffection with the local property tax. It is a point often raised with me. We have all seen the rising property prices in Dublin so let us take as an example a new property, perhaps a penthouse apartment, bought in the International Financial Services Centre, IFSC, four or five years ago for between €700,000 and €1 million. Is it correct that that apartment is exempt from property tax? This is an example of the local legends I am talking about and the point I want to understand.

Deputy Paschal Donohoe: The answer is "Yes". At the moment, the tax applies to properties that were levied when we last made changes to this tax. If a property like the one described by Deputy Burton is exempt, so too is a property that was purchased by somebody for €100,000 or €150,000. Those people do not pay the local property tax either.

Deputy Joan Burton: I am aware of that.

Deputy Paschal Donohoe: I want to finish the point because this cuts both ways. As Deputy Burton is aware, far more properties have been bought at values below the price of penthouse apartments in the IFSC.

Deputy Joan Burton: I am talking about the exceptions that people know about. A new house might have been built on the edge of Dundalk. It might be a lovely five bedroom house and much more valuable than houses in Anne Street or elsewhere in Dundalk. One property could be valued at €600,000 or €700,000 whereas another property could be worth closer to €200,000 or €250,000. The people in the property valued at €250,000 are paying the property tax because they have been in the house for a long time. The people in the new or newly purchased property, however, are not paying the tax. I am making a point about the fairness of taxation. The Minister cannot argue that this situation should continue indefinitely. I understand a case involving a new build where a fresh mortgage has been taken on. In that case, an exemption for two years might be justified perhaps as the people concerned set themselves up. It is really hard, however, for people to understand this growing band of exemptions. I suggest strongly a change that could be instituted immediately but that would not interfere with the tax base. This might be a token change, but I suggest applying even the minimum rate of property tax to those properties. That would not be overly complex. The current situation is wrong.

Deputy Paschal Donohoe: I will address Deputy Burton's point briefly. I am not suggesting that exemptions continue indefinitely. We have to change this situation. As I stated to Deputy Breathnach earlier, I accept the inequity of one property being subject to the property tax while another is not. An equal inequity in the eyes of some, however, would be charging one person on the basis of 2019 property values and another on the basis of property values in 2013. My view is that we should deal with all of this in one go. When the next re-evaluation happens, everybody from then on should pay the local property tax on the basis of market valuation at that same point in time.

Deputy Joan Burton: This is a sore point with many people throughout the country. People cannot understand this situation. It speaks of a blatant unfairness. A central rule of taxation is that it must be levied as fairly as possible. Taxation must affect people in equal circumstances equally. My other question-----

Chairman: Deputy Burton is out of time but she has a few seconds to ask that question.

Deputy Joan Burton: What is the situation regarding the ongoing drama with the appointment of the Governor of the Central Bank? Has the appointment been suspended or stalled? The Minister for Finance has been silent on this matter. It is very important who runs the Central Bank. Can we know what is happening?

Chairman: I am sorry but that is completely outside our area today.

Deputy Joan Burton: The Minister indicated that he would accept other questions.

Deputy Paschal Donohoe: I did indeed. The incoming Governor of the Central Bank has now been appointed. He was appointed when the Government made its recommendation to the President and the President then acted on that recommendation. The Government's recommendation was made on the back of my recommendation which itself followed an independent and thorough process that yielded a single name at its conclusion. That was Mr. Makhlouf. I am not going to comment on an inquiry under way in another jurisdiction. I do not believe it would be appropriate. That inquiry is under way and the authorities in New Zealand have outlined what that process is and the date by which it is aimed to be finished.

Deputy Joan Burton: Can the Minister give us an indication of that finish date?

Chairman: I am sorry but Deputy Burton is out of time.

Deputy Joan Burton: This is an important point.

Chairman: In the way-----

Deputy Joan Burton: This is the Committee on Budgetary Oversight. We listened to the representatives from the IFAC earlier.

