# DÁIL ÉIREANN

## AN COISTE UM FHORMHAOIRSIÚ BUISÉID

## COMMITTEE ON BUDGETARY OVERSIGHT

*Dé Máirt, 12 Samhain 2019*

*Tuesday, 12 November 2019*

The Select Committee met at 2 p.m.

Comhaltaí a bhí i láthair / Members present:

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| Declan Breathnach, | |
| Thomas P. Broughan, | |
| Pearse Doherty, | |
| Martin Heydon, | |
| Michael McGrath, | |
| Eamon Ryan. | |

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

## Business of Select Committee

**Chairman:** The committee will meet the Minister for Finance at 2.30 p.m. Before that, we will go into private session.

*The select committee went into private session at 2.07 p.m. and resumed in public session at 2.33 p.m.*

## Ex Post Budget Scrutiny: Minister for Finance and Public Expenditure and Reform

**Chairman:** Before I begin, I remind members and witnesses to turn off their mobile phones. I welcome the Minister for Finance and Public Expenditure and Reform, Deputy Paschal Donohoe. He is accompanied by officials from the Department of Finance, Mr. John McCarthy, Ms Anne-Marie Walsh, Ms Deirdre Donaghy and Mr. Paul Cotter, and officials from the Department of Public Expenditure and Reform, Mr. Ronnie Downes and Mr. John Kinnane. I thank the Minister for attending this post-budget scrutiny session. This opportunity to engage with the Minister is an important point in our committee's calendar. We acknowledge the assistance of his officials in the ongoing scrutiny undertaken by our committee. I ask the Minister to begin with his opening statement and then we will have questions from members.

**Minister for Finance (Deputy Paschal Donohoe):** I thank the committee for the invitation to attend. I look forward to a good exchange of views. I remind the committee of the Government's main priority in the framing of budget 2020, which is to help our economy and society to deal with the potential impacts of a disorderly Brexit. As the committee is aware, on 11 September the Government agreed to base budget 2020 on the assumption of a disorderly Brexit at the end of October. A primary reason for making this decision was to give certainty to businesses and citizens that the Government is prepared for a no-deal Brexit and stands ready to support the economy in such a scenario. Although the risk of a disorderly Brexit in 2019 has clearly receded, considerable uncertainty remains with regard to the final outcome. Consequently, assuming a no-deal Brexit ensures that the Government has the necessary resources at its disposal to be able to meet this exceptional challenge, while preserving the longer-term sustainability of our public finances. Those sectors and regions most affected by a disorderly Brexit will be supported through timely, temporary and targeted measures. Before taking into account certain Brexit-related costs of €1.2 billion and timing-related cash costs of €169 million, the overall increase in core voted expenditure on public services and infrastructure in 2020 is estimated at more than €3.3 billion After taking account of discretionary revenue-raising measures of more than €400 million, this results in a net budgetary package of more than €2.9 billion. This package is broadly in line with the amount of €2.8 billion set out in the summer economic statement that would apply under the orderly Brexit scenario. Further, taking into account commentary, including advice received from the Irish Fiscal Advisory Council, in relation to in-year spending increases, two things have happened. The first is that a significant effort has been made this year to reduce the level of Supplementary Estimates that are required, without jeopardising our ability to meet the public service needs of our citizens and, second, the additional funding increases for this year have been carried into our budget day package for next year. This package is consistent with the advice we have received from the Irish Fiscal Advisory Council but more broadly, is appropriate given the current position in the economic cycle and the risks in the external environment.

As outlined on budget day, in the event of a no-deal Brexit, the Government will intervene to protect the impacted sectors and regions. This funding will be borrowed money used to protect our economy. If a no-deal Brexit does not happen, the money will not be borrowed for other purposes. In the event of it happening, €650 million of expenditure and funding will be available to be released in different waves and additional funding for the Department of Employment Affairs and Social Protection will be made available but that will only happen in the context of a no-deal Brexit. Mitigating the effects of Brexit has been a feature not just of budget 2020 but also of the past three years' work. This has included initiatives to increase competitiveness and put in place greater resilience in our economy. For these ongoing initiatives, which are already in place, approximately €200 million is included within the departmental allocations published on budget day. This amount is additional to the €1.2 billion noted earlier.

