

# DÁIL ÉIREANN

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## ROGHCHOISTE UM SHOCRUITHE LE HAGHAIDH GRINNSCRÚDÚ BUISÉADACH

## SELECT COMMITTEE ON ARRANGEMENTS FOR BUDGETARY SCRUTINY

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*Dé Céadaoin, 22 Meitheamh 2016*

*Wednesday, 22 June 2016*

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The Select Committee met at 10 a.m.

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### MEMBERS PRESENT:

Deputy Seán Barrett,	Deputy Pearse Doherty,
Deputy Richard Boyd Barrett,	Deputy Stephen S. Donnelly,
Deputy Thomas P. Broughan,	Deputy Michael McGrath,
Deputy Joan Burton,	Deputy Eamon Ryan.
Deputy David Cullinane,	

DEPUTY JOHN PAUL PHELAN IN THE CHAIR.

## **Engagement with Economic and Social Research Institute**

**Chairman:** In the fifth meeting of the Select Committee on Arrangements for Budgetary Scrutiny we will meet representatives of three organisations. First, we will meet Professor Alan Barrett from the Economic and Social Research Institute. We will then meet Professor John McHale, chairman of the Irish Fiscal Advisory Council. He will be accompanied by Mr. Michael Tutty and Mr. Seamus Coffey who are members of the council. We will also meet Mr. Robert Chote of the UK Office for Budget Responsibility. He is in transit. This is the final public meeting of the committee. We can incorporate the issues arising from it and the replies due from Ministers into the series of recommendations that will form part of our report to the Sub-Committee on Dáil Reform.

The main part of our report will involve recommendations. The working paper circulated last week contained many of the recommendations to be considered. To avoid confusion, we will use the working paper as the basis of our work. Next Tuesday, 28 June, members will go through each recommendation and have an opportunity to add new recommendations, in addition to considering the document circulated. Further amendments arising from what we heard yesterday and what we will hear today will be circulated to members in advance of the meeting on Tuesday. Members should contact the clerk if they wish to introduce new recommendations. We plan on meeting at 4 p.m. and it is likely that we will need to have another meeting on Wednesday. It is also possible that we will need to meet again on Thursday in order that we can finalise the report. Is that agreed? Agreed.

I welcome the delegates, including those in the Visitors Gallery. I draw their attention to the fact that they are protected by absolute privilege in respect of their evidence to the committee. However, if they are directed by the Chairman to cease giving evidence on a particular matter and 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.

I welcome Professor Alan Barrett from the Economic and Social Research Institute. He is joined by Mr. John Palmer from the Department of Finance and Mr. William Beausang and Ms Sarah Swaine from the Department of Public Expenditure and Reform. I invite Professor Barrett to make his opening statement.

**Professor Alan Barrett:** I thank the Chairman for inviting me to appear before the select committee and giving me an opportunity to discuss the task that has been assigned to the committee. The task of redesigning the routes and mechanisms through which the Oireachtas can provide for greater scrutiny of the budget has the potential to yield considerable benefits. As greater parliamentary scrutiny presents an opportunity for more evidence to be demanded in support of policy proposals, this, in turn, should lead to better policy outcomes. For this reason, I am happy to contribute to the committee's deliberations.

I am here in my capacity as director of the Economic and Social Research Institute, ESRI. Therefore, most of my remarks will relate to the ESRI's current role in the budgetary process and its possible roles in assisting the Oireachtas in the future. However, I have a direct personal interest in the ongoing process of redesigning the budgetary process, as I was one of the original members of the Irish Fiscal Advisory Council, on which I served from 2011 to 2015.

I also chaired the first national economic dialogue in 2015 and will act as chairperson again next week when the second such event is convened. When I take questions from members of the committee after my opening statement, I will be happy to reflect on the possible lessons which can be taken from my experience in the Irish Fiscal Advisory Council and the national economic dialogue.

I would like to speak about the specific role of the ESRI in the budgetary process. According to its mission statement, its goal is “to produce economic and social research that informs public policymaking and civil society”. In this way, a large proportion of its research has a broad relevance for budgetary scrutiny. For now, I will focus on the direct inputs which arise from two models that were developed by the institute and are maintained by us. I refer to the macroeconomic model which was formerly known as HERMES and is now known as COSMO and the tax-benefit model which is known as SWITCH. The SWITCH model which is used to assess the distributional impact of tax and social welfare changes is based on a large-scale representative sample of Irish households and allows us to calculate gains and losses across income distribution. It is critical that the model is based on a large-scale sample. In the absence of a tax-benefit model, analysts need to look at examples of households. However, it is impossible to know if the examples chosen capture large or small proportions of the population.

The SWITCH model is used by the Department of Social Protection and the Department of Finance, typically in collaboration with the ESRI, to simulate the distributional impact of tax and welfare changes. The ESRI tends to publish a distributional analysis of the budget in the days following the Budget Statement. The model has also been used in numerous research papers. The most recent example is a paper published last week which compared financial incentives to work in Ireland and the United Kingdom. I should note that the SWITCH model has the potential to be used in proofing the budget along a number of dimensions. I refer, for example, to poverty proofing, gender proofing and disability proofing. As the model is based on a large-scale representative sample, it is possible to draw conclusions that cannot be drawn from an analysis of example households.