Chairman: I am sorry Deputy Burton-----

Deputy Joan Burton: There are few people more important in the Irish system than the Governor of the Central Bank of Ireland.

Chairman: I will let the Minister in briefly to finish and then I will explain again how this questioning works.

Deputy Paschal Donohoe: The New Zealand authorities have indicated that they are aiming to have this inquiry finished by the end of June. That is, however, a matter for them.

Chairman: I want to make it absolutely clear to all Deputies that they will have an opportunity to come back in again after we have completed a round of questioning. All they have to do is wait and then they can come back in and follow up with the Minister as much as they like. I call Deputy Cowen.

Deputy Barry Cowen: Regarding the Irish Fiscal Advisory Council, thankfully we have that forum available to us to independently and critically analyse the performance of the Government and the economy. Since the last soft landing, if we want to call it that, we have had the introduction of EU fiscal rules and departmental expenditure ceilings. They are not complementary to the present scenario. We have consistently exceeded departmental ceilings. The IFAC referred to the breach of the fiscal rules last year and, potentially, again this year.

That is quite damning and critical and focuses on a few key areas. We have spoken briefly about the first one, corporation tax receipts, and the Minister has given his response. I take the point made by the Minister. He has allowed for reduced receipts this time around. That, however, is not to say that the Minister will not use those receipts to bail out Departments, as he has done consistently in the past. The volatility remains consistent. What further analysis has been carried out by the Minister and his Department to measure that volatility and to allow a judgment to be made on when it will cease to be such a safety net for the economy?

The other issue mentioned was the impact of Brexit and the credibility of the forecasts made by the Minister's Department. Much depends on the Government assuming that there will be a soft or an arranged Brexit. It would appear now that it might be quite the opposite. That might have a major detrimental impact on the economy, its performance and other related aspects of the economy thereafter. It is unfortunate that element has not been factored into the forecasts. That may be why the representatives from the IFAC stated that some of the forecasts are not realistic, not credible and not responsible.

I will move on to another point I raised with the representatives of Irish Fiscal Advisory Council, IFAC, concerning the national development plan. We have overruns in two areas of it already. One is with the national children's hospital where in excess of another €350 million has to be provided for in the next three to four years and we have no information yet as to from where that will come. Also, in excess of €1.5 billion has to be provided for the national development plan up to 2027 and another €400 million has to be provided between 2019 and 2023. That is the guts of €3 billion that the Minister has said will come from future revenues. The representatives of IFAC have said, and I agree with them, that is not necessarily credible. It is unrealistic, it is not fair and it is not being straight with the electorate. The Minister said it will not result in any other projects being forgone, that there will be no effect on any other single project in the national development plan across the areas of health, housing, education and so forth. I contend the money to pay for this has to come from higher taxes, new borrowings, current expenditure, cuts or projects forgone in the national development plan. Those are the four options available to the Minister but he has said "No" to those. However, they and I have said it is not credible to say that is the case. How does the Minister respond to that?

Deputy Paschal Donohoe: Regarding the different points the Deputy made, first, he alleged I have breached the fiscal rules in the-----

Deputy Barry Cowen: I do not, they do.

Deputy Paschal Donohoe: No, I think the Deputy said I had breached the fiscal rules.

Deputy Barry Cowen: And they do.

Deputy Paschal Donohoe: Each budget I have introduced has been assessed by the European Commission as being compliant with our fiscal rules. I remember being where the Deputy is seated and being assured that rules were being met. I have to do better than that even though the rules are being met. To be clear, the European Commission has assessed the performance of the budgets I have introduced *vis-à-vis* the fiscal rules of the European Union and has said that I have complied with them.

On the matter of my breaching expenditure ceilings, more accurately it would be the case that expenditure ceilings, mostly in case of one or two Departments, have been breached and that is mainly centred around issues in the health area. To say we have breached these ceilings for all Departments-----

Deputy Barry Cowen: I did not say that. I said several.