Since I published budget 2020 on 8 October, an extension of the EU's deadline for withdrawal to 31 January 2020 has been agreed. As such, the risk of the UK departing the EU without a deal has been averted for now. However, the ultimate outcome is still uncertain and a disorderly Brexit is still possible. We hope that the UK's withdrawal will take place on the basis of the deal agreed between the UK and the EU at the October European Council, while also awaiting the outcome of the UK's general election. The extension of the Article 50 exit point means there is likely to be some upside to my Department's forecasts. However, if the withdrawal agreement is ratified, Ireland's position will improve with increased revenues and lower expenditure than forecast in budget 2020. Growth could be expected to be in the order of 3.1% for next year, approximately 2.5% higher than forecast. In addition, the general Government balance could be around 0.5% of national income or gross domestic product in 2020.

Furthermore, I want to indicate to the committee, because of the distinct possibility of stronger corporation tax receipts, it is conceivable that the fiscal position for this year could be better than assumed at budget time. However, that depends on the continued careful and improved management of public expenditure. As such, I will make a call on the end-year position following the publication of the November fiscal monitor, given that November is the single most important month of the year for tax receipts. In addition, the Government is committed to running surpluses over the medium term, to reduce our debt and guard against risks such as the possible transient nature of some corporation tax receipts and potential reductions in revenue as a result of the OECD base erosion and profit shifting, BEPS, project.

Our public finances continue to move in the right direction and this is testament to the right policies in recent years. However, Brexit is not the only risk we face. Due to the highly open nature of the economy, our public finances are always vulnerable to potential knock-on impacts from a shift in tone in global trade. Should these risks not materialise, the principal risks then relate to potential overheating if the economy approaches full employment and changes in other jurisdictions affect the competitiveness of our corporation tax regime.

Going forward, we must continue to build on the hard-won gains of recent years and ensure our public finances remain on a stable and secure footing. Some of the policies I have implemented in this regard include the establishment of the rainy day fund, which I will say a word about now, and, in addition, we must continue to maintain a broad and stable tax base to ensure the State's finances continue to be financed properly.

I am happy to tell the committee that I commenced the National Surplus (Exceptional Contingencies) Reserve Fund or the rainy day fund on Thursday, 31 October. On foot of commencement and the necessary delegation order to the National Treasury Management Agency, NTMA, regarding the management of the fund, I then directed the NTMA to transfer €1.5

billion from the Ireland Strategic Investment Fund to the rainy day fund by 30 November. In preparing budget 2020, I set out that a disorderly Brexit was the baseline scenario for budget planning purposes, and therefore a budget deficit was in prospect. On that basis, I decided that there would be no transfer of €500 million from the Exchequer in 2019 to the rainy day fund. That will remain as a cash balance and, in particular in the context of a no-deal Brexit, will be used to meet the Exchequer funding requirement that would arise, which in turn will then be used for public spending priorities. However, on budget day, I also set out that the funds transferred to the rainy day fund can be deployed in the event that the economic impact of a disorderly Brexit is larger than assumed.

I will now turn to the fiscal position. Our economy has performed well in the year to date. Gross domestic product growth of 5.5% is expected for 2019, which is generating for now a planned surplus of 0.2% of national income. It is worth noting that this surplus could have been in the region of 1% to 1.25% of national income had the Government not increased capital expenditure from levels prevailing in 2016. Public capital investment will increase this year by 22%. Unemployment, at 4.8%, is now at its lowest level since 2012. The end-October Exchequer returns indicate that tax revenues are up 6.7%, driven by broad-based buoyancy in all major tax heads. We expect to meet our tax revenue target of €58.6 billion by year end. This represents a €200 million increase on the stability programme update, SPU, forecast.

Turning to the outlook for next year, the economy is forecast to grow by just over 0.7% if we have to deal with a disorderly Brexit. However, even in that scenario, our economy will grow. It will be a two-speed economy with continued growth in the multinational-led sectors but a much more difficult situation in UK-facing sectors. In the event of a no-deal Brexit, my Department is forecasting a deficit of 0.6% of national income and we also expect to see a slower increase in the rate of employment. However, as I stated on budget day and, as outlined by the Irish Fiscal Advisory Council, there is much more uncertainty regarding short-term prospects than is normally the case.