I now propose to discuss our model of the macro-economy. We are in the process of retiring one model which was known as HERMES and introducing a new one which is known as COSMO. These macro-models have typically been used by the Department of Finance to conduct sensitivity analyses of budgets’ central forecasts. Such analyses are published as part of the budget documentation. In budget 2016, for example, the ESRI simulated how the headline economic figures would change if global GDP growth turned out to be 1% lower than forecast or if the household savings rate turned out to be 1% higher than forecast. The Department of Finance also draws on the ESRI’s macro-model to simulate the effect of policy changes where the effect is large enough to be captured at the macro-level. For example, this year’s spring economic statement included a simulation of the effect of income tax reductions on employment. The macro-model has also been used in studies which seek to estimate the types of taxes which have the most detrimental impact on economic activity as measured by variables such as employment and GDP.

While the HERMES, COSMO and SWITCH models provide the platforms for the ESRI’s most direct inputs into the budgetary process, many other strands of our work are relevant. Some of this work is undertaken as part of joint research programmes with Departments. I will use two examples to illustrate this. Since 2015 the ESRI has operated a joint research programme with the Department of Finance. Under this programme, we have conducted work on the relationship between corporation tax rates and foreign direct investment. The findings were

published last week. The relevance to policy debates on taxation should be clear. We are about to begin a project on wealth taxes, using newly available data for wealth which were collected by the CSO on behalf of the Central Bank. I should note that one of the objectives behind this research programme is the generation of greater analytical capacity in the economics of taxation in the ESRI and the Department of Finance.

We also have a joint research programme with the Department of Health. The best known output from this programme was the report on universal health insurance published last year. Under this research programme, we are working to develop a projection model for health expenditure. It is hoped this will allow the Department to assess more accurately the impact of issues such as population ageing and unmet need. The ESRI is also undertaking work on GP usage which will be important in estimating the likely cost of extending free GP care.

The institute is actively engaged in research across a wide range of other areas which are relevant but I will mention just one more for now. For a long time, we have conducted evaluations of training and employment programmes and we continue to do this. The most recent example was an evaluation of the back-to-education allowance and the results were striking, with little evidence of improved employment prospects for participants. The policy conclusion was not that the programme should be ended. Instead, the evaluation prompted questions about how the programme might be improved to meet its targets.

I mentioned at the outset that, from my perspective, one potential benefit from greater Oireachtas scrutiny of the budgetary process will be a greater demand for evidence in support of policy proposals. Putting this another way, I see Oireachtas scrutiny as being another dimension in the move towards more evidence-based policy-making. For this approach to yield benefits, it is important that the evidence used is generated through rigorous analysis. In that context, the ESRI is eager to ensure that the research that we are conducting is readily available to the Oireachtas and communicated directly to members. Our funding model makes it difficult for us to undertake substantial pieces of work unless the work is funded. However, we are eager to co-operate with members and the proposed budget office as part of a general national effort to increase analytical capacity in our public administration with the overall goal of achieving better outcomes for our citizens.

I am happy to take questions.

**Deputy Stephen S. Donnelly:** I thank Professor Barrett for his statement and for his time. He has laid out some of the technical capacity and the two models that the ESRI develops and maintains. Over the past five years I have contacted the ESRI many times seeking budgetary analysis and information on things like distributive analysis. I have used such analysis, as have many other Members, to look at the regressive or progressive nature of recent budgets. What can the ESRI do that others, specifically the Departments of Finance and the Department of Public Expenditure and Reform, cannot? What quantitative and qualitative capacity does the ESRI bring to the table that the Irish Human Rights and Equality Commission will not develop or that the Departments of Public Expenditure and Reform and Finance do not possess? What value does the ESRI bring to the table in the context of this new world of budgetary scrutiny? I hope there will be better budgetary scrutiny. What role does Professor Barrett believe the ESRI should play in this new budgetary regime?

**Professor Alan Barrett:** In terms of what the ESRI can do that others cannot, my simple answer relates to the level of data analytical capacity within the institute. Let me give some broad figures. The institute has about 100 employees, 60 of whom are high-level researchers.

Some 50 of these researchers have PhDs - they are economists, sociologists and psychologists. The ESRI's data analytical capacity is above and beyond that of any other organisation. Part of what we do in terms of using data analytical capacity is generate the sort of models that I have described. For example, our macroeconomic model was developed in conjunction with the Central Bank and a Department of Finance official is working on it with us. The model is, nevertheless, very much led from within the ESRI, partly because we have a tradition of working in the area for about 35 years.

I have outlined data analytics and the generation of models but I shall go a little further. One of the things the institute is always eager to do is to ensure that a portion of its work is published in international peer reviewed journals. Very often, when one says that to a public policy group, it sounds as if it is a group of academics who are indulging themselves but it is not as simple as that. It is critical, from an ESRI perspective, that we publish our findings in high-quality journals and outlets in order to demonstrate that the work we are doing is of the highest international standards. Some of the organisations mentioned would not have a culture of publishing at a high level. I am not saying that every piece of the ESRI's work must be published in a peer review or anything of that nature. It is very much part of the culture of the institute to be doing the work at a very high level and, of course, from an independent perspective.

A number of organisations around town are research institutes and think tanks. The institute has no ideological backing, background or anything like that. We try to go at the work in as pure a data analytical way as possible, bringing as little ideological baggage as possible. Independence is critical. In summary, there is a technical capacity, a constant drive for quality, an independent dimension and a critical mass argument.

In terms of what the role of the ESRI should be, as far as I am concerned it is an extension of what we do. The institute's mission is to produce research for public policy and to inform civil society, which we take as informing debate. As far as we are concerned we want to continue doing what we are doing. Our joint goals are research excellence and policy impact. We often distinguish ourselves from universities by saying that universities are sometimes interested in research as an end in itself but for the institute, research must have a policy dimension.