Deputy Paschal Donohoe: No. The Deputy said that I had breached Government ceilings on a number of occasions. I am just stating what I have done.

Third, to address the point regarding Brexit, in the stability programme update, SPU, we called out what would be the effect on our economy of a hard Brexit taking place. That was published in April. It is highlighted in a box in the SPU. However, the Deputy's point is important in that we must acknowledge that circumstances are changing before our eyes at the moment. What may have been the case earlier in the year is now changing before us. When I get to prepare the summer economic statement, I intend to continue to outline the different scenarios we might have to deal with later in the year when it becomes clearer to us what the form of Brexit will be. While the SPU acknowledges the Brexit risk I will be spelling that out in more detail when I get to prepare the summer economic statement.

On IFAC's views on Project Ireland 2040 and the national development plan, I believe it will be possible over a number of budgets to meet the higher commitments we will have for broadband and the national children's hospital but I would make the point that the national children's hospital, in particular, has additional costs that need to be paid for across the next three years and then we will have paid for the hospital and it will be in place.

Deputy Barry Cowen: With cuts of €116 million per annum.

Deputy Paschal Donohoe: I will need to acknowledge and outline on budget day the ways in which that will be paid for, and I will do that.

Deputy Barry Cowen: Therefore, it will not come from future revenues, as the Minister said previously.

Deputy Paschal Donohoe: I have always said there are a number of different ways in which it can be paid for. The future tax revenues we will collect are an obvious way in which it can be paid for but there are other choices that we can make as well. I have always said that.

Deputy Barry Cowen: Including forgoing some of the projects listed in the national development plan.

Deputy Paschal Donohoe: I have not done that to date.

Deputy Barry Cowen: The Minister refuted previously that he would go down that road at all.

Deputy Paschal Donohoe: My view is that we will be able to maintain other projects we have in the national development plan. When we made the decision earlier this year to pay the additional costs from the national children's hospital without changing the capital ceilings earlier, I was told this would result in a variety of project cancellations. That has not happened. If earlier in the year I had increased the capital ceiling for the Department for the Government overall to pay for the additional costs of the national children's hospital, I would now be facing a charge from the Irish Fiscal Advisory Council, IFAC, and no doubt from the Deputy, that we were increasing the total Government capital ceiling to chase the cost of a project. That is a precedent set-----

Deputy Barry Cowen: Exactly and that is why it is important the Minister lays out now what will be cut to the tune of €116 million per annum over the next three years to pay for the national children's hospital overrun. It is equally important he does not confine himself to future revenue to pay for the overrun associated with the national broadband plan because it is massively excessive and will have an impact on some projects if it is to paid for in another form and that is within the envelope he has for the national development plan.

Deputy Paschal Donohoe: As I said, I have demonstrated this year our ability to deliver the funding that is needed for the national children's hospital without making changes elsewhere. As I approach budget day having outlined the resources available to us in the summer economic statement, I believe we will be able to continue with that approach. With respect to the national broadband plan, in particular, I have acknowledged it is a very costly project and I was before this committee in regard to it, but at some point those who are opposed to what we are doing will need to say how they would do it cheaper while delivering 100% coverage.

Deputy Barry Cowen: Absolutely and I have no problem whatsoever with that.

Chairman: I thank Deputy Cowen. I call Deputy Eamon Ryan.

Deputy Eamon Ryan: I apologise for being in and out of the meeting but I had to also attend a meeting of the Joint Committee on Communications, Climate Action and the Environment.

The IFAC briefing earlier was scary for those of us who have been here long enough. The stories the representatives told us of "I will spend it because I have it economics" and betting the future on stable tax revenues that might not be realised is familiar and scary if some of the international downside risks bring us into financial difficulties again. There is a similar sense currently with it comes to our treatment of land. It is quite retro. Developers have full page advertisements in newspapers telling us what is good for us in the form of development. Fine Gael is relying almost entirely on the market to solve our housing problems, which, clearly, is not working. It is giving everything to developers in terms of lower standards and so on and developers are storing land again and playing the housing issue for their own interests.