I will now turn to expenditure and give a brief overview of the outturn. At the end of October total gross voted expenditure was just over €53.5 billion, made up of €48.9 billion in current expenditure and €4.7 billion in capital expenditure. The amount is €3.6 billion, or 7.2%, ahead of the outturn for the same period in 2018. Of this, €2.7 billion relates to current expenditure, while just over €900 million relates to capital expenditure which, as I stated, will be up by over one fifth by the end of the year. This is broadly in line with the projections set out on budget day when the need for additional spending was announced for 2019 in a number of areas.

The biggest pressure remains in the health sector, with the 2020 expenditure report outlining the potential scale of the Supplementary Estimate. In recognition of the risks arising in health expenditure in recent years, a new health budget oversight group was established this year, incorporating members from the Department of Health and the HSE and chaired by the Department of Public Expenditure and Reform. The purpose of the group is to monitor health spending and staffing against the current budget allocation and act as an early warning mechanism for any deviation. It is fair to say that while further progress is required in 2020 on health expenditure, the expenditure management position in 2019 is very different from what it was when I appeared in front of the committee last November.

In recent years the Government's priority has been capital investment. We have seen a 90% increase since 2016. Making large strategic capital investments was the right course of action in recent years, given the large fall-off during the crisis period. Given the scale of investment in recent years, the growth rate is set to decline to more normal levels from 2022 onwards.

From a debt perspective, an important milestone is in prospect for this year, namely, that the ratio of debt to gross domestic product, GDP, is projected to fall below the 60% threshold set in the Stability and Growth Pact for the first time in the post-crisis period. Having said that and as I stated on a number of occasions, our debt burden remains highly elevated and is forecast at 100.2% of GNI* for 2019, albeit declining to 97.4% in 2020. Reducing the nominal level must be our priority. In that context, at budget time my Department projected a surplus in headline terms of 0.2% of national income for this year. However, given that the external economic outlook is deteriorating and the remaining uncertainty surrounding Brexit, our policy approach should be to run budget surpluses into the future if the economy continues to perform strongly and to use them to reduce the national debt. Furthermore, windfall receipts that arise from the State reducing its involvement in the banking and financial sectors will be used to reduce the level of public debt. We must continue to prepare for the inevitable slowdown, ensuring we do not spend money we might not have in the future and building on the achievements thus far.

Corporation tax revenue has been growing strongly, driven by increased company profitability. Receipts to the end of October stand at 10.6% ahead of target. November is the largest collection month of the year and we expect receipts to be stronger than forecast. Ireland has been very successful for several decades in attracting leading multinationals. Given the size of these multinational firms and our high level of integration with the global economy, we have seen the corporation tax base become somewhat concentrated, with the ten largest firms accounting for approximately 45% of all corporation tax receipts.

While Ireland's corporation tax receipts as a proportion of economic activity are broadly in line with those of other small, open, trading European economies, the Government is still acutely aware of the risks associated with the concentration of receipts. That is why we will continue to broaden the tax base, prioritise the reduction of debt and run Exchequer surpluses in the future and for now. In addition, on budget day my Department published a scoping paper entitled, Addressing Fiscal Vulnerabilities, to identify possible solutions and initiate a discussion on how best to mitigate our increasing reliance on corporation tax receipts. The paper also sets out several proposals to ensure our fiscal rules will not contribute to budgetary imbalances. I am considering them. My Department will undertake a further assessment of corporation tax receipts in the context of the OECD process. It will be published next March.

I will turn to specific matters I understand the committee wants to discuss. On our expenditure review, a sustainable expenditure policy needs to meet certain key requirements, including ensuring the overall level of expenditure remains affordable and delivering sustainable improvements in public services and infrastructure. Consequently, this requires that expenditure growth be set at a level that is consistent with the longer term growth potential of the economy and that there be an ongoing focus on the quality of expenditure. In that regard, spending review papers provide an evidence base for departmental spending that informs budgetary choices. The spending review process is aligned with the Estimates process as most papers are published in July or August each year. In addition, given the rolling nature of the spending review process, the analysis produced in one year can help in other years. The findings of spending review papers feed into the policy process by providing evidence to make well informed decisions in the relevant policy area.