To the extent that we are producing work that is of relevance, if it was not relevant we would be very worried. I estimate that between 70% to 80% of the ESRI's work should have meaning for the process of budget scrutiny.

**Deputy Stephen S. Donnelly:** The ESRI's work is very good and is driven by the institute. Therefore, sometimes the work is useful to legislators but sometimes it is not or sometimes we would like extra pieces. For the new committee that will be in place, there will inevitably be a set of prescribed analysis that it will need. Let me give an example. Yesterday, this committee met the Irish Human Rights and Equality Commission. The delegation suggested that equality proofing, be it gender, poverty or human rights proofing, should be done by Departments for various reasons. I suggested to the commission that somebody should play the role the Irish Fiscal Advisory Council, IFAC, plays with the Department of Finance and DPER. In other words, validate the analysis. The IHREC is one group that could potentially build up the capacity to do so. The ESRI is the other obvious group that has the technical capacity to take the analysis from the Departments, put it through the hopper, come back to the standing committee and say, for example, "70% of a matter is great but we question 20% and 10% is flat out wrong." Obviously the ESRI carries out the main distributional analysis that we all use. That role could be easily extended.

Professor Barrett has described the ESRI's *ad hoc* relationship with the budgetary process. He has said that the ESRI does good work and that the nature of the ESRI's remit means the analysis will, hopefully, be useful to the committee and the Oireachtas. My sense is that the committee will need more formalised arrangements with some analytical body as well as with the Departments.

Does Professor Barrett think that the ESRI is well placed to enter into a service level agreement with the standing committee to say, "Yes, we are going to provide you in January with this, in March with this and in September with the following." Does he believe that the ESRI has a useful role to play in this process? Does he believe that the ESRI can play a useful role in equality, poverty and human rights proofing? Did Garret FitzGerald set up the ESRI to provide a second view apart from the Departments? I heard it was Garret FitzGerald at an interview. Be that true or not, does the professor believe that the ESRI is well positioned to play a quality assurance role for the standing committee when it comes to equality proofing what comes out of the Departments?

**Professor Alan Barrett:** The Deputy mentioned a range of things and I ask him to give me a second or two to talk about the ESRI's history. The ESRI was not set up by Garret FitzGerald but by Dr. T.K. Whitaker. When I became director of the ESRI one of the fun things that happened was that I got access to a whole load of files on the history of the institute. I could have spent hours going through the files but I disciplined myself not to do so. Garret FitzGerald was certainly involved in correspondence around the time. Let me outline Dr. Whitaker's thinking at the time. The institute was set up around 1960 and formed part of the Lemass-Whitaker revolution. There was a recognition on Dr. Whitaker's part of a need for greater analytical underpinning to economic policy. The Central Statistics Office, CSO, was generating a great deal of data, but there was not a natural pool of people to conduct the analysis that fed into policy. Dr. Whitaker set it up. He was the leading public servant in Ireland at the time and possibly the greatest of the 20th century. The first director of the institute was Professor Roy Geary, Ireland's greatest statistician of the 20th century and possibly ever. The twin pillars of the institute were research and policy excellence. I am sorry for the diversion, but the Deputy triggered it in my head with reference to Garret FitzGerald.

The Deputy began by saying that our research agenda was driven by ourselves. That is not entirely true. I will take a second to describe how the institute works. We have an annual budget of approximately €9 million, some €2.5 million of which comes in the form of the block grant from the Department of Public Expenditure and Reform. We use this grant-in-aid to perform certain actions, such as the simulating welfare and income tax changes, SWITCH, model, the macro model and short-term forecasting. The balance of our funding - approximately 60% - is partly raised through the research programmes that I mentioned as well as commissioned work. In our research programme with the Department of Finance, the Department makes available a budget of €200,000 or €250,000 per year and a steering committee comprising ESRI and departmental officials agrees the research projects that will be conducted over a two-year or three-year period. It is a rolling cycle of research projects. The Department tells us that it needs work to be done on X, Y and Z and we, as researchers, tell it that data are available to say something interesting on same, there are no interesting data or it is not a tractable problem. There is an iteration. This is how we respond to requests for research. Likewise, we have research programmes with the Departments of Health and Jobs, Enterprise and Innovation and we work with the Health and Safety Authority, HSA, and the Environmental Protection Agency, EPA. Defining the research agenda is interactive.

The relevance to this committee is that there would be the capacity for the institute to engage and determine whether we could provide more tailored research. I hate to mention the grubby issue of money, but the institute's funding model is such that I do not have a team of people at Sir John Rogerson's Quay who have spare time. They are typically doing work under the grant-in-aid or in response to the research requests to which I referred. There is scope to engage with the committee, but a funding stream would need to be attached to it.

Previously, the SWITCH model was used for proofing. Approximately one year ago, a paper considered the gender impact of the recessionary budgets, austerity budgets or whatever one wants to call them. This is a track record on which we could develop.

Typically, we have not been a watchdog for the work of others. I will be very honest and say that we would be slightly concerned about doing that. This might sound precious, but we have a sense of how this sort of work is to be done properly. Consider my comments on the importance of basing work on large-scale representative samples so as to give a real sense of the impact of certain measures across the population. There are ways of doing this. What the institute does is in line with what bodies like the OECD do. I am worried that the committee might set us the task of overseeing someone else's work where we might have a different perspective of how the work should be done. The idea of overseeing someone's work or commenting on it might exist in principle, but I will raise that concern.

