

DÁIL ÉIREANN

AN COISTE UM FHORMHAOIRSIÚ BUISÉID

COMMITTEE ON BUDGETARY OVERSIGHT

Dé Céadaoin, 3 Iúil 2019

Wednesday, 3 July 2019

The Select Committee met at 1.30 p.m.

Comhaltaí a bhí i láthair / Members present:

Richard Boyd Barrett,	
Declan Breathnach,	
Thomas P. Broughan,	
Pearse Doherty,	
Martin Heydon,	
John Lahart,	
Michael McGrath,	
Jonathan O'Brien	

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

Business of Select Committee

Chairman: As we have a quorum, we will commence in public session. No apologies have been received. Today we will meet the Minister for Finance and Public Expenditure and Reform on the Summer Economic Statement 2019. Before we meet him, I propose we go into private session to deal with some committee business.

The joint committee went into private session at 1.40 p.m. and resumed in public session at 2.05 p.m.

Summer Economic Statement: Minister for Finance

Chairman: I welcome the Minister for Finance, Deputy Paschal Donohoe, and his officials, Ms Scline Scott, principal officer, Mr. John Kinnane, principal officer, and Mr. Brendan O’Leary, assistant principal officer, to the committee. The opportunity to engage with the Minister is always welcome. I thank the witnesses for making themselves available to the committee for today’s meeting, the purpose of which is to discuss the summer economic statement.

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

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

Minister for Finance (Deputy Paschal Donohoe): I welcome the opportunity to attend the committee to discuss the summer economic statement published on 25 June 2019. The statement sets out the key elements of the Government’s medium-term economic and fiscal strategy and updates the economic parameters for discussion in the Dáil in advance of budget 2020. A decade on from the financial crisis, we have experienced a remarkable recovery. We have a well-managed economy, public finances are on a sustainable trajectory and economic growth is steady, robust and broadly-based. However, while progress has been made, in particular in respect of the number of our citizens who are now in work, we cannot take it for granted. It has been achieved and must be maintained through careful decisions. The job now is to build upon this progress to ensure we are ready to respond to the challenges of today and tomorrow as well as to the opportunities that lie ahead.

This year, my Department projects GDP growth of 3.9% and a budget surplus of 0.2% of GDP. With unemployment at its lowest level since 2005, the labour market is approaching full employment. As I have said previously, budgetary policy must lean against the wind. When times are good, we must do our best to build up our budgetary resources and reinforce the resilience of the economy to withstand external shocks. A clear policy lesson from our peer group of small open economies among EU member states is that they typically operate budget surpluses

when their economies are performing close to potential. This not only facilitates the building-up of fiscal capacity, it means these states have been able to increase public expenditure in a sustainable manner through incremental spending increases based on solid improvements in their economies. As such, they have been largely able to avoid a procyclical policy approach. Furthermore, they enjoy a high stock of public infrastructure as investment is maintained. This, in turn, improves economic competitiveness, increases growth potential and improves both the standard and quality of life for their citizens.

Since the publication of the stability programme update, SPU, the risks to the economy have intensified. Volatile corporation tax revenues continue to be of concern. The international trade environment is increasingly uncertain. The economy moving towards full employment raises the issue of potential overheating and, perhaps most worrying, the prospect of a disorderly Brexit in October has become significantly more likely. Given these risks, both at home and abroad, framing budget 2020 in the autumn will be more challenging than in recent years. As Minister for Finance, my task is to guide the economy through these risks with careful management of the public finances. I will do this through steady and sustainable improvements in living standards financed by steady and sustainable revenue streams.

As I have said many times, the UK's exit from the EU will have a detrimental impact on our economy but the magnitude of that impact depends upon how disorderly that exit is. There is no precedent in modern economic history for an event like Brexit and, as such, predicting its impact precisely is difficult. Given all of the above, the summer economic statement has been prepared on the basis of one budget with two budgetary scenarios. The same broad strategy applies to both scenarios. The outcomes, however, are different in each.

Consistent with the fiscal projections published in the SPU, the budget 2020 framework involves a budgetary package of €2.8 billion for 2020 with expenditure pre-commitments of €1.9 billion, including a €700 million or a 10% increase in capital investments, and an expenditure reserve of up to €200 million with the capacity to accommodate funding requirements for the national broadband plan and the national children's hospital. This leaves €700 million to be allocated specifically as part of the budget. In the event of an orderly Brexit, given our position in the economic cycle, this is the appropriate budgetary policy and delivers a surplus of 0.4% of GDP. This would allow for capacity to deal with the impact of Brexit. Further expenditure or tax reductions outside of these parameters would risk contributing to overheating in the economy, jeopardising the sustainability of the public finances.

If, as appears increasingly possible, there is a disorderly Brexit, significant pressure will be placed on the public finances. Upon a disorderly Brexit, the Government will adopt a holding position and allow the automatic stabilisers to provide countercyclical support. We will then put in place temporary, targeted Brexit supports to help our citizens and those sectors and parts of our country that will be most affected. This is in line with the advice of the IMF. A disorderly Brexit scenario could involve a headline deficit of between -0.5% and -1.5% of GDP for next year. This or the outer end of that spectrum would involve a negative swing in the headline balance of up to €6 billion.

This twin approach mitigates the requirement for a supplementary budget in the event of a disorderly Brexit. As the picture becomes clearer, the Government will take a decision in September as to which of these two scenarios will underpin the economic and fiscal forecasts for budget 2020.

As Brexit approaches, it is essential that we are cognisant of the risks to the economy do-

mestically. The high concentration of corporation tax receipts experienced in recent years could represent a more vulnerable revenue stream in the future. I have said that public spending must only be financed by revenue that is predictable and sustainable. Basing public expenditure increases on transitory and unstable sources of funding would not be in line with my commitment to a careful budgetary policy. With this in mind, I have asked my officials to prepare a paper on fiscal vulnerabilities in Ireland, examining a range of policy options to mitigate the risks inherent in the concentration of corporation tax receipts and those resulting from a narrow and literal interpretation of the European fiscal rules. This paper will be published shortly and I will consider the proposals contained within with a view to making a recommendation to Government in the autumn. I should point out that action has already been taken. We have begun to run budgetary surpluses, established the rainy day fund and broadened the tax base. However, we need to continue to work at this in the years to come. The medium-term approach outlined with regard to expenditure under the orderly scenario with, post-2020, current expenditure growing at 3.25% and overall annual average expenditure growth of circa 3.5% would allow for an annual increase in expenditure below the growth rate of the economy as represented by modified gross national income. This is appropriate given the uncertainties in the external environment and the current position in the economic cycle.

Because of the progress we have made, we are entering a time of uncertainty from a position of strength. Capital spending has substantially increased, laying the foundation for future improvements in our living standards. The unemployment rate has fallen to close to historic lows. However, new risks are developing, and with that in mind, I will look at putting in place the most sensible budgetary strategy and recommending that to Dáil Éireann.

Chairman: A number of Deputies have indicated. With the normal provisos on the timing requirements for the first round of questioning, the first Deputy offering is Deputy Michael McGrath.

Deputy Michael McGrath: I welcome the Minister and his officials to the meeting and thank him for his opening statement. I will start with a somewhat technical but very important question. Where does the indicative figure pencilled in by the Minister for tax reductions of €600 million per annum, which is in annex 1 on page 38, the very last page, of the summer economic statement, fit within table 6 on page 27, where he goes through the indicative nominal budgetary package and how much of that is pre-committed? Where does the €600 million of indicative tax reductions fit into that table?

Deputy Paschal Donohoe: It fits inside that. The figure of €600 million is generated by the non-indexation of the tax code against income growth. That €600 million forms part of the unallocated figure of €700 million-----

Deputy Michael McGrath: It is part of the unallocated figure.

Deputy Paschal Donohoe: It is not in addition. It is not a figure of €1.3 billion.

Deputy Michael McGrath: The €2.8 billion is not after allowing for €600 million of tax cuts.

Deputy Paschal Donohoe: It is included within it.

Deputy Michael McGrath: The Minister is saying that any tax cuts by way of a budget day announcement must come out of his unallocated amount of €700 million.

Deputy Paschal Donohoe: Yes. To be completely clear, it involves row D in table 6, an unallocated figure of €700 million, which includes the €600 million to which the Deputy referred.

Deputy Michael McGrath: The potential for tax cuts.

Deputy Paschal Donohoe: That is in line with how I have handled unallocated resources in previous budgets.

Deputy Michael McGrath: That is fine because that was not clear to me. From parliamentary replies last night, it was not entirely clear to me but that does explain it. Prior to the Irish Congress of Trade Unions, ICTU, conference today, the Taoiseach stated that there would be €600 million of tax reductions next year. I thought no budgetary decisions had been made, but that seemed to be a statement of fact.

Deputy Paschal Donohoe: It is the case that no budgetary decisions have been made. We are beginning our budgetary process. Any decisions on the level of tax changes will depend on where we stand in the context of either of the two scenarios I outlined in the summer economic statement and on budget day decisions.

Deputy Michael McGrath: Okay. It was not a statement of fact, although that is how it came across. Is it correct that no decision has been made on the composition of the budget day package, including tax or expenditure?

Deputy Paschal Donohoe: That is correct. As already stated, unallocated resources of €700 million are illustrated from 2021 onwards and that figure includes the €600 million.

Deputy Michael McGrath: The Government's position is that the Taoiseach will come to a conclusion as to the most likely Brexit scenario by mid-September or so. He will then advise the Minister accordingly and that will determine the shape of the budget. Can the Minister provide a sense of how different the budget will be, based on the two scenarios, one being the benign outcome of an orderly Brexit with a deal and the other being a disorderly Brexit. What would be different about the two potential budgets the Minister may introduce on 8 October?

Deputy Paschal Donohoe: There would be two key differences. One relates to policy and the other to the deficit impact. I will talk about the deficit impact first.

Deputy Michael McGrath: We have that from the tables. It is quite clear.

Deputy Paschal Donohoe: It is a crucial difference.

Deputy Michael McGrath: I am asking what the differences will be in the two potential budgets that may be announced.

Deputy Paschal Donohoe: I will preface this by stating that it is from a content point of view. The difference between a surplus of 0.4% and the deficit of up to 1.5% is significant, as the Deputy has acknowledged. That will be a key difference in terms of the policy content. From a policy content perspective, what the potential budgets would have in common is putting enough funding in place to ensure the current level of services is maintained. From a discretionary policy point of view, if we are in an orderly Brexit scenario, the Government would be looking to put policy improvements or changes in place that reflect the fact that we have a growing economy. If we are facing into a disorderly Brexit, we will either have to use the resources available there or borrow further, if needed, in order to do two things, namely, put funding in place for support measures for our economy and finance increases we may face as a result of the

number of people not at work in our economy, who need support, growing.