I wish to comment on the demographic pressures and their impact on the budget. The population is young, but this will change in the coming decades. Last September my Department published a report entitled, Population Ageing and the Public Finances in Ireland. It outlines that the ratio of retirees to workers is set to more than double by 2050. There are around five persons of working age for each person aged 65 years and over. By 2050, the equivalent figure will be just over two. The greying of the population will have an adverse impact on the public finances, with age-related expenditure expected to rise by 6% of GDP by 2070. Accommodating demography-related costs was a feature of budget 2020. As with previous budgets, budget 2020 includes €500 million for demographic pressures in the areas of health, social protection and education. These allocations are informed by the paper Budgetary Impacts of Changing Demographics 2017–2027 which was published by the Irish Government Economic and Evaluation Service, IGEES. An updated paper was published alongside budget 2020.

While we are potentially heading into choppier economic waters, we do so from a position of relative strength. We do not have the imbalances that marked the economy a decade ago. There is no credit-driven bubble, for example, but there is still uncertainty about the final outcome of Brexit. Consequently, we must seek to continue to manage our finances next year within the parameters set out on budget day, with borrowing to fund the Brexit contingency measures to be triggered only in the event of a no-deal Brexit.

I again thank the committee for giving me the opportunity to speak today. I will be happy to address questions members may have.

**Chairman:** I thank the Minister for his very comprehensive opening statement. A number of Deputies are indicating that they wish to contribute, the first being Deputy Breathnach.

**Deputy Declan Breathnach:** I welcome the Minister and his officials. He stated towards the end of his contribution that we were potentially heading into choppier economic waters. He spoke about uncertain times and the hopes for an orderly Brexit. He also flagged the issue of overheating. The Supplementary Estimate for health will be limited to €335 million. The fiscal monitor continues to show health expenditure below profile, which we know is not reflective of the true picture. Are there plans to make the fiscal monitor more reflective of the actual in-year health position? Will the Minister update the committee on the status of the health budget oversight group to which he referred? The committee has previously called for the minutes of the group meetings to be published. Are there plans to do this? Aside from health, are there other areas of expenditure about which the Minister is concerned? What is being done to manage overruns in other areas? What is the updated position on Brexit? The Minister has mentioned the various deal and no deal possibilities. If there is a Brexit deal and the UK remains in the EU until the end of 2020 will additional resources be available for allocation next year? Will an additional transfer be made to the rainy day fund should a Brexit agreement be finalised? I will come back to ask further questions later.

**Chairman:** That is a substantial list of questions for the Minister.

**Deputy Paschal Donohoe:** I will work through each of them in turn. I do not expect my Supplementary Estimates to vary from what I indicated on budget day. I expect they will be broadly in line with what we announced on budget day. Sometimes there is a degree of change because there are technical issues in various Departments that require an intervention but I am confident the figures I outlined on budget day, and where we will stand with those figures, will be in line with what I indicated, which is a figure of approximately €660 million. That figure includes the funding needed for the Christmas bonus. I do not expect a significant change beyond what I have indicated.

I am confident the health Supplementary Estimate will be in line with what I indicated on budget day. With regard to the November fiscal monitor and the Deputy's point on the lag between it and the figures coming out of the HSE, which show a difference in the budgetary position, I have asked Department of Public Expenditure and Reform officials to inquire into this matter. While in previous years we saw a gap between the published HSE position and the fiscal monitor that we publish each month, it is fair to say that for this year the gap is wider than we saw in other years. The officials will look into the issue as we close out this year. It is worthwhile saying the Supplementary Estimate we have agreed with the Department of Health looks potentially large in the context of the November fiscal monitor but we have it at that level with an expectation of convergence between our fiscal monitor and the HSE figures when we move into December and January. It is predicated on the basis of careful planning that stretches beyond the fiscal monitor. I do not propose to introduce other significant Supplementary Estimates.

With regard to the question on the minutes of the health budget oversight group, given that they are released through freedom of information requests I see no reason not to publish them on the Department's website and we will begin to do that.