**Deputy Joan Burton:** It is nice to see Professor Barrett. My understanding is that the SWITCH model is quite old. Does the ESRI have plans to update it? I appreciate that this would require funding, probably from the Government. Some work has been done on a more real-time model. What would Professor Barrett describe as the strengths and weaknesses of this model? For instance, certain distributional factors are included while others are not. If a deprived area gets a new school, it does not count under the SWITCH model even though the impact on the children's lives is significant. There are other, more concrete, examples. I have never fully understood the rules of what the ESRI counts in and out. Will Professor Barrett give us a picture of the situation? His reference to the back to education allowance was probably a good example of the difference between researchers and politicians. A great deal of money is spent on the allowance annually, amounting to more than €200 million in the Department of Social Protection. The ESRI's report was critical of the allowance because it did not seem to lead to people immediately getting jobs. The response from many Deputies was that the allowance was important because it could, for example, be accessed by lone parents and the educational attainments had a value in themselves for a lone parent and his or her children, given that they are the people most at risk of poverty, but this is not captured in some of the types of analysis conducted by the ESRI. This follows on from the previous question. While I appreciate Professor Barrett's point that the ESRI does not have the job to be political, even with a small "p", it is analytical.

Down the years, I have seen a particular criticism of something that has led to a divide between the political perception and the analysis, namely, community employment. As a consequence, when the crisis hit Ireland, everyone with a briefcase who came to advise us from outside read all of the ESRI's reports, which were not flattering towards the likes of community-based employment schemes even though many Deputies from across the political spectrum favoured them strongly because they saw the local impact. Being able to put forward a range of views is important, but the ESRI could play a valuable role for the committee in explaining matters from an economic perspective. The institute's staff are mostly economists and social researchers whereas we, as a political committee composed of diverse elected politicians, might

view matters differently.

With the exception of the Department of Social Protection, I am unaware of any Department conducting pre-budget and post-budget distributional analyses of the budget on a continual basis, yet it is one of the suggestions that has been discussed at this committee. Does Professor Barrett believe it is feasible for a range of Departments to conduct these analyses? The Department of Social Protection's social impact analysis is partly based on the ESRI's SWITCH model work. If it could find its way into some of the committee's analysis, it would be useful, but we would probably need a great deal of technical advice as to what would be desirable to be received from Departments so that, in theory, a budget's distributional impacts generally and on specific Departments could be analysed broadly. On budget day, the initial pre-budget impact analysis could also be published. This was mentioned by a lot of people in the discussions we have had to date. Does Professor Barrett see that as being feasible? Would the ESRI have a role to play in assisting the Departments and the budgetary oversight committee in that analysis?

**Professor Alan Barrett:** The Deputy has made a number of points which I will run through. On the point about the SWITCH model being outdated, the SWITCH model is continuously updated. The dataset used is the European Union survey on living and income conditions, which is collected in Ireland and throughout the rest of Europe and that data is constantly fed in. When I made the point that the model was developed and maintained, a significant amount of the ESRI investment on this, using the Department of Public Expenditure and Reform grant-in-aid, is in ensuring that the data is up to date. We have had discussions with a range of Departments to see if the funding for SWITCH can be increased to allow for a quicker updating and also for the pooling of data across waves. We are in a pretty good ---

**Deputy Joan Burton:** On that point, what would Professor Barrett prune and what additionality would the ESRI provide if it got that funding?

**Professor Alan Barrett:** The up-to-date part is simple; the pooling across waves less so. The survey is collected every year. If one starts adding waves together, so that one is not just dealing with one year's data in the model but two or three years' data, that means that one has much bigger sample sizes and can start looking at, for example, the effect of welfare payments that are received by a relatively small group of people. I can give one example that came up recently, which I hope is a good example. An examination of the effect of housing-related payments was difficult with the original SWITCH because such payments are not like unemployment or pension payments. The number of people involved is smaller and therefore the data was not so robust but the additional data work that has happened there is going to allow for richer analysis.

Deputy Burton asked a broader question which is an interesting one, on the advantages and disadvantages of SWITCH. I have already touched on the advantages in terms of the fact that there is simply no other way to get that population-level sense of the distributional impacts if one is not doing SWITCH-type analysis. That advantage is clear. The downside, of course, is what is not included although we have tried to extend things. One of the big innovations we are working on at the moment is the issue of medical cards, for which I should give my colleague Dr. Tim Callan and his team credit. The issue of medical cards has now come on the agenda. The Department of Health will become a co-funder of the SWITCH model with a view to factoring in medical card entitlement and impact. That is a very significant addition -----

**Deputy Joan Burton:** That makes a huge difference and people know that. If the person living in house No. 1 on a street has a medical card while the person living in house No. 10 is

working in a low-paid job but does not qualify for a medical card, on the SWITCH model, the only income for the person in house No. 1 that is included is that from the Department of Social Protection but the value of the medical card to that person, who may have a spouse and two children, could be €400 to €500 per year, particularly if there are medical conditions involved.

**Professor Alan Barrett:** To be honest this is a good example of positive interactions across a number of Departments. For a very long time the primary funder of the SWITCH model was the Department of Social Protection which did not go near things like medical cards and so forth. Now that more Departments are getting involved, those sorts of issues are being included. The other thing that SWITCH was previously not very good at was capturing issues around indirect taxes. This is very important because we know from research that I and others have done that indirect taxes are typically more regressive than direct taxes. Therefore, when we were doing the analyses but not picking up the indirect elements, there was an omission. That said, these are weaknesses that can be plugged and there is a very active programme of work under way to make sure that they are plugged.