As part of the wider consideration of property tax, will the Minister consider reintroducing the tax that we introduced in government, which put an 80% tax on any rezoning profits that would accrue to a landowner who would benefit from that land being rezoned in any way? The previous Government pulled that measure arguing it never raised any revenues and therefore why would we have it. However, it is an important check against improper speculative gains from land hoarding. With the commencement of new development plans in the councils, it would be completely improper for any of the benefits of that to accrue to developers. It might put some manners on the developers if they were not to see it as a speculative asset that is worth hoarding.

Second, will the Minister give the Land Development Agency compulsory purchase order powers, or consider giving it stronger powers in that respect? We need to build up bands to achieve the objectives of the national planning framework, with which I agree. The national development plan abandoned it - it is totally unsustainable - but the regional planning framework was very good. It is desirable to bring life back to the centre. For example, in Dublin city, the Land Development Agency might look at making compulsory purchase orders in respect of brownfield or industrial estate lands. It could be effective to develop such lands in conjunction with other State assets. Will the Land Development Agency be given powers to make compulsory purchase orders and, if so, will it be possible to ensure that this will not just result in massive benefits or profits for landowners? The latter should not necessarily benefit as a result of compulsory purchase orders being made, any profit should accrue to the State. Is the Minister considering giving the Land Development Agency powers in this regard?

I have views on domestic property tax, which we tend to focus on and then miss the bigger picture. Not taxing the capital asset of land that is hoarded by speculators and not released onto the market is the core problem when it comes to housing. Is the Minister examining the possibility of strengthening the State's ability to recoup benefits that accrue from developments like the metro through the use of site levies and other mechanisms? Is the Minister looking at this as a third mechanism to even up the score and ensure that we do not just end up with a developer-led system but, rather, but a property management system designed to uphold the public good?

Deputy Paschal Donohoe: In the context of the Deputy's assessment of where we stand from IFAC's point of view, will he give consideration to changes we have made in broadening the tax base to deal with the very risk he identified? Over the past two budgets, the tax base has been broadened. This was done despite the fact the sectors of our economy affected by tax broadening did not want it. It happened precisely because I am trying to find ways of ensuring that, over time, we do not become excessively reliant on a particular tax head. The Deputy knows what they are and he knows what we have done with stamp duty on commercial property, with VAT and with the gambling sector, which was on a smaller level.

Giving additional powers to the Land Development Agency is a matter for the Minister for Housing, Planning and Local Government, Deputy Eoghan Murphy, although I am working with him on it. My view is that the Land Development Agency should have strong powers to use compulsory purchase orders because it is important for allowing it to build up a landbank which, of itself, is value for building homes on. It will also have an important indirect effect then on the pricing of other land adjacent to those landbanks.

I am not planning to introduce an additional zoning tax. The reason for this is that I am trying to increase the supply of zoned land. My concern is that if I was to make such a change, it could run against that objective. It is not the case that we are reliant on the market to deliver the objectives we have for housing. We need private developers to deliver private homes to those who want to buy them. However, between one and four and one and five of the homes built this year will be delivered through different mechanisms by the State for social and public use. That is mixed used. At this point, I am not considering introducing development levies on rezoning decisions. I am engaging with the Department of Housing, Planning and Local Government to ensure we are funding infrastructure in the right way while ensuring nobody is benefiting disproportionately from the delivery of a public good in their vicinity.

Deputy Eamon Ryan: Let us take the example of agricultural land valued at €10,000 an acre. If a council or other public body makes the decision to rezone it for residential use, the value might increase to €400,000 an acre. Is the Minister agreeing that the profit of €390,000 profit an acre should go to the owner of the land? As Judge Kenny asked when the matter came before the courts 40 years ago, why does the landowner deserve all that profit from a decision relating to the public good? If this is to encourage, as the Minister stated, the supply of zoned land, have we not seen the folly of those ways over the past 50 years and the corruption to which they give rise?