With regard to Brexit and likely outcomes, it is fair to say at this point that the risk of a no-deal Brexit for 2019 has clearly receded. Given all the experience I have built up as, I am sure, has the Deputy, of trying to predict what will happen with Brexit and then other things going on to happen, I will only reach a view on what will happen with Brexit once I see a withdrawal agreement pass through the House of Commons, we are completely clear on the content of that withdrawal agreement and we see it ratified. In the event of a no-deal Brexit with additional money being made available for other priorities, while I know the priorities are great in many parts of society, I do not plan to change the budget in the event of the country avoiding a no-deal Brexit. When we get into the first half of next year, the stability programme update, which we will do by 31 April, and the economic statement, which we will do in May, June or July, will give us a perspective and opportunity to assess where the economy stands if a no-deal Brexit is avoided. We have done one budget for 2020 and it is my strong view there should not be another budget until October 2020.

**Deputy Thomas P. Broughan:** I welcome the Minister and his team and thank them for the presentation. Regarding his final point, the Social Welfare (No. 2) Bill is before the Dáil this week and the bulk of social welfare recipients, who are often to the pin of the collar trying to survive, did not get increases in what was another austerity budget. Who can predict what will happen in British politics but if 2020 turns out to be like 2019, is there not a strong case to target more resources at people dependent on pensions and social protection? Should that be the case, we would be able to afford it so is there not a strong case to have another budget, given that the Minister did not have a budget worth talking about. It was a non-budget last month.

In the spending review cycle how do Departments decide on what topics will be included in the spending review? How has it turned out with regard to what was planned when the review on particular areas was taking place? Have the findings of the review been incorporated into policy in various expenditure areas?

Following up the questions that have been asked about health, we all saw a lengthy interview last Sunday with the CEO of the HSE, in which he seemed to indicate the overspend of €335 million and that we will have a Supplementary Estimate for it. Has the Minister received his plan? He spoke about publishing it yesterday or at the weekend. Does he have his operational plan for 2020? I know it has a specific technical name. Some people thought we did not have a plan for 2019. How do we know what resources the CEO of the HSE and all of his 120,000 staff will need in 2020 when we do not know what they are planning to do with regard to acute hospital beds, waiting lists, the treatment fund, more consultants, more GPs and all of the issues we hear about day in and day out?

With regard to corporation tax, the Minister has been speaking all the time about broadening the tax base but what exactly has he done to do so? He mentioned the 45% dependence on corporation tax from these large companies that have headquarters not too far away from this building. How does he see that panning out as time goes on? With regard to stamp duty and capital taxation in the October fiscal monitor, stamp duty seems to be cumulatively well behind by €100 million. What is the Minister doing in this territory?

With regard to the topic of the hour, besides Brexit, namely, climate change, are Departments working intensively on the overall packages that will be needed to retrofit all homes in the country? The Minister, Deputy Bruton, has given some figures for different areas relating to decarbonising transport, such as with cycling and using electric vehicles. Car taxes and excise duties were traditionally a huge bedrock of revenue, but do we have a master plan for the next five years to enable us to make up for the gaps in duties while providing the necessary funding to decarbonise this country seriously from 2030 onwards?

**Deputy Paschal Donohoe:** Austerity tends to be defined by the reduction of Government expenditure over time, but this budget increased Government expenditure by €3.4 billion.

**Deputy Thomas P. Broughan:** What about social welfare incomes?

**Deputy Paschal Donohoe:** To describe a budget as an austerity budget-----

**Deputy Thomas P. Broughan:** It was regressive.

**Deputy Paschal Donohoe:** -----when we increased overall expenditure is very odd.

**Deputy Thomas P. Broughan:** With inflation, it is regressive.

**Deputy Paschal Donohoe:** The Deputy asked how topics were picked for the spending reviews, and there are two different ways. A Department may recommend a topic to the Department of Public Expenditure and Reform or we may recommend one to it. The topics tend to be worked on between both Departments.

The Deputy also asked about health. I understand that the Department of Health has received the HSE service action plan for next year and is considering it. There was a HSE service plan for this year. I was also asked what I had done to broaden the base of corporation tax, and I can point to five measures in this area. First, I have reversed the lower VAT rate on the hospitality and services sector. Second, I increased betting duty. Third, I changed the taxation on commercial property. Fourth, I have increased carbon tax and, fifth, I have left the entry points for USC and income tax unchanged, as I have done in all my budgets. The Deputy is correct about the decline in stamp duty up to October. That has been driven by a decrease in the number of share transactions, upon which stamp duty is paid. We will have to look at what is driving that and see if the trend continues into November. The underperformance of stamp duty on share transactions has been the key issue this year.