There is a bigger criticism that can be made. The critical thing that SWITCH tries to get a handle on is distributional impact and whether budgets are regressive or progressive. One could make a budget look very progressive by introducing, say, a 98% tax rate at the higher end and increasing all welfare payments by 100%. That would be a very progressive budget ---

**Deputy Richard Boyd Barrett:** That sounds good to me.

**Professor Alan Barrett:** Yes, I can imagine. I just glanced in that direction and saw a smiling face.

That would look good from a distribution perspective but some people would question whether a budget like that would have economic impacts that are worth discussing. At that level, one wants to have interactions and parallel analysis using the macroeconomic model and the SWITCH model. I have heard people criticise SWITCH on that basis, namely that it can give one a particular outcome but that it is partial.

The Deputy mentioned our analysis of the back to education allowance scheme and criticisms of that. Just to be clear on that, the Department of Social Protection asked us to do a study to determine the employment effects of the back to education allowance. The ESRI was asked a very clear question and had a contract to deliver on that. We answered that question, which was that the allowance had very little impact on people's employment. We said in the report that there were multiple reasons for having such a programme and that it may be doing spectacularly well in other dimensions but we were not asked to look at those other dimensions. If one thinks in terms of a committee, I can imagine a politician who is very enthusiastic about the back to education programme and believes it is wonderful because it does A, B and C, where A might be generating good pathways back to employment. I believe there is value in even partially looking at and interrogating whether programmes are doing what they claim to do. There was a similar issue with regard to community employment schemes. For a long time there was a narrative around community employment that suggested that it was an employment programme. I could say that the ESRI said but the ESRI never says anything - ESRI researchers write their reports and are responsible for the content. The ESRI simply publishes material and gives it a stamp to verify that it has passed refereeing processes and that the institute believes the analysis is sufficiently robust. The ESRI itself never says anything. On community employment, the researchers said that the scheme was not an effective way of getting people back into mainstream employment. That was all.

The last point I would make is that one of the research programmes currently under way at the ESRI is with Pobal. To come back to an earlier theme about research and why it should be more interactive, the ESRI has been doing evaluations with Pobal. That organisation has raised a very important point with the ESRI. We have been looking at the effect of Pobal programmes on individuals. Let us say for example the question is whether a particular Pobal programme helps to get people back into the labour market. However, Pobal is very interested in the community-level impact of what it is doing. Pobal has come back to the ESRI, told us that what we are doing is really good but have asked us to develop tools and mechanisms that will allow for an assessment of whether certain programmes are having a community-level effect. We are now talking to Pobal about how this might be done. That is a really positive example of us producing research output, engaging with an agency which asks us to do more and then the ESRI trying to do that.

The last issue raised concerned various Departments doing lots of analyses-----

**Deputy Joan Burton:** That could be in relation to the capital programme or any major amounts of public spending.

**Professor Alan Barrett:** My only concern about a multiplicity of analyses is that if people are using a whole range of different models and assumptions it can be chaotic. A budgetary committee would need information that is useful and not just bits of information that are supportive of particular positions. There is an argument to be made for ensuring that any budgetary oversight committee which will be discussing the evidence on a particular policy proposal will at least agree on the single piece of evidence that it wants to deal with, as opposed to having multiple pieces of evidence. That could be tricky however.

**Chairman:** We have three Deputies offering and several other witnesses to deal with so I urge members to ask questions rather than make statements.

**Deputy Eamon Ryan:** I have a number of short questions for Professor Barrett. Does the Department of Finance rely on the ESRI's model or does it have its own model? What model does the European Commission use? How does the ESRI relate to the European Commission in terms of any modelling analysis the latter carries out? Is the model we use - set up by T.K. Whitaker, which was an interesting piece of history - matched by other similar sized countries in the European Union, like Austria, Finland or Denmark? What do they tend to use in terms of economic research analysis? How much of the ESRI's research analysis, particularly that relating to the Department of Finance, takes place *ex ante* rather than looking at decisions after the fact? As a specific example, what involvement did the ESRI have in analysing the spring economic statement, which was published yesterday? What involvement did it have in analysing the earlier stability programme update before it was published? I was interested to hear that the ESRI has 100 staff. How many staff did the ESRI have five years ago and ten years ago?

**Professor Alan Barrett:** I will try to give focused answers to the Deputy's focused questions. The Department of Finance does not have its own macroeconomic model of the Irish economy. It has historically relied on the ESRI model. To be clear, it made an input into the development of the original HERMES model approximately 30 years ago. An official from the Department is working with us on the development of the COSMO model. It does not have its own model. We lead the model that is used, although it has an input into that model. I am aware that part of the Department's rationale for having an official working closely with us is that this person can do their own runs of the model. Typically, we have done those runs for the Department. On the question of how countries internationally organise their-----

**Deputy Eamon Ryan:** I also asked about the European Commission model.

**Professor Alan Barrett:** I will be honest and say I am slightly out of date with regard to the European Commission model. We do not tend to engage in a model-on-model sort of interaction with the European Commission. When Commission officials come to Dublin to do assessment exercises and forecast rounds, etc., they meet representatives of the ESRI and we discuss the output of our model. The Commission certainly has its own models. I think one of them is called the QUEST model or something like that. I am not necessarily aware of conversations between the ESRI and the European Commission on modelling issues specifically.