Deputy Michael McGrath: The essential difference on budget day will be the composition of the amount of the €700 million the Minister has in play. What he decides to do with that is the difference.

Deputy Paschal Donohoe: It is about the policy composition of that €700 million. I also want to leave it open, however, because if we move into a budget day scenario whereby there is a risk of a disorderly Brexit, further funding will be needed in order to respond to changes that are likely to happen in our economy. The case could then be made to fund that via a larger deficit.

Deputy Michael McGrath: This year's outturn will be important. It will feed into next year, into the budget and so on. In the context of the Department of Health Vote, which includes the HSE, the edition of the Fiscal Monitor published yesterday shows an underspend of €33 million up to the end of June. Yet, the Minister for Health, Deputy Harris, informed the Dáil yesterday that the HSE is €116 million over budget to the end of April. That is consistent with what Mr. Paul Reid said before the Committee of Public Accounts recently, when he indicated that the amount was €103 million to the end of March. Can the Minister square that for me? How is it that on the very same day the official Exchequer figures show an underspend of €33 million in health, the Minister for Health stated in the Dáil that the HSE was €116 million over budget to the end of April?

Deputy Paschal Donohoe: There are two reasons for that. The first is a time-lag effect. The Deputy quoted the HSE's figures, which are available up to the end of April. However, my two Departments are also looking at expenditure from May and June. The second reason is that the figures I have here include both the HSE and the Department of Health. As matters stand, the figures to the end of June indicate an show of 6.9% versus a budgeted increase of 6.3%. That indicates a degree of over-performance which means that this is a key area in respect of which I need to be very careful for the remainder of the year.

Deputy Michael McGrath: I accept that the figures published yesterday do not relate solely to the HSE. However, the vast bulk of the money involved relates to the executive's budget. I do not think the Minister is suggesting that the HSE went from being €116 million over budget to the end of April to underspending by €33 million to the end of June. There is an issue here with the system of accounting. That is the point I am getting at. It seems that the HSE is not using a proper accruals-based system of accounting and that known liabilities are not being accounted for. We had the same issue last year when the Exchequer figures showed that the deficit was approximately €300 million to the end of September and yet the Supplementary Estimate came in at over €600 million. There is an accounting issue here.

Deputy Paschal Donohoe: The Deputy makes a fair point. There are different accounting systems in place but there is also a phasing issue in that we are dealing with a further two months. A huge amount of effort is being made to ensure that we manage health expenditure inside the budget day parameters.

The latter point the Deputy made is correct. At times, in managing expenditure within the Department of Health, the issue has arisen towards the end of the year as opposed to earlier. The latter did not happen last year and that is why I am being very careful in my assessment of where we stand in the context of health expenditure. There has been an improvement on where we were last year but this is an area that is going to require constant focus from me for

the remainder of the year.

Deputy Michael McGrath: The Chairman is keen to move on.

Chairman: The Deputy has 30 seconds or so left.

Deputy Michael McGrath: I will ask one more question. The Minister had a back-and-forth with Deputy Pearse Doherty in the Dáil recently about Christmas bonuses. The Minister kept stating that they are included in the base. He was adamant about the matter and gave the impression that they have been budgeted for. My understanding is that they are only in the base to the extent that they are in the outturn from last year. The money was spent and therefore it is in the outturn. Every year, the Minister produces a set of Estimates of what he intends to spend in the current year. However, given that the Christmas bonus is not included in the Estimates, to state that it is in the base does not mean it is budgeted for. Can the Minister take us through that?

Deputy Paschal Donohoe: The Deputy is stealing Deputy Pearse Doherty's thunder by asking me that question. I will come to him in a moment. I acknowledge that a debate has been caused by what I stated in the Dáil. When I indicated that it was in the base, I meant that it was in our outturns last year. The money was spent last year. The point Deputy Pearse Doherty has made subsequently, namely, that it is not yet budgeted for in the context of this year, is correct. That decision remains to be made.

Chairman: I thank the Minister and Deputy Michael McGrath. I call Deputy Breathnach.

Deputy Declan Breathnach: I thank the Minister for his statement. It is good that we are at least acknowledging the risks of Brexit and overheating in the economy and that we are addressing the national debt.

My first question relates to the Minister's strategies for reducing that debt. The Minister spoke of employment being at full capacity, and the issues of our skills base. We hear of money being offered left, right and centre to fill the gaps. I would like the Minister to comment on whether those gaps, including those relating to consultant posts, carers and so on, can be filled. Are we not coddling people by offering to provide services when the workforce and skills are not there and when we are reaching full capacity? The economy is no longer steady as she goes. It is all about concern, caution, correction and clarity in respect of corporation taxes and the fiscal vulnerabilities that were mentioned.

My next question relates to the issue of a hard Brexit. Are other external threats to our economy, such as global overheating or downturns, going to be factored into the budget? On the issue of a disorderly or orderly Brexit and the fork in the road that will come in September, what makes the Minister think we will have any additional information in the run-in to 31 October that will allow him to be in a position to decide which way will be taken at the fork? On the issue of carbon taxes, would the Minister indicate the course of action he hopes to take in the forthcoming budget? While I am not expecting him to tell us everything, the people I represent want to know what direction he intends to take because they also have to plan, just as the Minister does.

Deputy Paschal Donohoe: I will deal with some of the points the Deputy has raised in sequence. On where we are from a debt point of view, the Deputy will be aware that the NTMA issued its annual report yesterday. It is the key agency of the State involved in managing our stock of public debt. The overall trajectory of debt as a percentage of national income is posi-

tive. In 2019, that figure stands at 61% whereas it stood at 120% in 2012. Nonetheless, the stock of public debt that we have is still high, at approximately €203 billion. The most obvious way open to us to reduce it in the short to medium term is by running budget surpluses, if the management of Brexit allows us to do so.

In terms of other risks in addition to Brexit, the key one that I would be aware of is the tone in global trade at the moment. For an open, trading economy like Ireland, if there is a shift in tone in global trade, it has the potential to affect our external trading performance, which in turn would have an effect on our national finances. In terms of information that will be available to us in September, at that point a new Prime Minister of the United Kingdom will have been in place for almost two months. There should be a degree of clarity regarding the intentions of that person.

On carbon taxes, a decision has not been made in respect of what I will propose to do. We will publish our tax strategy group papers at the end of July as we do every year. They will include a paper on carbon taxes which will be informed by a public consultation, which is closing soon, regarding different options for how carbon taxation could be implemented and how the revenue from it could be used in the economy and society.

Deputy Declan Breathnach: I refer to the issue of employment and our current workforce. We have regular announcements about providing services for mental health or issues that are important to us all. In terms of the skills that are required, whether in mental health, dementia or elsewhere, do we take into account our ability to actually employ those people when we allocate money to the services? We are coddling the people if we make announcements but are not able to fill the posts. That has been a regular occurrence since I was elected to the Dáil. We are not capable of filling the posts.

Deputy Paschal Donohoe: Yes, we take that into account but I think it will be a bigger issue in the coming years if the labour market continues at its current level. When I was speaking at the national economic dialogue last week, I made the point that as the labour market has a rate of unemployment of 4.4%, we will need to be increasingly conscious in the future, as we look to make policy decisions and invest money, that the people are there to translate a higher level of resources into work. I do not believe that was an issue even in our recent past, when we had an unemployment rate upwards of 5%. The move to a figure of 4.4%, which has remained unchanged as of yesterday, is an indication that all employers may find it increasingly difficult to get additional new staff to implement new activities, whether they be a company with a commercial service or the Government in terms of providing new services to citizens.

Deputy Pearse Doherty: I have a number of questions on the summer economic statement. Deputy Michael McGrath touched on the fact that the Christmas bonus is not factored in to the statement. The Minister responded to this in parliamentary questions. The debate last week was about the criticism from the Irish Fiscal Advisory Council, IFAC, that the bonus had not been factored in. The Minister clarified the issue in his own way but, going back to the substance of the issue, the Christmas bonus cost €285 million last year. It is not loose change we are going to find down the sofa. If it is the intention to pay the Christmas bonus, why is not being factored in to the figures? The figures presented suggest there is a budget package of €700 million available. The appendix suggests that the Fine Gael Ard-Fheis promise of tax cuts of €600 million can come out of that and we will find the Christmas bonus money somewhere else. Why is the Christmas bonus not factored in? Surely at this stage it is a policy choice, or is the Minister still dangling the idea of “will we, won’t we” so that it will seem like a surprise when he pays the Christmas bonus?

Deputy Paschal Donohoe: On the decision on whether we factor in the Christmas bonus for 2020, the Deputy will have to suspend his judgment until we announce budget 2020 on 8 October.

Deputy Pearse Doherty: The Government has produced a-----

Deputy Paschal Donohoe: In respect of his point about the Christmas bonus, for this year it will be handled in the way it has been handled for previous years. In respect of the point he made about tax reductions, the commitment that was made on tax reductions was for a number of years. As the summer economic statement indicates, in the context of an orderly Brexit, for the five-year period between 2020 and 2024, there is over €8 billion of unallocated resources on which decisions need to be made. As I indicated, in the context of a disorderly Brexit, if we find ourselves having to manage that risk, other decisions will then need to be taken.

Deputy Pearse Doherty: I will come to Brexit in a minute. This is about the core issue of presenting figures that are credible and very transparent. The Minister mentioned we would have to wait until budget 2020 to see about the Christmas bonus. However, he has presented numbers here for budget 2020 and indeed 2021 and 2022 in which there is unallocated spending of €700 million. That is the budget package we have if we want to reach the target of 0.4%. However, what is not clear, not written in any part of this document and not accounted for despite repeated criticisms from the IFAC and others, is that this figure is not real. As we heard last week at this committee, one thing that is certain is that Christmas happens every year and the Christmas bonus has to come out of that €700 million. Why does the Minister not factor that in and present a figure of just over €400 million, which would be more real and would have more credibility?