The Deputy asked how we were engaging with different Departments on climate change. The process is being led by the Minister for Communications, Climate Action and Environment, Deputy Bruton, with my active support, and all our engagement in this area takes place through the climate action plan. Yesterday, I visited Lough Ree and was reminded of the many changes we have to make to deal with the huge challenge of climate change.

**Deputy Thomas P. Broughan:** Does the Minister have any global figures for the real cost of retrofitting, set against the gains from using less energy? Has anybody done any work in this area?

**Deputy Paschal Donohoe:** The work has been done, primarily by the Department of Communications, Climate Action and Environment, which has looked at the estimated cost of retrofitting our entire housing stock. Work has also been done by industry bodies. I do not have the figure for the total budget for this at the moment, but we can write to the committee with details. Some €13 million from the change in carbon pricing is going into the warmer homes scheme run by the Sustainable Energy Authority of Ireland, SEAI.

**Deputy Eamon Ryan:** It is impossible to know what will happen with Brexit, but the possibility of a no-deal Brexit is probably somewhat lower now than it was on budget day, though it will depend on what happens in the UK election. Will the Minister give the committee an update on the provisions that were made in the budget for a Brexit contingency fund? Given that there has not yet been a deal, I assume the fund will not be drawn down. What is the provision for the funding in that case? Is it returned to the rainy day fund? What amount is contingent on a no-deal Brexit? Given that a decision is not likely until the end of January, is that section of the budget on hold pending developments in the UK?

**Deputy Paschal Donohoe:** I am sure the Deputy is referring to the €1.2 billion in the Brexit contingency framework. If a no-deal Brexit does not happen, the money will not be used for any other purpose and would transfer into an improved surplus position for next year of 0.5% of our national income. We would see a swing from an expected deficit next year of 0.6% of national income to a surplus of 0.5%. We have discussed this kind of surplus and we have responded to issues raised by the Irish Fiscal Advisory Council. We need to bring the issue of corporation tax receipts more onto our horizon. Last week, the OECD published its public consultation paper on global minimum effective tax rates, and change is coming in this area. That change will begin to take shape in 2020, and in order for Ireland to maintain and further build its reputation from the point of view of legitimacy, we need to be inside the OECD framework and we need to get ready for the change by continuing to run budget day surpluses.

**Deputy Eamon Ryan:** I was aware of the OECD report and the potential developments arising from it. Our reputation will be best served by supporting and agreeing to the OECD setting a minimum corporate tax rate and, even if it is higher than the current 12.5% rate, it is our duty as a responsible country. In Europe, €1 trillion is lost through tax avoidance measures, so we need to support such a move. Does the Department have any sense of what a potential rate might be if the OECD did this? Does it have anything to suggest that, as I suspect, adherence to a minimum tax rate would actually increase our corporate tax revenue? This would mean we should support it not just for reputational reasons but for fiscal gain.

**Deputy Paschal Donohoe:** There are two different pillars of the potential OECD framework. Pillar 1 relates to taxing where value is created and pillar 2 refers to the requirement for a global minimum effective tax rate. The Deputy referred to our responsibility and Ireland has not received the recognition it has merited for the scale of change we have made to our tax code. Looking forward, I am clear that to continue to be legitimate in using corporate tax policy to make ourselves competitive, we need to be inside an OECD framework. I favour pillar 1 as the way we can craft a potential landing zone that manages the different priorities we have.

Within the OECD we depend on influence and negotiation. Many big countries within the OECD will be looking to ensure their national interests are protected. I do not have a rate in mind. If a rate is created, it is work for the OECD to do. It is not my place to speculate on what the figure could be, given that I believe the bedding in of that principle could present a challenge for Ireland. I do not believe we are likely to face a revenue gain as a result of such a change.