**Deputy Eamon Ryan:** My understanding from previous years when I was more directly involved in these issues was that the Commission was very critical of our modelling. My understanding was that the Commission had very different views about how modelling should be done.

**Professor Alan Barrett:** I would not quite share that perspective. Funnily enough, we were very critical of some of the things done by the Commission. Needless to say, there was a general recognition during the economic crisis that everybody's economic models had performed very badly. One group might have been saying its model did not perform quite as badly as another group's model. I might be missing something, but I am honestly not aware of ongoing debates on that issue.

**Deputy Eamon Ryan:** Professor Barrett has suggested that there is no difference in this area, but my understanding is that the stability programme update revealed that we have a difficulty with the different modelling approach of the Commission in terms of some of the economic analysis of where we are.

**Professor Alan Barrett:** The Deputy might be referring to the very particular issue of the methods used to measure the concept of potential output. This was a sort of academic concern for a very long time, but it has taken on a new reality under the new fiscal rules. While the Deputy is right when he suggests there was criticism regarding a specific issue, I do not think the criticism necessarily related to broad modelling issues.

Deputy Ryan's second question related to economic research in other countries. There is no single model on this. Some of the larger countries have multiple models with various different sources of funding. The United Kingdom has two research institutes that mirror the ESRI. Both of these agencies - the National Institute of Economic and Social Research and the Institute for Fiscal Studies - tend to draw on Government funding through competitive grants. The UK system is a little different from the system in Ireland. The CPB in the Netherlands is an independent but fully state-funded statutory organisation that does everything the ESRI does, as well as many things that are proposed for the budgetary office. For example, it does costings of budgetary programmes and election manifestos, economic forecasting and a range of other activities. There is no sort of single model that applies.

The Deputy also asked whether our analysis is *ex ante* or *ex post*. The vast majority of what the ESRI does would have an *ex post* dimension. When a particular policy or programme is operating, we typically use data to see what is, or what has been in the recent past. The exception to that is our input into something like the spring or summer economic statement. I will explain how it works.

The Department of Finance asks the institute to use the macro model to run a whole load

of simulations. I touched on this in my opening statement. A simulation might relate to the impact on Ireland of GDP in the global economy being 1% lower than it is or the effect on this country of an interest rate increase. The Department will have a sort of central forecast on which all its numbers hang and we look at the possible effects of various sensitive-type issues on that. The Department asks us to do policy simulations and to ask “What if” questions. This requires us to look at the effects of major tax changes, for example. Capital expenditure often arises in this context. We might be asked to assess the impact of a doubling in the public capital programme, for example. I will explain how it tends to work. After the Department of Finance has contacted us, one of my colleagues will work quite intensively for a week or two. It is very often the case that just one or two of the simulations run by the ESRI make it into the budgetary documentation. There is a sense that a lot of thought goes into this work, but the set of material that appears is quite condensed. There would be a good degree of *ex ante* work at that level.

Historically, the European Commission was one of the biggest generators of *ex ante* analysis. In the era when a great deal of EU money was being spent in Ireland, the EU was very good at demanding that we did *ex ante* evaluations of moneys that were to be spent. The ESRI worked on these programmes at a sectoral level but also at a macro level. I started at the ESRI in 1994. One of the first studies I worked on was published in 1997. The project was led by Patrick Honohan. We put together figures as part of one of the major evaluations of all EU structural spending in Ireland in the 1990s. There was great discipline in those exercises because they forced Departments and others to think through what the effects would be and whether the sort of expenditure that was being talked about could be justified. I have often thought that one of the unfortunate things about European money drying up, apart from the money going, was that some of this intensive evaluation culture left us. It is still there, but it is not applied as rigorously as it previously was. Others have spoken about this as well.

The Deputy also asked about staff numbers. While I can provide the numbers, this issue is slightly complicated by a particular decision that was taken by Senator Reilly when he was Minister for Health. The ESRI had a significant number of people - between 20 and 25 officials - collecting hospital-related data. The then Minister decided that work would be taken from the ESRI and given to what ultimately became the Healthcare Pricing Office. We lost 25 people, in a sense, at that time. We have been building up ever since. I could give the Deputy figures, but they would not illustrate neatly the underlying situation in the ESRI. I should say the ESRI was not subject to the public sector employment embargo that affected other offices. Its independence meant it could carry on hiring in recent years. Its grants and pay levels were cut and various things happened, but it was not subject to the employment embargo.

**Deputy Pearse Doherty:** Cuirim fáilte roimh na finnétithe. I will start with a couple of quick questions. The HERMES model did not include the financial sector. Has that been rectified?

**Professor Alan Barrett:** Yes.

**Deputy Pearse Doherty:** Okay. Regardless of what kind of budgetary committee is set up, it will have to deal with the spring economic statement in some way. I will not ask for the ESRI’s view on this because it does not have a view. What is Professor Barrett’s view on how we deal with that data? Sometimes there are conflicts between what the Irish Fiscal Advisory Council tells us, what the Department of Finance tells us and what the Government then presents in the spring economic statement. It was announced yesterday that there will be approximately €660 million available for current expenditure. That does not, however, take account of the standstill position, on which the ESRI has commented in the past. I think it said, in the

context of last year's budget, that welfare increases of €450 million would be needed to manage the standstill position, which is based on indexed payments. It seems there is some kind of consensus on moving beyond indexation of tax bands or social welfare payments. I think this is a way to suggest that there is more flexibility than is actually the case. In terms of proper budgeting and dealing with the evidence and data, is that an appropriate stance to take or should the standstill position or indexing be factored into the way data are presented to us?