Deputy Paschal Donohoe: We have not made a decision in respect of what is going to happen in December 2020 yet. That is the reason. The ongoing IFAC criticism, of which I am aware and which the Deputy has reiterated on a number of occasions, is that our level of current expenditure and projected growth is not credible or realistic. I have recognised that in the medium-term expenditure outlook by increasing the rate of planned current expenditure for the years after 2020 from slightly more than 2% to 3.25%. That is to deal with the charge that has been made that we have underestimated current expenditure growth. The Deputy is seeking to conflate two different things. The role of the summer economic statement is to outline what level of resources is available. It is not to make decisions on how those resources are made.

Deputy Pearse Doherty: The Minister is stating that the Christmas bonus may not be paid out next year.

Deputy Paschal Donohoe: Why has Deputy Pearse Doherty reached that conclusion?

Deputy Pearse Doherty: The Minister has just said that a decision has not been made on it. Clearly, therefore, he is stating that the Christmas bonus may not be paid out. If he was stating that the Christmas bonus will be paid out next year, then that would have to be factored into the figures. The Minister cannot have it both ways. Is it the case that the Christmas bonus may not be paid out next year?

Deputy Paschal Donohoe: If I am the Minister for Finance, or whomever it may be by then, in October 2020 I expect that there will be a Christmas bonus. The decision on that Christmas bonus has not yet been taken. I am focused now on decisions I will be making in October 2019 and not in October 2020. My track record in recent years has been to pay a Christmas bonus.

That has been welcomed by those who receive it due to the difference it can make during the Christmas period.

Deputy Pearse Doherty: That criticism from our fiscal advisory watchdog is not being heeded or the Minister has a different view regarding how he should proceed in factoring in the Christmas bonus. Let us go to the other aspect of this matter. The figures presented earlier this year lacked credibility. The Minister made the point that he has increased the expenditure projections to what he termed slightly more than 2%. It was much more than that. It was closer to 3% and that has now been increased to 3.25%. I want to dig down into those figures. The expenditure increase this year for budget 2020 is 0% and the increase for next year was €100 million extra. That was to take on board the IFAC's criticism that the Minister is not giving real credible expenditure figures. Would that be correct?

Deputy Paschal Donohoe: No, it is not.

Deputy Pearse Doherty: Will the Minister give me the figure for what expenditure is this year?

Deputy Paschal Donohoe: Out of our budget day package, we already have allocated €2.1 billion for expenditure increases.

Deputy Pearse Doherty: I will clarify because I may not have explained myself clearly.

Deputy Paschal Donohoe: No, the Deputy did not.

Deputy Pearse Doherty: The spring statement presented figures which the IFAC stated were not credible. The development between then and now is the Minister's increase of expenditure projections to 3.25%.

Deputy Paschal Donohoe: Yes.

Deputy Pearse Doherty: What increase has there been since spring in respect of 2020? Is it 0%? What increase has been factored in for 2021? Is it €100 million?

Deputy Paschal Donohoe: From 2021 onwards we have moved from 2.5% to 3.25% of planned expenditure growth. For 2020, I have not announced an expenditure increase beyond that which is pre-committed because I have not made a decision regarding the allocation of the €700 million.

Deputy Pearse Doherty: There is, therefore, no increase in expenditure this year to deal with the position of the IFAC. The increase for next year, however, will be 0.1% of GDP. Will the Minister give me a figure to go along with that?

Deputy Paschal Donohoe: Deputy Pearse Doherty is wrong when he states that there is no increase for next year.

Deputy Pearse Doherty: I referred to since the spring projections.

Deputy Paschal Donohoe: That has not happened because we have not made a decision regarding the allocation of the €700 million. If I make a decision on budget day that the €700 million is going to be allocated to an expenditure increase and that there will be no change anywhere else, then that represents an expenditure increase on top of that to which we have already committed. The Deputy is trying to conflate two different things.

Deputy Pearse Doherty: I am not trying to conflate two different things.

Deputy Paschal Donohoe: The role of the summer economic statement is to state what level of resources is available, on which we then make a decision. If I was coming in here with a medium-term current expenditure forecast of 2.5%, Deputy Pearse Doherty would, justifiably, criticise me on the back of not responding to what the IFAC have done. I have changed that.

Deputy Pearse Doherty: Not for this year.

Deputy Paschal Donohoe: No, I have not done that for this year and I have explained why.

Deputy Pearse Doherty: That is fine. I am now moving on to next year and I want to know how much the Minister has changed that figure for next year, the budget of 2021.

Chairman: The Deputy is coming close to the end of his time.

Deputy Pearse Doherty: In fairness, I have asked this question a number of times and I have not got the chance to-----

Deputy Paschal Donohoe: The Deputy is asking a question that can only be answered on budget day when we make a decision regarding the allocation of the €700 million.

Deputy Pearse Doherty: The additional expenditure for 2021 is on page 25, at the bottom of table No. 4, as 0.1% of GDP. I am asking the Minister for the associated figure. My next question, if I have time to ask it, is how much of that additional expenditure is the overrun of the national broadband plan that the Minister has been overseeing and that has now run out of control? That is the point to which I am trying to get.

Deputy Paschal Donohoe: What we have done is increase our expenditure outlook for the coming year in current spending, as detailed a moment ago. We also increased the outlook in capital expenditure to deal with the cost of the national broadband plan as I indicated in my summer economic statement.

Deputy Pearse Doherty: This is deeply frustrating. I have asked a very simple question. I have closed the booklet I was referring to now in frustration. What is the additional allocation that the Minister has factored in as part of table No. 4 on page 25 of expenditure developments? It is given as -0.1% of GDP. I ask this question because that component is made up of two things. One is the overrun in the national broadband plan and the second is expenditure. What I really want to get to is whether the Minister is actually listening to the IFAC. The Minister can state that there has been increased expenditure but that is because the costs of the national broadband project have been allowed to run away. The IFAC, on the other hand, is stating that expenditure on a number of headline items is not credible. For example, we are already seeing an overrun in health, which will materialise at the end of the year-----

Chairman: I am sorry Deputy, I am going to let the Minister respond on that topic. I will let Deputy Pearse Doherty back in during the next round.

Deputy Paschal Donohoe: I am happy to return to that topic in the course of the session. As I have already indicated, however, we have increased our current and our capital provisioning for the medium term.

Deputy Pearse Doherty: No,-----

Chairman: I thank the Minister for those answers on the first round of questions. I now call Deputy Broughan.

Deputy Thomas P. Broughan: I welcome the Minister and his officials. I am looking at the fiscal monitor. I know June is a non-VAT month but receipts, however, were below profile. They have however increased by €345 million or 4.9% on 2018. Given the decision taken in the budget to return to the 13.5% VAT rate - which I supported - was the Minister disappointed with the VAT take so far? More generally on the issue of tax broadening, one of our colleagues mentioned carbon taxation and perhaps equalising diesel and petrol and other similar steps which are being considered. What kind of progress does the Minister think can be made in that area?

As we get closer to this Halloween date, what kind of additional information will the Minister have for the third quarter? He mentioned that we will have the tax strategy papers. What kind of further information, however, will be at his disposal at the end of September to enable him to come in with some kind of a budget the following week? To elaborate on that point, the Minister has commented on some of the issues regarding stabilisers etc. That mitigates against the need for a second budget if there is a disorderly Brexit. Will it prove to be a situation somewhat similar to 2009, however? We had two budgets that year during the crash.

The former Deputy and Minister for Finance, the late Brian Lenihan, along with the former Deputy and then Taoiseach, Brian Cowen, had to come into the Dáil twice. Surely we will need an emergency Brexit budget now as well. The Minister has been going back and forth on some of the elements of what spending might be. All of that, however, will go out of the window if there is a national emergency. That is what will occur if there is a disorderly Brexit. Regarding our national debt, and again this matter was earlier by a colleague, our overall debt has increased by €4.5 billion since 2016. The National Treasury Management Agency, NTMA, has done a good job in refinancing in recent years. Would the Minister anticipate any difficulties if he or the next Minister for Finance has to go back to the market to try to finance important current and capital spending, given the experience the Italian Government and finance Minister have recently had with bonds? Given the international situation and the overall risk, I noted that one of the two candidates for the leadership of the Tory Party is saying that his definite plan is to introduce a 12.5% corporation tax rate, which reminds us of another rate. We have a very volatile President of the United States who is making all kinds of changes to taxation as well. Surely these kinds of risks will be very profound for 2020 and the early 2020s.

Deputy Paschal Donohoe: Dealing with the VAT question first, I am confident that our VAT target will be delivered across the full year. One of the reasons for that is that retail sales at the moment are up approximately 4% versus a year ago. Given the strong performance in the retail sector and a continued increase in the number of tourists visiting Ireland, it is very likely that we will deliver our figure for the year. If I look at the overall position of VAT receipts, they are currently up for 4.9% versus a year ago, which is a good sign as to where we will end up across the year.

On the Deputy's question on carbon taxing, I do not have too much more to say beyond that which I said to Deputy Breathnach a moment ago, which is that before the summer we will outline different options regarding how the revenue from that might be recycled if a decision were to be made to increase carbon taxation.

On the level of national debt at the moment and whether I anticipate challenges in regard to funding additional borrowing, if we need to do so, the chief executive of the NTMA answered that question yesterday when he said that it was very likely that that kind of additional bor-

rowing, if needed, could be funded. One of the key contributions I will need to make that, as Minister for Finance, is to explain what this money will be used for and how over time, if we had a deficit, this could be corrected.

If a 12.5% corporation tax rate happens to come in another jurisdiction, it will be in the context of many other things happening within its economy and country that may have an effect on the ability of that country to be competitive. It will be all the more reason for us to show that we are a stable jurisdiction, particularly in a the number of specific policy areas. It is one of the reasons it is very important to ensure we deliver one budget this year.

Deputy Thomas P. Broughan: Does the Minister not think, coming up to the first week of October, that there may be an air of unreality about him preparing an orderly Brexit budget?

Deputy Paschal Donohoe: Well-----

Deputy Thomas P. Broughan: I presume much work is going on within the Departments for Finance and Public Expenditure and Reform to thoroughly analyse all of the parameters.

Deputy Paschal Donohoe: Yes, there is. We are looking at the different needs we may have in a disorderly Brexit scenario. It will be vital that budget 2020 is delivered in a way that is realistic and credible for our citizens and for financial markets. I will be able to do that.

Deputy Thomas P. Broughan: The Minister will not have a second budget.

Deputy Paschal Donohoe: I will not have a second budget.

Chairman: I thank Deputy Broughan and call Deputy Lahart.