Chairman: The Deputy is out of time. I have given him extra leeway but I must let the Minister back in.

Deputy Paschal Donohoe: My understanding is that in normal circumstances the landowner would pay capital gains tax.

Deputy Eamon Ryan: At what percentage rate?

Deputy Paschal Donohoe: The landowner will pay capital gains tax.

Deputy Eamon Ryan: Yes, but at a low percentage rate.

Deputy Paschal Donohoe: It is low in terms of a percentage of the total value of the property but the landowner is paying capital gains tax. The trade-off is that I want to ensure that more land upon which we can build more homes will be made available. I am trying to get the balance right. I am not making this policy choice because of a desire to protect private gain, I am doing it to try to ensure that we will be in a situation where there will be more zoned land. Does the Deputy accept that if we were to introduce the measure he is proposing, we would reduce the incentives for making land available for the building of homes?

Deputy Eamon Ryan: I would be using a lot of those compulsory purchase orders. In any event, zoning decisions are made by local authorities and not, as was the case in the past, on the basis of land interests.

Deputy Paschal Donohoe: That has a big policy consequence as well. In essence, the Deputy is accepting my assumption that if we were to introduce such a tax measure, it would reduce the ability to make land available for additional homes. The Deputy's answer to that question is that he would acquire it by means of compulsory purchase orders. That would have significant consequences for landowners. We can get the balance right in terms of encouraging the supply of more land in the future for the zoning of more land on which to build homes without needing to rely on the Deputy's proposal.

Chairman: The meeting is supposed to conclude in three minutes' time. However, I had indicated earlier to Deputy Lisa Chambers that she could come back in with a question.

Deputy Lisa Chambers: I thank the Chairman for his indulgence and I appreciate having the opportunity to ask a question beyond the local property tax.

The IFAC report on the potential impact of a no-deal Brexit, which is more possible now than before, makes for quite sobering reading. The Minister is correct that the position is changing by the hour. Seamus Coffey and his team were present for the earlier part of the meeting. Their report indicates that a significant fiscal adjustment will be required, along with significant spending cuts or tax increases to stop Ireland's debt ratio from spiralling in the event of hard Brexit. I asked Mr. Coffey what level of adjustment would be required in such an event. His response was it would be a €4 billion adjustment in one year and that it could be broadened out to €5 billion over a three-year period. Has the Minister done any planning in respect of how he might cope with such a significant adjustment to the public finances in the space of 12 months? Has the Department done anything to address the impact of the fluctuations in the value of sterling? Even today, the exchange rate is nearly 90 p to €1 and this is already having an impact on businesses. There was an assumption that it might fall back to 85 p to €1.

The secretariat provided a table, based on the IFAC report, on the baseline scenario for the budget balance compared with the ESRI and the Central Bank projections. The latter two vary. The Central Bank forecasts for a hard Brexit are far more miserable but the ESRI forecast is just as distressing. It shows that in the event of a hard Brexit, instead of having a surplus of 0.6% of GNI we could be looking at a deficit of -4.7%, according to the Central Bank or -0.2.3%, according to the ESRI. If we track forward to 2022 and 2023, it is the same level of forecasting in that we had hoped for a surplus in those years, on the baseline scenario, but we are looking at a deficit now of at best -0.4% and, at worst, -2.8%. The Minister identified 2022 and 2023 as the years in which the most significant spending on the national broadband plan will be required. If there is a hard Brexit, it would make that level of spending for that particular capital investment almost impossible. I would like to hear the Minister's views on that.