**Professor Alan Barrett:** I dealt with the HERMES issue earlier. The development of the new model partly related to the need to plug that particular gap. The financial side, therefore, has now been factored into the model.

I am not sure there is a right or a wrong answer to this. The institute has typically in its analysis indexed all welfare payments to wage increases in its thinking about the budget. That was the standard approach we took. It may be partly driven by the fact that the institute for a long time was involved in the measurement of poverty and reporting on poverty statistics. It is a simple point that if wages are increasing in the economy and welfare payments remain constant, increased poverty is being engineered into the system given poverty is defined as a proportion of average wages. Researchers in the institute always had trouble getting their heads around a scenario where there was non-indexation while wages were increasing, but they would have to stand over a position that poverty could be increasing when it was a clear objective of Government to reduce it. It always struck me as somewhat inconsistent to say there should be zero indexation but any indexation is a proactive decision to provide. There are different positions on it. I have had this discussion with colleagues in the Department of Finance who always make the more legalistic point that when the Minister stands up on the day of the budget, it is a decision to increase and it is not automatic. There is not necessarily a right and wrong answer but the key point is the committee needs to have analytical capacity, either in the heads of members or provided to them by someone in a support role in order to put them in a position to tease out the different positions that will be presented.

These are complicated issues. The worst of all worlds is where people are not explicit about the assumptions underpinning the figures they are talking about. To talk delicately about the issue that blew up during the election campaign in respect of fiscal space and precisely how much money is available, nobody was necessarily saying anything that was incorrect but people were not being completely explicit about the assumptions underpinning the figures they provided. There is a sense that members need to be well informed enough to know what are the questions they should ask.

**Deputy Pearse Doherty:** I agree with Professor Barrett and I also agree with the Department of Finance officials that it is a Government decision to index tax credits or, indeed, social welfare payments. Presentation of data is crucial. Professor John FitzGerald's comments to the banking inquiry were insightful. He said models do not get the answers wrong; it is the individuals who use the models or who do not understand them that get the answers wrong. Giving a model to someone who does not understand it is similar to giving a box of matches to a child. There is an expectation in society that approximately €600 million will be available for current expenditure. Should it not be the case that - while it is ultimately a Government decision - a standstill position would require X amount of this to be absorbed?

We are well familiar with what the ESRI does and we have our ups and downs in respect of some of its analysis. It is interesting that the question that is put sometimes reflects the way the answer is given. Professor Barrett has experience of the Irish Fiscal Advisory Council, the ESRI and the national economic dialogue. If he was to write the report we, as a committee,

are tasked with, which is to make recommendations on how a budgetary committee should be established and the establishment of an independent parliamentary costings office, what priority recommendations would he make?

**Professor Alan Barrett:** That is a big question. To be succinct, the quality of the information provided is critical.

**Deputy Richard Boyd Barrett:** Is it Professor Barrett's view that in advising the committee the Government hopes to set up, the demographic pressures and the impact of inflation on the fiscal space and so on have to be spelt out clearly as a matter of course in the discussions around the budget?

**Professor Alan Barrett:** It is just one of the things that needs to be spelt out.

**Deputy Richard Boyd Barrett:** But it should be spelt out.

**Professor Alan Barrett:** The assumptions underpinning whatever is done should be spelt out and should be clear but it is only one of the issues. I do not know what vision members have of how this will pan out. The potential added value relates to the fact that the budgetary process is carried on behind closed doors to a certain extent at the moment. Members will be in a position to publicly ask people to justify whatever choices they are making. To interrogate, it comes back to information and the quality of the committee's investigation will be heavily dependent on the quality of the information that members have to hand.

I have talked about what the ESRI does. We do a good job at providing good information. It may be partial. For example, it may be that we have been asked to study something in a particular way but it is based on good, rigorous analysis. Members need good quality information that they can use but they should not become totally fixated that the only issues floating around are demographic pressures and inflation. The budget relates to between €50 billion and €60 billion worth of expenditure and taxes and so on. At the National Economic Dialogue, people constantly said we cannot raise tax on labour because that is bad for jobs. Perhaps that is true. For example, if 1% was added to the marginal tax rate, what would that do to jobs? That is an empirical question. Sometimes, a mantra is put out there. Somebody like the good Deputy might have suggested that corporation tax should increase and perhaps it should, but at least the ESRI published analysis last week which showed that if that was done, this is what we estimate the impact would be on foreign direct investment. The Deputy may say that is a price worth paying or he may disagree with the analysis but at least he has a piece of work that tries to set out and answer the question and provide evidence on the issue he is dealing with. My vision of what the committee should be doing is bringing public forum evidence to bear. When the evidence is not there, members will ask people to justify the choices they are making.

**Deputy Richard Boyd Barrett:** I agree completely with that. I welcome the entire process and it is good that it is being opened up. We have to figure out how best to establish that process to achieve the maximum transparency and the most comprehensive debate in the run-in to producing a budget.

Professor Barrett made a point about not having ideological baggage and so on. One of the issues Nyberg pointed out in his report was that contrarian thinking was not taken seriously. That was an understatement in the context of the failure of all sorts of models and think tanks to see what was coming in 2008 and to understand how severe it could be. ESRI staff put their hands up and said they did not recognise the extent of the banking and financial crisis. How

can we be sure the same is not happening again and that contrarian thinking is still not being marginalised within the ESRI or anywhere else?