Deputy John Lahart: I thank the Minister and his officials for their public service and their willingness to attend here regularly, which is appreciated by the Committee on Budgetary Oversight. Some of the questions I had have already been addressed by the Minister but I have some short and sweet questions.

The Minister stated in his opening remarks that we have a well-managed and that our public finances have been placed on a sustainable trajectory. He also mentioned the words “sustainable” and “sustainability” a number of times in his speech. On Brexit, the Minister stated the United Kingdom’s exit from the European Union would have a detrimental impact on our economy and public finances in whatever form it takes. In the preparation for that, I have often said that I am not an economist, but like the Minister, I am a keen political observer. Brexit has been characterised by chaos for the last two years. There does not seem to be any reason to believe that it will not be characterised by anything else but chaos in the short term.

Colm McCarthy and Stephen Kinsella were before the committee and I will roughly paraphrase what they said. I hope I am not misquoting them and I do not wish to be inaccurate but the Chairman can tell me if I am. When asked what they would do if they were in the Minister’s position, they said they would be adopting a one budgetary stance and not two budgetary stance. That would be in the expectation of a disorderly Brexit. As Minister pointed out, it is a question of which form of disorderly it is going to be.

The Minister is putting much faith, which I am not sure anybody else has, in having some kind of a clearer position by September or early October on where the United Kingdom stands. How does the Minister substantiate that position?

Deputy Paschal Donohoe: The Deputy referred to himself as a political observer but he is anything but that. He is a Deputy and a participant in our political process, as I am, and the difference he and I have versus the gentlemen he referred to a moment ago is that they are commenting on and analysing what is happening, which has a certain level of consequence. I have to make decisions, as does the Deputy, which has a far higher level of consequence within our economy and for those who work in it. The difference between an economist, no matter how much I respect that economist, saying that a disorderly Brexit is likely and the Irish Government saying one will happen are two very different things. That is why at this point in time, with all that is going on, it is fair and responsible for us to say that a number of different scenarios could happen and that we will form a view in September regarding what is the more likely one. That will have an impact on decisions that we then take in the budget. The impact, in turn, will be significant on our national finance indicators. I will substantiate that on the basis of engagement we will have within the European Union and with the new British Government.

Deputy John Lahart: What does the Minister think he might know in September?

Deputy Paschal Donohoe: I will know in September what the actual intention of the leader of the Conservative Party is once he has taken over as Prime Minister. We may then have a clearer view of the likely reaction of the European Union to that.

Deputy John Lahart: That is the bit that puzzles me. While accepting the Minister's remarks as to the role of economists, I return to a point I have often made here, which is that the criticism of previous times was that we did not listen to advice that was given. This is advice that has been given by fairly senior people. The Minister talks about clarity and the new British Prime Minister but I wonder should he put his eggs in that basket.

Deputy Paschal Donohoe: To interject, an equal number of economists are commenting on the fact that we have been clear that we are going to do a single budget and that that is of value because if we enter into a situation of a disorderly Brexit happening over November and December, there is value for businesses in our country and for those on whom we may depend for support in the future being clear about what our budgetary framework is and what our intentions are. As the Deputy is aware, if a Government is in a scenario of delivering more than one budget, it creates a risk of instability as to policies that are likely to be implemented. I believe it is in the national interest for this not to happen to us. We need to be clear on where we stand, on the basis of the best information that is available to us up to budget day.

Deputy John Lahart: I thank the Minister. As members of the Committee on Budgetary Oversight, we welcome the idea that the Minister is looking at how we can mitigate a reduction in corporation tax receipts at some stage in the future. We are pleased that the Minister is considering ways of stress-testing that. He would have received advice to that effect at this forum over the last two years. I understand that €14 billion of the €15.5 billion that has been received in windfall corporation tax has been spent on current expenditure. Those figures might be slightly wrong, but they are indicative of what the Minister has done. Does he accept the need for a prudence account, as recommended by IFAC? Will that recommendation be reflected in budget 2020? The Minister indicated in the October 2018 budget that he would set a trajectory for carbon tax in the October 2019 budget. Does setting a trajectory mean that budget 2020 will incorporate an actual fiscal measure in relation to carbon tax?

Deputy Paschal Donohoe: Last year, we collected approximately €10 billion in corporation tax, rather than €14 billion or €15 billion. I do not believe the Deputy's suggestion - that all the funding that has been collected is windfall funding - represents a tenable assessment of the

position. A lower amount was collected. While it is certainly possible in the coming period that not all of that funding will be sustainable, I do not believe it is likely that the vast majority of it will not be sustainable. In any event, this is why officials in the Department will work with their colleagues in Revenue to try to form a further view of the future sustainability of corporation tax receipts. This will be difficult in light of the work that is under way in the OECD. Decisions will be made towards the end of next year. It is important we do this work now. While the Deputy is correct when he says that corporation tax has been used to contribute to the funding of supplementaries that have been needed - I have acknowledged that we need to be aware of this vulnerability - I have to point out that corporation tax has enabled the massive increase in capital expenditure that has taken place since 2014. Many commentators in this area would say that windfall gains should be used to finance increases in capital investment, which is what has happened in recent years. The Deputy also asked about carbon tax. As I have outlined in budget 2019 and in other public statements, as a medium-term outlook I would like carbon tax to increase on a budget-by-budget basis up to 2030 until it reaches €80 a tonne. I will wait until nearer to budget day to decide what kind of change will happen in budget 2020. Obviously, I will work in conjunction with the Deputy's party on this.

Deputy John Lahart: Before I ask my final question, I should point out that the €14 billion figure I mentioned, which has been provided by IFAC, does not relate to a single year's corporation tax receipts, but instead covers the entire period over which the unexpected windfall arrived. IFAC has indicated that almost €14 billion, out of a total of €15.5 billion, has been spent on current expenditure. Perhaps my final question does not arise in the context of the summer economic statement. The committee will be looking at the idea of fiscal stress tests, which has been proposed by Professor Stephen Kinsella. The Minister has said that the most expensive part of the national broadband plan will be funded at a time when the surplus is greatest. I am phrasing that in my language. It is possible that in the event of a disorderly Brexit, there will be no surplus. How does the Minister intend to fund major projects like the national broadband plan in such circumstances?

Deputy Paschal Donohoe: If a disorderly Brexit happens, it is possible that this country could be in a deficit position. I have outlined the figures for that. In such circumstances, a new capital project like the national broadband plan would be funded by part of the deficit as an additional commitment on top of our existing commitments. The context for the national broadband plan would change considerably in such circumstances. This committee has acknowledged the analysis setting out which parts of the country would be most adversely affected by a disorderly Brexit. The analysis in question tends to focus on those parts of the country and the economy that are outside the larger cities. Parts of the country like the north west would benefit most from the roll-out of the national broadband plan. While I accept that the national finance background to going ahead with the national broadband plan would change in the event of a disorderly Brexit, I have to point out that the parts of the country and the economy which would be most adversely affected by a disorderly Brexit are those which would be most positively affected by the roll-out of the national broadband plan. The Deputy and I have been exchanging views on the use of corporation tax receipts of €14 billion or €15 billion. I have no doubt that the accurate position will be established after this meeting comes to a conclusion. The figure to which the Deputy has referred may include the cost of servicing our national debt. That may well account for the difference between our two figures.

Chairman: I cannot be 100% certain, but I think the figure that Deputy Lahart has been quoting is an IBEC figure rather than an IFAC figure.

Deputy John Lahart: I stand corrected.

Chairman: That appears to be the case based on what we have been able to find.

Deputy John Lahart: Does that make it wrong?

Chairman: It might have been mentioned by somebody else as well.

Deputy Jonathan O'Brien: I thank the Minister and his officials for attending this afternoon's meeting. I presume a decision on the effects of Brexit on the Government's budgetary plans will be made in late September. The Minister has said that this decision will be made on the basis of the soundings coming from the EU and the discussions that will have taken place with the new leader of the Conservative Party. Is that a fair reflection of what the Minister is saying today?

Deputy Paschal Donohoe: We will have to include our own judgment on what is most likely to happen. In light of the potential for instability abroad, we thought it would be more important for us to be able to show stability at home as we plan our affairs.

Deputy Jonathan O'Brien: I do not have an issue with the orderly-disorderly approach that is being taken. I think it is the correct way to proceed. Other than taking soundings from the EU and from the new leader of the Conservative Party, what kinds of factors will be taken into consideration when this decision is being made at the end of September? Surely we are looking at other factors which will feed into the decision that will have to be made.

Deputy Paschal Donohoe: We will have general feedback from within our economy. Ultimately, it is a decision that will be made by the Government on the basis of what is most likely to happen. It will be political in nature. If the UK decides to leave the EU without an agreement, it will do so for its own reasons. My suspicion is that as we move through the year, and in particular as we move into September, the kinds of risks we have to manage may be quite evident to us. I do not believe that will become clearer until after the summer.

Deputy Jonathan O'Brien: I appreciate that the Minister has given us an analysis, but what will be the real effect of the countercyclical measures that will be applied in the event of a disorderly Brexit? What areas will be most affected?

Deputy Paschal Donohoe: Phrases like "countercyclical" are economic in nature.

Deputy Jonathan O'Brien: Yes.

Deputy Paschal Donohoe: As public representatives, the Deputy and I will be aware of the effect of such measures on people's lives.

Deputy Jonathan O'Brien: Yes.

Deputy Paschal Donohoe: Both of us understand that. We have indicated that across the early years of a disorderly Brexit, if such a Brexit happens, it is possible that the level of unemployment in our economy will increase by two points. We have also said that in such an eventuality, the number of people working in our economy will not change across that period - it will remain at a high level of between 2.1 million and 2.2 million people. We have population growth within the economy and we have more people coming into the labour market and because of that we can have an unchanged number of people at work in Ireland but also see the unemployment rate go up. That is what we have acknowledged in the summer economic state-

ment. Were that to happen, we would want to ensure then that we have the resources in place to fund our commitments to those citizens. The other thing that will happen in that scenario is because of the effect of a disorderly Brexit taking place, we could expect to see a change in our tax revenues as, for example, consumption and investment change as a result of Brexit happening. We could see two things: we could see our expenditure going up at a time in which our tax revenue begins to change. It is a case of putting all the information in context. Much of the debate has, understandably, been to focus on the deficit in cash terms, were that to happen, because it would be a big figure in cash terms, but that would have to be seen in the context that a deficit of 1.5% of our national income is significantly below the deficits that we dealt with in the very recent past. The figure of 1.5% can be compared to 10.5% or 11% a number of years ago. I believe that we will have the ability to correct that quickly in the post-Brexit period.