Deputy Paschal Donohoe: In the context of the Deputy's point on the short and medium-term effects of Brexit on the national finances, I published an estimate of that earlier in the year and indicated that the effect would be significant. I also indicated that it would mean that the surpluses we have begun to run - and which would have run at a higher pace in the future - would be affected considerably and that the national finances would move back into deficit. I will outline our views on what this will mean in the context of our ability to make choices in the future because I want everybody to be aware of that. As to how we would then need to think about parts of the economy that require support, the position regarding Brexit is changing and we need to be aware of that in the context of what it might mean for us later in the year as the various debates in the British political system take place. If we get into a hard-Brexit scenario, it will mean that the Government will need to put in place supports for different parts of the economy and then pay for these.

On the Deputy's question about the national broadband plan, it would not be appropriate for me to comment on that because I am only at the point where I will be outlining resources that may or may not be available. I will say two things to the Deputy that will be up for debate throughout the year: first, if we do get into a hard-Brexit scenario, the parts of our country that could be most affected are also those that would rely most on broadband connectivity in the future; and, second, for those who believe that there is a cheaper or different way to do this, they will have to outline what that is at some point because I went through that process for the best part of a year in terms of trying to identify such a way. At this stage, all we are doing is beginning to identify what would be the different resource consequences of what we would need to deal with within a hard Brexit.

Chairman: I know we are over time but I ask the Minister to bear with me as I have a couple of questions I want to ask him about the LPT. One of them relates to the committee's work on LPT. There is widespread discussion about the yield and a constant discussion about property prices increasing. What work has been done in terms of the yield and in looking at the scenarios relating to a property price crash and the protection of the yield from the LPT? In looking at a funding model for local government, how would we deal with that if there were a recurrence of what happened between 2008 and 2010? I do not know an analysis has been done in this regard but it would certainly be important in the context of the committee's work.

The Minister made reference to a willingness to look at the situation relating to managed estates and management fees. He also made a comment on the general principle of preserving the LPT and not providing exemptions, derogations or offsets. I speak on the basis of my experience as a public representative in Dublin. Many people in Dublin pay a lot of property tax. There is a notion that the snow can be cleared or the footpaths repaired only once and that various things are done by a council at one particular point. Many people who live in non-managed estate areas also pay a lot of property tax. What is the Minister's thinking on the idea that most property tax, if it is kept and spent locally, will be spent for the greater good of the community? If somebody living in an apartment worth €700,000 is paying X amount in property tax and a management fee, he or she is getting the benefit of the management fee through the preservation of the immediate vicinity. Somebody living in a house worth €700,000 in a large housing estate will pay a large amount in property tax but might also be paying fees to a residents' association or whatever. Where is the equity in the proposal that the latter should pay more and why would the Minister consider it?

Deputy Paschal Donohoe: To make sure I understand the Chairman's question, is he talking about the particular issue of management fees?

Chairman: Yes.

Deputy Paschal Donohoe: I said in the report and on the day it was launched that I was aware of the interest in the Oireachtas in considering this issue. However, people living in properties, homes or apartments who are paying management fees are also more than likely in receipt of services supplied by the local authority as well. We need to assess the contribution they make in that light. Currently, people living in houses in an estate and paying a management fee also benefit directly or indirectly from the services the local authority provides. We need to assess how such homeowners will also make a contribution to the provision of those public services.

Chairman: What about the other point about considering the models for a property price decrease?

Deputy Paschal Donohoe: Our modelling is based on the price at which the properties move to remaining unchanged and the yield therefore coming off an unchanged price. We have assumed neither continued inflation nor a deflation in the future. To explain that better, we have said that a property will go from a price point now to one in the future and we have not assumed that price point will go up or down after that. Maybe we can discuss this with the committee when we are doing the work we have to do in advance of bringing in legislation to reform this tax.

Chairman: I thank the Minister on behalf of the committee for the time he and his officials have given us today. We very much appreciate that. It has been a long sitting day for the committee.

The select committee adjourned at 5.38 p.m. until 1.30 p.m. on Tuesday, 18 June 2019.