I believe we will see corporation tax receipts increase again this year as I indicated in my statement to the committee. It is very likely that they will increase again next year. I believe our corporation tax receipts will plateau and then decline at some point. That could be for any one of a number of reasons, but I will highlight three. First, the phase of corporate profitability many large companies are going through could begin to change in the future. The second is the effect of OECD measures on our share of global tax profits. The third is that we could see other countries begin to adopt more competitive attitudes towards corporation tax rates.

**Deputy Declan Breathnach:** I will focus on two areas, starting with the cost pressures associated with demographic changes. The Minister mentioned the greying of the population. I am one of the people to whom he was referring. I recognise that he has allocated €500 million to address these demographic changes and the committee is working on examining them. Will he commit to supporting that work and provide the detailed information that will be requested by us to carry it out? I have three questions about the pressures mentioned. What challenges will the demographic changes present to the public finances? Will any major policy change be required in the immediate term to mitigate any of the risks? How do those increased allocations made in budget 2020 to meet the cost of demographic changes compare to what the Departments requested?

The second element is equality budgeting. Why was the equality budget statement not produced in announcing budget 2020? When will the Minister be in a position to produce an equality budget statement?

**Deputy Paschal Donohoe:** I will answer first the Deputy's questions about demographics and then deal with his questions about equality budgeting.

We will absolutely support the committee in any work it plans to do in this area. For 2020 we have provided a sum of €451 million; for 2021, €455 million; and for 2022, €455 million. In my statement to the committee I outlined some of the medium-term consequences of demographic changes. I have made the point that in coming years we will see a really big change in the ratio between the numbers of people at work and not at work. That will have an impact on the amounts we will raise in tax and the amounts spent.

We have defined demographics in terms of the age profile of citizens. Particularly as a result of my engagement with the Department of Health, I have become increasingly aware that because, thankfully, people are living for longer, related expenditure is growing. We will need to be able to respond to conditions such as dementia and others that are likely to be prolonged the longer people live. We will need to reconsider this issue in the medium term to ensure we will have the correct level of provisioning for it.

On equality budgeting, I have been informed that we did not publish the statement on budget day because we had received quite a significant report on it from the OECD. It contained ten recommendations that it asked us to take into account in the development of our equality budgets. We are studying the report. I will come back to the Deputy with a date by which we expect to be able to publish a response to the report.

**Deputy Thomas P. Broughan:** On that point, the Minister might remember that the Taoiseach was asked a couple of weeks ago where was the poverty-proofing of budget 2020. At one time there used to be three or four pages in the budget day document, but on this occasion there was no such information as far as anybody could see.

The Minister has said he anticipates that we will receive at least the same amount in corporation tax in 2020. Obviously, international trade wars, Brexit, etc. could have a major impact on what might happen, but is there any indication as to when the corporation tax yield might plateau?

**Deputy Paschal Donohoe:** I was in the Dáil when that issue was raised, I think by the Deputy and another Independent colleague. We have since published the information we had available on the distributional analysis of budget 2020. It is to be found on the Department's website at *budget.gov.ie*. I will outline the figures for the Deputy.

It is estimated that 29% of households will benefit as a result of the announced direct tax and welfare measures announced. A total of 71% of households are due to experience no change in the level of their disposable income. They are the headlines figures. The key reason is that the changes were very small and focused. As the Deputy said, the social welfare changes were focused in targeted measures as opposed to changes in broad rates.

The Deputy asked what I expected to see happen with the corporation tax yield. I expect to see them grow again next year, as published in our tax forecast for 2020 which was published on budget day. At this point it is difficult to specify the timing of the change I indicated because one of the key variables is what will happen in the OECD's work which will not conclude until the end of next year at the earliest. It will only be possible to give an informed answer to the Deputy's question once we are clear on the impact of that work and when the findings will be implemented. We will not be clear on it until this time next year.

**Deputy Thomas P. Broughan:** In the forthcoming general election, whenever it happens, will it be possible for parties, including the Minister's, to have dramatic new proposals to make similar to those about which we are hearing in the United Kingdom but appropriate to the situation in Ireland and costed?

**Deputy Paschal Donohoe:** Both Departments have always had on a strictly non-political and neutral basis the ability to cost all proposals from political parties and Independent politicians in advance of a general election. I do not see that work and have no role in it whatsoever. It is overseen by both Secretaries General and that will continue to be available and will be made available in advance of any election. This is just a practical matter but if big and exciting new proposals are being developed, the quicker they are shared with the two Departments, the quicker the Departments will be able to give the committee an informed cost. However, I can assure the committee that the Departments will not be sharing those ideas with me.