Deputy Jonathan O'Brien: This is more of a policy question than a financial question, but it is related. In the event of a disorderly Brexit, some sectors of the economy will be impacted more than others. We may see the increases in unemployment in particular sectors of the economy. What steps are we taking to ensure that the people in the sectors of the economy that will be most impacted will have the opportunity to transition easily?

One of the big effects of the previous economic downturn was the over-reliance on the construction sector and once that went bust, people did not have the skills or opportunities to transfer into other sectors of the economy. What planning are we undertaking to try to off-set such issues arising in the event of a disorderly Brexit?

Deputy Paschal Donohoe: As we are having a discussion about the bad things that might happen in the jobs market, and the level of employment within the country, we should acknowledge that it is in the context of a very high level of employment in an economy that is performing very well. If we are approaching a shock like the one we may have to deal with, to have an economy that is growing quickly and growing in a very diversified way, is one of the best ways in which we could approach a period of uncertainty.

Deputy O'Brien can imagine that we would be having a very different debate if we had 8% unemployment in the country and an economy that was growing at 1% or 2%. The first thing that we can do in trying to deal with the issue to which the Deputy refers is have an economy that is growing quickly and a high level of employment within the country. That is in place.

In response to the question on what we would do, the first thing we would try to do is work with companies and sectors to try to avoid or minimise employment being shed in the first place before we even begin to engage in the phase to which the Deputy refers. We will have to work in particular with the agriculture and food sectors of the economy to see what can be done if employment is shed and to see how we can deal with it. We will have to go back to the kind of work that we have done recently whereby we look at the kind of retraining work that can be done, or we will look at how we can have investment in place to create other forms of work. In the debate that we have had so far about what funding is unallocated, it should be acknowledged that we have €700 million of additional capital investment planned for next year. That is to deal with the point Deputy O'Brien raises in the event of somebody losing his or her job due to something happening in a company or a project. We are generating other forms of economic activity through increasing capital investment that creates the possibility for people to move into another job. That is what we are aiming to do.

Deputy Jonathan O'Brien: That is the point I am making; to move into those other jobs, people might need to upskill.

Deputy Paschal Donohoe: They may need training. The Deputy is right. During the period from 2013 to 2015, my colleagues in the Departments of Employment Affairs and Social Protection and Education and Skills showed that we have the ability to do that. While I will work to be in a position where we will minimise employment being shed in the first place - we believe we will still have an economy that will have more than 2.1 million people at work - we will look at what specific supports are needed to assist people if they need retraining or reskilling as they look to work in other parts of the economy.

Deputy Jonathan O'Brien: I have two final questions. Brexit is a major issue and it could have a significant impact. Are there other external factors outside of Brexit that we are keeping an eye on, which could impact on the budgetary position in the coming years?

Deputy Paschal Donohoe: The most acute one in the short term is Brexit. In the medium term, it is what happens with growth within the eurozone and what happens in the debates that are due to happen on global tax and trade policies, but they are more medium term in nature. We have seen a lot of charged words regarding global trade, but we are still seeing economies, America in particular, that are growing and our trade with them is growing too. I would see all those as probably being more medium-term challenges, whereas Brexit is very much a short-term one.

Deputy Jonathan O'Brien: On the expenditure reserve of €200 million for the national children's hospital and broadband that has been allocated for 2020, we have no further allocation for the subsequent years. Are we saying that we are going to make that decision on a year-by-year basis or that we have €200 million for 2020 and nothing further will be needed in subsequent years?

Deputy Paschal Donohoe: No. We have increased our capital profiling from 2021 onwards to deal with the cost of the national broadband plan. That has happened because the cost of that is known with a degree of clarity per year.

Deputy Jonathan O'Brien: So that is built in already.

Deputy Paschal Donohoe: That is built in. Regarding the national children's hospital, the 2020 cost of that is accounted for through the expenditure reserve that we have in place for 2020. The cost beyond that for 2021 and 2022 is not accounted for in a higher capital ceiling but in row D, box 5, there is a high level of unallocated funding for those two years which would then deal with the funding of the further post-2020 cost for the national children's hospital.

Deputy Martin Heydon: I thank the Minister and his officials for appearing before the committee on what is a very important topic. Productivity levels in the construction sector have been mentioned at a committee and it is something I have spoken about with the Minister previously in terms of the ambitious plans contained within the national development plan. I am mindful of the fact that a construction sector group was established by the Department of Public Expenditure and Reform to look at the productivity challenges in the construction sector. Does the Minister have an update for the committee on the work of the group and its outcomes to date?

Deputy Paschal Donohoe: Yes. The key area that we are working on is the development of a project on building information management or BIM. The aim is to develop a computer modelling of big projects that are due to be delivered in order to try to reduce the cost of the project when it is ready to be built.

On page 35 of the summer economic statement we also outline other things that have been done in relation to it. Probably the main area that we are examining at the moment is what can be done to increase the level of skill within the construction sector to, in turn, influence the level of productivity. The work that we have done would indicate that our productivity level for construction is 24% below the European average, and improving that is one of the ways we will address the output of that sector.

Deputy Martin Heydon: I thank the Minister. The summer economic statement raised awareness of the implications of a hard Brexit. Have other external threats to the economy, particularly issues around trade, been factored in? I refer to President Trump's comments yesterday regarding trade with the EU in the future. Mercosur is in the news at the present. It is a longer-term concern. Does the Minister see challenges and possibilities in the area of trade? I refer also to the challenges for trade in the event of a disorderly Brexit.

Deputy Paschal Donohoe: I do. This is why we are changing the growth outlook for our economy to indicate that over time it will grow at a rate between 2.5% and 3%, as opposed to the far higher rates of growth we have seen in the recent past. Growth rates between 2.5% and 3%, if sustained over time, would still have the ability to make a hugely positive impact on living standards within our economy and would be above the long-term average rate of growth in Ireland.

Deputy Martin Heydon: The stability programme update calls for a €8.4 billion reduction in the gross debt by 2020. How realistic is this?

Deputy Paschal Donohoe: In terms of the level of reduction of our-----

Deputy Martin Heydon: Gross debt.

Deputy Paschal Donohoe: It can certainly be achieved if we run surpluses, which can have a very big effect on the level of debt in our economy as a percentage of national income. The key thing is to sustain that degree of surplus over time.

Deputy Martin Heydon: The committee has heard much commentary to the effect that the economy is approaching full capacity and we could be heading into a period of overheating, as has been touched on here. Obviously a disorderly Brexit would stop that happening. I wish to ask about overall strategy if the economy overheats. Does the Minister accept that we could be facing full capacity, or does he believe there is potential to grow economic capacity further? What are the possibilities for growing capacity rather than accepting that we need to put brakes on or pour cold water on the economy?

Deputy Paschal Donohoe: If Brexit does not happen, if there is an orderly Brexit or if it happens at a later point in time, we would need to look at two things. The first would be how to improve the capacity of the people, capital and land present in our country. It would not be all about how to restrain growth. It would also be about how to make better use of the resources available to us. In particular, the main opportunity would be the level of underemployment we still have in particular parts of our country. That is why the work that the Minister for Children and Youth Affairs, Deputy Katherine Zappone, is doing on the national childcare scheme is important for social and economic reasons.

The use of land would be even more important. That is why I believe the work of the Land Development Agency can make a difference over time. Our response would have to be a mixture of two things. It would involve making more with what we have while also being careful

not to make decisions likely to stimulate any further inflation within the economy.

Deputy Martin Heydon: I thank the Minister for his answers. I have one further question. Over several difficult months we have seen the Minister's Department dealing with the pressure of several public sector pay demands, from our Defence Forces, HSE staff and beyond. In macro terms, how important is the public service stability agreement to our future economic growth? Does the Minister have any comments on that?

Deputy Paschal Donohoe: It is crucial. Public sector pay is the single largest component of total current expenditure. Any change in our public sector wage bill that affects everybody else in our public service has a really big effect on the total level of current expenditure within our economy. One of these issues is currently before the Labour Court. I acknowledge that. Work is under way concerning healthcare assistants. All I will say is that as we approach the halfway point in the three-year agreement the payments we are making to the vast majority of our public servants are unchanged from what we assumed under that agreement. When we were putting this agreement together we assumed a certain level of wage increase on certain timescales, outside the changes we are due to make for nurses. This is why the new nursing contract will be so important. The changes we have made with regard to everybody else are planned and are inside the planned budgetary parameters.

Chairman: In order of indication I will now go back to some Deputies for a second set of questions.

Deputy Declan Breathnach: I thank the Chairman. I normally do not comment a second time, but I omitted to ask this question. Economists we have met in this committee and the Irish Fiscal Advisory Council, IFAC, have indicated the importance of being proactive rather than reactionary in the event of a disorderly Brexit. Questions clearly need answering as to whether the various plans are in place for EU support packages for the sectors that will be most impacted. Moreover, are we ready to deliver those packages should a disorderly Brexit happen? Recently the €100 million package for the beef sector has not filtered down despite the commitment to it. It would be disastrous if a disorderly Brexit happened in six months and the plans for EU supports were not in place and the packages did not kick in. Can the Minister assure the committee that in the event of having to take the fork in the road of a disorderly Brexit, the best laid plans for the vulnerable sectors are deliverable?

Deputy Paschal Donohoe: Yes, they are deliverable. We will ensure that we can put the strongest possible support in place for sectors that would be affected by a disorderly Brexit. However, this support would need to be capable of being phased out over time because we would have to ensure the parts of our economy we support turn to other sectors or other countries, or that those companies or sectors make changes so that they become sustainable again. I want to be clear that even with the kind of support we would want to put in place, a disorderly Brexit would pose very considerable difficulties for our economy, as we have outlined in the summer economic statement. While we will do what can be done to help our economy respond it will still mean very considerable change in our country's ability to trade, the key reason being the nature of the change in our trading relationship with the UK.

Deputy Declan Breathnach: Can the Minister assure me that the packages are in place, that there will be no delay for the sectors that will be most impacted and that there are assurances from the EU to that effect?

Deputy Paschal Donohoe: I can assure the Deputy that supports will be in place if they are

needed. From my engagement with the European Union I am confident that it will provide the policy guidance or recognition needed to do that. Of course, we will be expected, and we will be able, to provide the resources to respond to this challenge ourselves.

Deputy Declan Breathnach: I thank the Minister.

Deputy Pearse Doherty: I would like to focus on a couple of points. I will start with health spending. The latest fiscal monitor showed that as of the end of June, current expenditure was 6.8% higher year-on-year than in 2018. The projected figure was 5.8%. At the end of May it was 8.9% higher than the previous year's figure whereas, as I said, growth of 5.8% had been projected. How concerned is the Minister that there will be an overrun in health spending in 2019?

Deputy Paschal Donohoe: It would be a matter of very great concern to me if there were to be an overrun in health of the magnitude of what we saw last year. As the figures indicate, we are currently in a better place than we were a year ago with regard to expenditure management. There is still a risk, however, and that will require ongoing focus for the rest of the year.

Deputy Pearse Doherty: The Government anticipates that the relative growth in expenditure for 2019 will peak in May and that there will then be two months of decline followed by stability for the rest of the year. I believe that is a fair analysis of what the Government is projecting in health. That is the complete opposite of what we saw last year and of trends in health spending. There are indications that there will be an overrun in the middle of the year. If even the current level of spending were to be projected out to the end of the year, there would be an overrun of €150 million. The trend has always been to have a significant increase in the last quarter. Why does the Minister believe that 2019 will buck the trend in respect of overspending on health?

Deputy Paschal Donohoe: Is the Deputy referring to the profiling of the overspend with regard to what will happen towards the end of the year?

Deputy Pearse Doherty: I am referring to the actual overspend, which is projected-----

Deputy Paschal Donohoe: There are two reasons. The first is the magnitude of additional funding that was provided to the health services last year. The Supplementary Estimate last year, in addition to the extra funding provided in budget 2019, amounted to just over €1 billion. This is the largest increase in funding to the health services in a single year in any of the budgets in which I have been involved. With regard to the Deputy's point on the profiling for the rest of the year, I am aware of this risk. While I argue that we will be better able to manage the risk because of the very significant additional funding received last year, the key metric I look at is growth in current spending as against spending in the same month of the previous year and what we have budgeted for the entire year. I look at where we are from a profiling perspective, but that is secondary. This is the best indicator as to the level of risk we face.

Deputy Pearse Doherty: The month of May showed growth in expenditure of 8.9%. The figure in May of last year was 9.5%. There difference in respect of that month is not significant. We have seen a decrease in June but all indications suggest that if we are seeing a significant overrun at this point in time, 1% above what was budgeted for, this overrun will accelerate in the last quarter of the year. Regardless of what was allocated last year, the HSE and those managing the spend on health are telling us that they have not been able to stay within their means for the first five months of the year. The trends show that there is always a sharp increase in the

last quarter. I do not understand the Minister's view. Is he suggesting that there will not be a sharp increase?

Deputy Paschal Donohoe: I am not suggesting that at the moment. I am saying that we need to avoid that, which is the reason I am being very careful in my analysis of where we are at the moment. The change in June stands in marked contrast to our position in May and earlier parts of the year. The growth in expenditure this year versus the previous year was within what we had budgeted for. It is obvious-----

Deputy Pearse Doherty: Will the Minister repeat that?

Deputy Paschal Donohoe: The month-on-month expenditure earlier in the year was in line with what we had budgeted for. That changed in May and then changed downwards in June. While the June figures for current expenditure growth versus what was budgeted for show progress in managing the risk, I must be clear that the Minister for Health, Deputy Harris, and I will need to work together in the second half of the year to ensure that we deliver on our commitments to patients while staying within the parameters we have agreed with the HSE and Department of Health.

Deputy Pearse Doherty: Expenditure is obviously not within the parameters, however, because there is an overrun.

Deputy Paschal Donohoe: There is an increase, yes. At this point in the year, the figure is higher but two things must be weighed against that. First, the growth in expenditure for June is lower than it was in May.

Deputy Pearse Doherty: It is still over budget.

Deputy Paschal Donohoe: I accept that but the magnitude by which it is over budget is far smaller than it was in other years.

Deputy Pearse Doherty: If even the lower level of growth in expenditure in June extends to the end of the year, we will be €150 million over budget. Is the Minister of the view that we will spending will come in within budget for the rest of the year, thereby bucking the trend of every other year?

Deputy Paschal Donohoe: I aim to get spending for these months within budget and will work to do so. What is different from the situation in other years is the magnitude of additional funding last year, which was just over €1 billion.

Deputy Pearse Doherty: What does that mean? When considering those who may be watching these committee meetings, I am very conscious that we are talking about very high figures and staying within budget. The importance of that is well-known, but what does that mean for people? I met HSE officials last weekend and was told that 250 people in County Donegal who had been approved for home help packages were not getting them because the HSE cannot meet the needs of the public, the reason being the Minister's demand that it stays within allocated resources. The HSE told me that when the resources were allocated last year it immediately stated it would be impossible to deliver the service with the resources provided. There are a number of factors at play, for example, the transport cost of home helps is now factored in so recorded spending on home care is not all for face-to-face services being delivered. The implementation of that change amounts to a cut of 1,000 hours per week. The HSE is putting a freeze on the allocation of home help hours until the end of August, when there will

be a review. I could go into personal stories such as that of a 90 year old woman living in rural Donegal who will not get the home care package approved for her three months ago.

Chairman: We are running out of time.

Deputy Pearse Doherty: What does staying within budget mean? Does it mean operations will be cancelled or has waste been identified that can be filleted out? Is it a case of procedures being suspended or cancelled?

Deputy Paschal Donohoe: I am well aware of the people behind this, namely, the patients and citizens who are impacted by the decisions made. I deal with them in my constituency, as does Deputy Doherty in his. The Deputy pointed to what is happening in Donegal and to a constituent he has met. I would point out that this year 53,000 of our citizens will benefit from home support services and a further 235 people will benefit from intensive home care packages, which they need. That is an increase on last year. I fully support the director general of the HSE, Mr. Paul Reid, and the work he is doing in the HSE. We have the ability to grow services and deliver the home help hours that are needed but we have to ensure that the providers of those services are conscious of our budgetary parameters. That can be done with the level of funding available to the HSE. The reason it is so important to within budget is that failure to do so will have two outcomes. The first is that decisions on other public services to be made by other Departments will be impacted. The second is we will end up funding an ever greater amount of public services in the future based on tax revenue that we may not always have. I do not want that to happen. I am confident that we can meet the needs of patients and support the work of Paul Reid with the money available to the HSE and the Department of Health. This is demonstrated by the 53,000 people availing of our home care services.

Deputy Pearse Doherty: The Minister is living in cloud cuckoo land. He needs to come down and listen to what I am saying and, more important, to what the people are saying. The Minister says he is confident that we can deliver on the needs of patients. I am telling him, as the HSE has also stated, that the HSE has assessed patients and has determined that they need this support and care. The HSE says the patients need it but it cannot provide that care because it will go over budget and it cannot go over budget. That is what I am asking about. What does the Minister mean? Does he have some magical way to solve this issue that does not involve people being denied home care support or operations being cancelled or delayed later because the resources are not available?

Deputy Paschal Donohoe: I am in the same world as the Deputy, representing similar constituents with similar needs. I am as aware as he is of the levels of need of patients in our hospitals or of those who want to go into our hospitals or primary care centres. I understand the reality to which the Deputy is referring because I represent and deal with the same issues myself. Additional funding for home support services has grown by €140 million over the past four years. That is a significant increase, which will ensure that we can put the necessary resources in place in order to respond to these issues.

Deputy Pearse Doherty: The Minister says he believes we can meet the needs of the public. How are we going to do that when the needs of the public are not being met at this point in time? That is the reality. We are looking at this one item but we could look at other issues such as delays, operations and so on. Thousands of people who have had their needs assessed cannot have them met as a result of budgetary constraints. Does the Minister accept that? The Taoiseach told us he would examine this issue and dig deep into the figures. If the Minister has some way to meet those needs within the existing resources, I ask him to please tell us about

it. The HSE says it spoke to the Minister last year when the budget was allocated. The budget has been increased but the transport time of home care support is now factored in, and rightly so, which meant an increase would have been needed regardless. There was also an increase in numbers caused by demographic changes. The need has now exceeded the budget.

Deputy Paschal Donohoe: I am aware of the level of unmet need, which is why the HSE and the Department of Health are looking to make use of the resources they have available to them and find out if they can be used in different ways to resolve these issues. We are debating needs that are unmet or need to be met. I am aware of waiting lists and of families and citizens awaiting services after assessment. We are currently providing those services to 53,000 citizens and resources and funding are in place to do that. The Deputy is as aware as I am that there are budgetary parameters, which he acknowledged earlier. Services must be funded from the money that is made available to them. There has been a huge increase in the level of funding made available to the health service.

Deputy Richard Boyd Barrett: To follow up on Deputy Pearse Doherty's point that needs are not being met, is there not a circle here that cannot be squared? I accept that the Minister is getting the same representations as the rest of us from people who have been approved for home care packages but are not getting them. They have been told quite simply that it is not in budget. The Minister is not providing an answer as to how we are going to provide for those needs, other than to say that some needs are being provided for. The fact of the matter is that a many needs are not being met. I met hospital consultants today who were discussing gynaecological care. Some 20,000 or 30,000 people are waiting for gynaecological care and this need essentially cannot be met because we do not have enough doctors. The consultants argue that we cannot recruit more consultants because of the two-tier pay system. New entrants are not willing to work beside people who are being paid 57% more than them just because they happened to become consultants before 2012. They find this obnoxious and they are not going to do it. They are leaving the country instead.

The Minister could make a similar point about housing and say the Government is ramping up housing and more social housing is being built. It is not enough, however. To take affordable housing as an example, not even the Minister could argue that this is being delivered. Nothing is being delivered on affordable housing and the little that is being delivered may be unaffordable. The National Development Finance Agency, NDFA, explained to us that the particular way the affordable housing scheme is set up means affordability is based on site-specific costs, market conditions and so on. The result is that rents for cost rental housing are €1,200 a month, which is not affordable for someone earning the average industrial wage or less. This can only be resolved by the State providing a bigger subsidy or extending the finance period, which are dictated by budgets. We are not meeting the need. I could give many other examples in areas such as infrastructure and climate action.

Is €700 million anywhere near enough to meet the current and capital expenditure requirements we need to address these problems? I put it to the Minister that it is not enough. The only way this dilemma can be resolved is by raising additional revenue. I agree with the Minister, and disagree with some of my colleagues in the Opposition who think borrowing is the way forward. I am not in favour of running deficits or borrowing. In fact, I find it shocking that we have paid out €60 billion in debt repayments over the past ten years. That is the equivalent of building three national children's hospitals a year. It is unbelievable that we have almost forgotten about that discussion. There is a huge black hole of debt in the economy. That is toxic debt and we should not be repaying it, but it is shocking either way.