**Chairman:** Has anyone else indicated?

**Deputy Martin Heydon:** I apologise, as I missed the beginning of the meeting. I will try to avoid duplicating questions if I can help it. I had another meeting to attend. I had a few points to raise about Brexit but I think Brexit might have been touched on.

**Chairman:** It has been touched on.

**Deputy Martin Heydon:** I will leave those points. In light of the European element and Brexit in general, does the Minister see our contribution to the EU budget increasing significantly in a post-Brexit world? When we look at things we want to protect like CAP, this has put us in a position where we have made a commitment to consider increasing that contribution. Has the Minister received feedback on this from other European countries? When one looks at the scale of the promised spending that seems to be planned in the UK in its preparations for a post-Brexit scenario, is there a case for us to consider the same scale of spending? I do not necessarily subscribe to this view. They think it is a good idea in the UK in light of much of the fallout from Brexit. What impacts on them will impact on us. What is the Minister's view on that?

**Deputy Paschal Donohoe:** Regarding the multi-annual financial framework, MFF, we will be contributing more to the budget. Later on in the Dáil this week, I will outline some of the issues and questions regarding all of this. The tone among my fellow finance ministers on the topic is very mixed. Many colleagues are resolutely opposed to any increase while a small number are willing to see some increase and quite a few are looking for a decrease in the contribution they make. A smaller number is looking for a decrease in the scale of some parts of the EU budget. The scale of national contribution to the EU budget is a major topic of political debate in a number of other EU countries. Ireland has only recently become a net contributor, as the Deputy is aware. Ireland has now become the third highest contributor *per capita*. One of the main reasons why we have become a net contributor so quickly is because of the scale of national income growth here in a post-crisis period. The EU uses gross national income in a modified way to calculate a country's budgetary contribution. I expect that it will increase in the future. I will be making the case that an increased contribution from Ireland in terms of maintaining our current percentage contribution but seeing our national income grow in the future is something we should consider doing because the Single Market is of incalculable value to Ireland. Putting measures in place to support its development across the European Union is very much in our long-term national interest. The flip side of it is increased budget contributions to the EU. As that means we cannot spend that money on other things in Ireland, we need to get that balance right. The next question that tends to be put to me concerns the figure. It is a negotiation in which we are involved and it is not appropriate to lay out that figure at the moment. Even if we were to maintain the tab unchanged, it would mean that Ireland will pay more in the future for the simple reason that our national income is growing.

As for what is happening in other countries, for example, the current debate in the UK, there has been a hint of that in the questions I have received to date from other members of the committee. There are three things to be aware of as we look at where we are. The first is the huge scale of capital expenditure growth that has already occurred in Ireland. In 2016, we were spending €4.2 billion per year in capital expenditure. For 2020, that equivalent figure will be nearly €8.2 billion. We have seen a really big increase in capital investment across the past number of years, which I decided was the appropriate response to a post-crisis society and all of the challenges we face in terms of housing, homelessness and investment in carbon change in our economy. We have implemented the capital expansion that is being debated elsewhere in Ireland and it is under way.

The second point is that our level of national debt is still very high when looked at in the right way for Ireland and we need to be aware of the challenges we may face in the future regarding corporation tax receipts. This is why running surpluses would be so important. Let us bear in mind that in the pre-crisis period a decade ago, we were running surpluses and we still got into awful difficulty. This was for many different reasons and lots of those other reasons are not present in our economy but it still shows the need to have surpluses because I believe that as we move into future years, we will face challenges that will be different to those we faced a decade ago.

The Deputy will be well aware of the third point, which is that the UK has its own currency and central bank and will be running higher deficits in the future if it makes this decision. We have our own currency but we share it with hundreds of millions of other people. We have our own Central Bank but key monetary policy decisions are made by the European Central Bank. We forget all of that at our peril and we forgot it previously.

**Chairman:** I thank the Minister for his comprehensive engagement with us today, which is very much appreciated by us.

The select committee adjourned at 3.38 p.m. *sine die*.