Do we not have to find additional sources of revenue to increase the envelope available to us? The Minister will never go as far as we would, but does he not agree that we need to start looking at sources such as profits, capital taxes, wealth taxes and employer's PRSI, which we could increase significantly? Direct expenditure is closely scrutinised but there is no scrutiny of tax expenditures, even though they amount to billions of euro worth of tax giveaways, mostly to the wealthy and to big corporations. While this committee has started the process of examining these huge tax expenditures, such scrutiny is a hell of a long way from where it needs to be. If that money were redirected into direct expenditure in the areas of need we have just identified, we might be able to meet some of the demands building up.

Deputy Paschal Donohoe: The key difference between the Deputy and me is that he is only looking at the €700 million that is unallocated. However, our planned budget expenditure for next year is €68.8 billion. We are debating the unallocated funds, whereas I am focused on the totality of what we will spend next year. That substantial figure will allow us to make progress on many of the needs we are debating here today. That figure could, in theory, be increased further by increasing tax in some areas. I say that carefully because this is where the Deputy and I will differ. Increasing our spending ability by reducing the tax expenditures the Deputy mentioned would have other effects on the economy. The Deputy and I have previously debated the research and development tax credit, for example. The Deputy sees that as a tax credit that trickles up to the wealthy. I see the research and development tax credit, and I have direct experience of this, as playing an important role in the retention and the development of employment in our economy. The theory of what Deputy Boyd Barrett is advocating is logical. I have always acknowledged that he puts forward consistent propositions but where I differ from him is that I believe the tax rates and measures he is referring to would have a very negative effect on our economy.

Chairman: The Deputy may respond briefly as we are just over the time.

Deputy Richard Boyd Barrett: Very briefly in response to that, we all know the research and development tax credit is overwhelmingly benefiting a small number of big multinational corporations that are paying pitiful levels of tax, often below 1%. Is the Minister seriously suggesting that if we redirected some of that towards our public universities, for example, which might help deal with some of our labour and skills shortages, all the multinationals will run out of the country when they are paying a tax rate of less than 1%? I do not buy that. The Minister could argue that if we increased that to an effective rate of 20% it may have an impact. That is a debate. I do not believe it is a serious proposition to suggest we could close some of those loopholes and redirect some of the that.

I asked the Minister about employers' PRSI.

Chairman: I am sorry, Deputy, but I ask you to conclude. We are under a time constraint in terms of this room, which we must vacate in less than ten minutes. I ask the Minister to respond briefly.

Deputy Paschal Donohoe: I believe changes in areas like the research and development tax credit and our corporate tax policy, if we were to go down the path suggested by the Deputy, would have a very negative effect on the level of employment and investment in our economy. I say that as somebody who is at the forefront of representing Ireland's competitive offering to companies which create employment in Ireland. That is the area of difference between the two of us. If the Deputy is ever Minister for Finance or Minister for Business, Enterprise and Innovation and he is responsible for retaining jobs or trying to create more, and competing with

many of the countries trying to do that, he may well experience the reality I see every day. I differ from the Deputy on that.

The Deputy touched on the issue of employers' PRSI. It is worthwhile acknowledging that later in the year there will be a consultation paper on the level of employers' PRSI in our economy which will examine options for the way the Social Insurance Fund can meet our future commitments. Where the Deputy and I are in a very different place is that I believe much of what he is advocating would have a very damaging effect on our ability to retain jobs and investment in Ireland.

Chairman: I thank the Minister and the Deputy. I know Deputy Doherty wants to come back in but I want to tease out one specific area with the Minister for a couple of minutes. We had a contribution to the committee from representatives of IBEC who trumpeted their fears and concerns regarding the OECD-led reforms of taxation in respect of our corporation tax system. Effectively, they stated that it was the bigger threat, and I do not want to misquote them, to our economic prosperity. In answer to questions earlier, the Minister characterised those type of changes as a medium-term threat and not comparable with that of Brexit. The IBEC representatives certainly highlighted it. I am interested to hear the Minister's and the Government's thinking on how the corporation tax structure changes being pushed for at international level will impact on budget planning here over the next couple of years.

Deputy Paschal Donohoe: My view on that is formed by the phasing in respect of what will happen in the OECD. The work plan in respect of the debate on global corporate taxation is not due to be concluded until the end of this year and decisions relating to that are not due to be completed until the end of next year. For those reasons, I see Brexit as being a more imminent risk.

In terms of the effect it will have on our tax revenues and competitiveness in the medium term, change is coming. I made that clear in a speech I gave at an international tax conference in Dublin Castle some weeks ago. There are changes under way, driven by larger countries in particular, that want to examine the way in which global tax policy is conducted. That is why I believe it is so important, if external circumstances allow, that we move into a surplus position and begin to grow that surplus over time.

As to whether it will be a threat to our prospects, at this point in time it is difficult to form a definitive view on that because the effect it could have on us will be in terms of the trade-offs between taxing where value is created. If that is maintained, that shows the ability of our corporate tax over time to stay at current levels, or even grow, versus decisions made regarding where tax is levied. It is the trade-off between both of those two elements that will determine the net effect on our corporate tax take. It is simply too early for anyone to be able to say where that will end up, which is why in the interim we need to make changes similar to those we made on VAT and stamp duty and be in a surplus position in our national finances.

Chairman: I had indicated to Deputy Doherty that I would call him again for a final question.

Deputy Pearse Doherty: If the Chairman allows, I will ask all three questions together. On tax, in a reply to a parliamentary question the Minister stated that he received the report last year on merging PRSI and the universal social charge, USC. The USC brings in €3.9 billion of tax revenues per annum which, if it is merged with PRSI, would be locked in to the insurance fund and could only be used for those purposes. It does not appear anywhere in the Minister's

projections in terms of this report because that would leave a gap. Is that still on the table? Why is it taking so long to produce a map?

The second question on tax is to seek clarification. We are well used to budget day surprises such as close to €1 billion being found from somewhere. As mentioned earlier, the Taoiseach said there will be a €600 million tax package in this year's budget and that he will still have €3 billion to spend. I do not know where he will get the other €800 million from? Is he picking these numbers out of the sky or does he know something the rest of us do not know?

On Brexit, the impact of a disorderly Brexit, which all of us want to avoid, over a five-year period will be €28.5 billion to the Irish economy yet in option B, all the Minister outlines is that we will borrow to deal with the deficit of close to €5 billion, which obviously we would have to do. However, in terms of the stimulus, the mitigation and the support mechanisms, all he is outlining is that the €700 million that is available, and questions arise as to whether all of it will be available, would be used to help support areas. Obviously, that is not enough and there is no plan or indication in respect of what is being outlined.

The third question relates to the first question I asked earlier about unallocated resources in terms of the increase in expenditure headline numbers allocated for 2021 and beyond. It can be confusing sometimes to read through the documents and sometimes the documents may contain minor errors but page 29 of the stability programme update 2019, under general Government expenditure, tells me the resources that are unallocated. For example, for 2020, it tells me there is €605 million unallocated. In the summer economic statement, the figure is €700 million, so that is closely aligned. In April's statement, the figure was €1.3 billion but in this document the figure is €1.9 billion, which indicates an increase. However, in the subsequent years the summer economic statement shows a significant decrease in unallocated resources. I am trying to figure out how that could be the case given that the Minister said he has increased the amount of expenditure in the summer economic statement. The Minister might provide the committee with the figures which correspond with the draft stability programme update in respect of the magnitude of the expenditure increase to reach the 3.25% expenditure level outlined in the summer economic statement.

Deputy Paschal Donohoe: On the question of whether I have factored the effect of a merger of USC and PRSI into my tax take for the medium term, I have not. A consequence of a merger, if we were to fold USC into PRSI, is that there would be an expectation that the tax flow from the USC would then move into the Social Insurance Fund. That would create a deficit in tax revenue so that is not factored into the figures the Deputy has.

On the Deputy's second question-----

Deputy Pearse Doherty: Is it going to happen? The Minister has had the report since December. First, the USC was to be abolished - the Minister held the placards as well - and then it was to be merged.

Chairman: Deputy Pearse Doherty should let the Minister answer.

Deputy Paschal Donohoe: It is something on which I wish to make progress, but my ability to make progress on it in this year's budget will be influenced by what type of Brexit risks we are going to face.

Deputy Pearse Doherty: The Minister is making the Brexit argument.

Deputy Paschal Donohoe: No-----

Deputy Pearse Doherty: This was promised three years ago. First, it was to be abolished, then merged-----

Chairman: Deputy, let the Minister answer.

Deputy Pearse Doherty: Brexit is very convenient.

Deputy Paschal Donohoe: I am speaking to the man whose answer for many years to every question about how he would raise additional money was a wealth tax, but I do not hear him speaking about that any more.

Deputy Pearse Doherty: We agree on a wealth tax on substantial assets and on taxing the banks.

Deputy Paschal Donohoe: I have not heard him advocate for that for quite a while. Deputy Boyd Barrett is still advocating for it-----

Deputy Pearse Doherty: The Minister obviously does not read our alternative budget submissions.

Chairman: I ask the Deputy to let the Minister speak.

Deputy Paschal Donohoe: The Deputy might be encouraged, or worried, to know how often I read the Sinn Féin budget submissions.

Deputy Pearse Doherty: Obviously the Minister is not reading that part of it.

Deputy Paschal Donohoe: I do not recall the wealth tax making an appearance recently.

Deputy Pearse Doherty: It has in every year. I will send the Minister a new copy-----

Deputy Paschal Donohoe: It is only fair for me to say-----

Deputy Pearse Doherty: -----and I will highlight the point for him.

Deputy Paschal Donohoe: I am answering the Deputy's question. With regard to any decision I make in respect of a merger of the two, it is only fair to say that as we move towards the October period my key concern is how I protect the future tax take. It is understandable that I would say that.

Regarding what the Taoiseach has said about our ability to cut taxes in the future-----

Deputy Pearse Doherty: And spend €3 billion alongside that.

Deputy Paschal Donohoe: -----it is explicable if one looks at it in the two different scenarios to which we have referred. In an orderly Brexit scenario, which is outlined in Table 6, the table shows the ability to make progress in delivering a budget surplus and inside the unallocated resources there, which start at €1.9 billion in 2021 and move to €2.3 billion in 2024, how it is possible within that to allocate €600 million per year for tax reform.

Deputy Pearse Doherty: And still spend €3 billion. It is €800 million short.

Chairman: Deputy Doherty-----

Deputy Paschal Donohoe: Chairman, I am well aware that each time I answer one of Deputy Pearse Doherty's questions he wants to interrupt me with a further one.

Deputy Pearse Doherty: I am interested to hear how the Government figured out there is a €3 billion spend, but the Minister can carry on.

Deputy Paschal Donohoe: The reason the €3 billion spend can be made is that it refers to unallocated decisions and reserves. Baked into the 2021 figures onwards is the fact that there will be pre-committed expenditure that will be growing.

Deputy Pearse Doherty: That is nonsense.

Deputy Paschal Donohoe: That explains the point that has been made there.

Deputy Pearse Doherty: It is here in black and white that it is €2.2 billion.

Deputy Paschal Donohoe: I have answered the Deputy's question, and he knows it. With regard to the difference between-----

Deputy Pearse Doherty: I am sure the Minister's officials are cringing.

Chairman: Deputy Pearse Doherty, it is not a Punch and Judy show.

Deputy Pearse Doherty: The Minister is inaccurate.

Chairman: Have the respect for the committee and for both yourself and the Minister to allow him to reply to you. To be fair, he sat and listened to you. All I ask you to do is allow him to reply.

Deputy Pearse Doherty: I will, Chairman. You are very fair. This is the third time I have intervened and we are scheduled to meet until 4.30 p.m. However, this is the budgetary oversight committee and the Minister is putting inaccurate figures on the record. We would not be doing our job as a supposedly serious committee if we did not point out what the Minister is saying. There is no €3 billion available to spend if taxes are cut by €600 million unless taxes are raised somewhere else.

Chairman: Deputy, you have plenty of time to make that point.

Deputy Pearse Doherty: That is the reality and the Minister knows it. He needs to try to-----

Chairman: The Minister will reply to the Deputy.

Deputy Paschal Donohoe: I am well used to Deputy Pearse Doherty wanting to shout over the points I make. I am responding to each of the questions asked. I am also doing this in the context of an economy which, as we saw yesterday, is moving to unemployment levels that are approaching an economy at full employment, while the earnings flow within the economy are making a real difference to people's living standards. I know why Deputy Pearse Doherty does not wish to refer to that or debate it, but as I am before the budget oversight committee I am happy to answer the different questions put to me. What I have been explaining is outlined in Table 6, which shows that in the context of the unallocated resources that are available from 2021 onwards there is the ability to deliver tax reform or reduction packages of €500 million to €600 million each year.

Deputy Pearse Doherty: I accept what the Minister said at the end of his remarks. However, the key question is: if he does that, how can he spend an additional €3 billion on top of that? He knows, I know, his officials know and every member of the committee knows that he cannot do that. He will be left with €2.2 billion, at most. That is outlined in Table 6. The Minister should acknowledge that instead of referring to distractions in terms of wealth tax and so forth.

Perhaps he might wish to answer my other questions regarding Brexit and our preparedness for it. Also there are the unallocated resources and the corresponding figures in the SPU. It would be better if he or his officials provided that information to the committee.

Chairman: The Minister can give a final reply.

Deputy Paschal Donohoe: I understand why the Deputy wishes to be dismissive of the answers I have given. I am answering his questions, and I am doing so in the context of an economy that is growing, in which we are increasing investment and which is making a difference to people's lives and living standards. While there are needs that must be met, the Deputy will never acknowledge any of the progress that is being made in responding to issues in the lives of the people he and I represent. I return to the point I made. If he looks at the unallocated column as well as what is pre-committed in expenditure, the ability is there to make progress on the issues to which he is referring.

Deputy Pearse Doherty: No. It is €3 billion plus €600 million.

Deputy Paschal Donohoe: With regard to the other points the Deputy put to me, if he will remind me of his question on Brexit I will answer it. I will ask Mr. Kinnane to answer the question about the SPU, the SES and the difference to ensure the Deputy gets the full answer.

Deputy Pearse Doherty: Regarding the question on Brexit, given the impact of €28.5 billion over five years obviously there will be a need to borrow if there is a disorderly Brexit. We would support that to make up the deficit. However, the Minister's Plan B is just to use the unallocated resources of €700 million to stabilise the economy. We will need more support than that. There is no fiscal plan on what to do in the context of a €28.5 billion hit to our economy. It is a massive deficiency in the summer economic statement. While I would not expect a line-by-line item, there is no fiscal plan to deal with this. A counter-cyclical approach means that one stimulates in a downturn. The Minister is suggesting there is nothing to stimulate here.

Deputy Paschal Donohoe: First, we have baked into our pre-committed plans additional capital expenditure of €700 million, which would be the type of stimulus that would be required if our economy was to have a shock or have to deal with the consequences of a disorderly Brexit. That is already pre-planned in the context of capital expenditure for this year going up by 24%. As I indicated to Deputy Michael McGrath earlier, if we find ourselves having to deal with the risks of a disorderly Brexit occurring, when we move into that period in September I will examine whether further funding is needed to deal with the effects of supporting change in parts of our economy. We have sought to accommodate that in the deficit span for 2020.

Mr. John Kinnane: With regard to Table 10 in the SPU, it follows the format set out in budget 2019 and in the expenditure report for 2019. We have an amount of €605 million that is showing as resources not allocated. There are carryover costs of approximately €300 million that are included within the expenditure pre-commitments that we detailed at €1.2 billion on the current expenditure side. As these carryover costs are not specifically allocated to ministerial expenditure ceilings, they are included within the resources not allocated number. If we remove

the €300 million of pre-commitments, that gives the €300 million of unallocated expenditure for 2020. As we move out across the years, table 10 in the stability programme update, SPU, accumulates the unallocated expenditure amount for each year. Back at budget time last year, and in the SPU, we had unallocated resources of €700 million for 2021, which gives the €1.3 billion. That compares with the €1.3 billion for 2021 in the summer economic statement. The reason for the uplift is that when we apply a 3.25% growth rate, we get annual growth in expenditure of roughly €2 billion as opposed to roughly €1.5 billion annual growth in expenditure as set out in the SPU. Consequently, there is an uplift in the resources not allocated but these are annual numbers as opposed to the cumulative numbers in the SPU.

Deputy Pearse Doherty: We are not comparing like with like because there is accumulation. Is it possible to provide the figures from the SPU based on table 6, section d, which deals with “Unallocated (a-b-c)”, to show the corresponding figures so we can see clearly the increase in unallocated resources to reach the €3.25 billion target?

Deputy Paschal Donohoe: Yes, it is. We will be publishing our mid-year expenditure report in the next fortnight and I will make sure that report contains that information.

Deputy Richard Boyd Barrett: We had the discussion about why the Minister thinks the sort of measures I would propose would have the multinationals running for the hills, and all of that. In previous pre-budget documentation, the Minister provided figures and a sectoral breakdown of profits and increases. Does he have those figures available, given they are not in any of the documents I have seen? It would be useful for us and for the public to know how much profits have increased and to give a sectoral breakdown of that over recent years. It is very difficult to judge the Minister’s budgetary decisions, particularly for ordinary people, unless we know how everybody is doing relative to one another in the economy. These were given in the past and, in previous years, we had graphs showing that transport profits were up this much, construction was up this much, IT was up this much, and so on. I do not expect the Minister to have those figures now but I would like it if the Department had them because I think we deserve to know.

Broadly, would the Minister accept that profits have increased by a very significant margin more than wages and salaries over recent years? Would he accept that, while that continues to be the case, the benefits of economic progress are going disproportionately to profits and the people who accrue those profits and that, in turn, increases the gap between the very rich and the rest? The evidence for that is manifold. The wage share, for example, has consistently fallen over the past 20 years and has fallen dramatically in this country, where it is worse than almost anywhere else in the western world. Does the Minister accept this is a fact? Does he think there is anything he should be considering about that when making budgetary choices? It is never really discussed although, interestingly, while wealth taxes are almost a subject to be laughed at here, in the United States they are talking about redistributive wealth tax rates. Is that even a consideration for the Minister to look at, in particular who is getting the benefit of economic growth?

Deputy Paschal Donohoe: The figures the Deputy is referring to are produced by the Central Statistics Office rather than the Department. We will have a look to see if we can identify what the Deputy is referring to and give him a more up-to-date version of it. To the best of my knowledge, over the past two years, the Department of Finance has not published sectoral attributions of profits and I think it is more likely that has come from CSO.

The share that wages, income and profits have within national income is a matter of con-

cern to me. The Deputy may have been present at the national economic dialogue when Dr. Michael O'Sullivan gave a presentation on this and talked about the effects of it on politics in other countries. In terms of how we look respond to this, it is by having a progressive income tax system and by playing our part in the work that is now under way in regard to international tax co-operation to ensure that global companies, in particular, are taxed fairly and effectively.

Deputy Richard Boyd Barrett: We have debated what is progressive and what is not. Let us say that I even accept the Minister's recent budgets are progressive, which I do not, they are not redistributive. To close that gap, they have to be redistributive. If there is a growing concentration of wealth and income in the hands of a small minority, and the CSO figures bear that out, and if wage share is falling as a share of national income-----

Chairman: Thank you, Deputy, we must conclude.

Deputy Richard Boyd Barrett: I will finish on this question. I do not think the Minister disputes this. Does he not think that, to close that gap, we need redistributive tax policy, not just progressive tax policy?

Deputy Paschal Donohoe: The most important graph in the intersection between politics and economics at the moment concerns the share income has of national income. What has happened over recent decades explains many of the challenges we now have in politics. Therefore, I am well aware of the analysis the Deputy is referring to, the work that has been done comparing the rate of return on capital with the rate of return on labour, and the debate in regard to taxation on each.

On whether we need redistributive economic policies to deal with that, the answer is that we do. I look at how we can play our part in that, as an open and small economy, and I go back to the answers that I gave to the Deputy earlier. For example, I would have thought the fact our corporation tax collection has increased is a sign that we are able to tax rising profits effectively within the share of global profits that are attributed to Ireland, and that is what we have done over recent years.

Chairman: With that, I draw our meeting to a conclusion. I thank the Minister and his officials for their contribution and I thank all Deputies for their interaction. It was, as always, an interesting, robust and informative interaction.

The committee adjourned at 4.20 p.m. until 2 p.m. on Tuesday, 9 July 2019.