When I studied economics for the leaving certificate, the entire book by Noel T. Palmer was about market theory. There was one page on Marx's labour theory of value and it just said it was wrong. They just went on to enunciate the Smith and Ricardo outlook. Can Professor Barrett assure me that the contrarians get a fair shot?

**Professor Alan Barrett:** I will take two stabs at explaining this matter.

**Deputy Eamon Ryan:** It is handy to have a professor of economics present.

**Professor Alan Barrett:** Let me take my first stab at explaining. I concede that the institute did not see the full extent of what was coming down the road but we published Professor Morgan Kelly's paper on housing. I know that it was Morgan Kelly's and UCD's work but the institute published the paper. Why? I remember that he submitted the paper to our quarterly economic commentary - we sometimes publish work by outsiders. We read his paper and thought it was an interesting and important piece of work. We did not agree with the findings but we published it because we thought it met the type of analytical standards that the institute appreciated. In that context, surely we deserve some credit for having done so. We came under an awful lot of pressure about publishing the paper but it was important, from the independence perspective of the ESRI, that it was published.

**Chairman:** Who put the institute under pressure?

**Deputy Richard Boyd Barrett:** I was going to ask the same question.

**Professor Alan Barrett:** The Department of Finance objected, at the time, to us publishing it. I can develop the point even though I have given a simple answer.

I will take a second stab at explaining. As much as 98% of what we do is analysing data sets. We do not sit around all day theorising about market economies, Marx and all those sorts of things. Typically, we get a data set and then we figure out what the data is telling us about whatever issue. Let me give the example of a policy evaluation of the back to education allowance. In that case one has data and one tries to hammer it out.

Everything that comes out of the institute is peer reviewed. That means two or three people within our building will read people's work. We often send it to outside reviewers as well and say, "Is the analysis of the data up to a good standard and are people drawing the correct conclusions on the basis of the results, as presented?" I cannot give the committee a cast iron 100% guarantee that everything is always kosher because people are human. People can make mistakes in data analytics and people's interpretations can go wrong. What I can say is that the institute has tight quality control devices to make sure that the analysis of the data and the presentation is as truthful as can possibly be imagined, which to me is pure. We are not funded by any particular people on the left or the right. We are, on occasion, criticised with people saying, "You are funded by the State so that must mean the institute is at its beck and call". To explain, I refer to the back to education allowance or the publication of Morgan Kelly's paper. I always have the view that the institute does not set out to annoy anybody in Government circles. I always think that there is something healthy about being criticised because if we did not fall out with Departments periodically, and if they did not like what we said, then we would not be doing our job. The Department of Social Protection has accepted what we have done. Various agencies over time, if one produces results that are very critical of them, tend not to be too

pleased, needless to say, but that is the institute doing its job.

**Deputy Richard Boyd Barrett:** I appreciate that but I want to plumb into this matter a little further. The professor has said that the institute deals with data and has certain models, which implies that there is not much in terms of subjective analysis. Is that what he is saying? Is there debate?

**Professor Alan Barrett:** There is intense debate. People are really put through their paces within the institute. No piece of work comes out of the institute unless it has been reviewed by two or three people. We are the Economic and Social Research Institute so we have a pool of sociologists who perhaps have different disciplinary perspective on matters. I am not saying we get it perfect or anything like that. There are notions that sometimes exist about us and the Deputy may have heard better descriptions than me. We are not a right-wing organisation.

**Deputy Richard Boyd Barrett:** I did not assume that. I want to understand the process of producing analyses and reports. Is the full spectrum of economic thought fed into the analyses? Is everything just a compromise between different people?

**Professor Alan Barrett:** The astute thing for me to do would be to send the Deputy our boring old publications policy that would give him a sense of how we do things but I want to explain it in a much better way. I had the following conversation with somebody from the Department of Social Protection who once attended one of our review meetings; I will not name the person. She said she was absolutely amazed at how robust the discussion was over a piece of work. I refer to a situation where a researcher has produced a piece of work that has really been kicked around and asked to justify the conclusions reached. The Department had funded the work and one of its officials attended the refereeing meeting. She commented on how robust the debate was. She then assumed that half of the group would not talk to the other as they left the meeting but realised that everybody went to coffee together. Robust debate is considered part of one's role in the institute. I often say that the people who work in the institute have a role to play in terms of writing the reports but they also have the important role of commenting on other people's reports. I shall outline one of the areas where this arises, and I may meander ever so slightly. People say that the ESRI could be run virtually, that we do not need to have an office and everybody could work in their own office but send their work in. However, another important dimension of the ESRI is its ability to have a collection of people who work together, interrogate people's work and feed off one another.

**Deputy Richard Boyd Barrett:** I am nearly out of time so will ask a few bullet point questions. I am glad, and I like to think it is due to the presence of the new left joining the Irish Parliament, that the institute is working on wealth taxes. How close are we to having an analysis of the possible impact of different models of wealth tax?

**Chairman:** I shall paraphrase the Deputy, this is the arrangements committee for the ultimate budget committee. His question is not related to arrangements but is more suited for the committee when it is established. I want to let Deputy Broughan contribute and there are two other sets of witnesses.

**Deputy Pearse Doherty:** Professor Barrett introduced the issue in his statement.

**Chairman:** He did and we will get a chance to talk to him again about the matter once the committee is established. Deputy Barrett's query is not an arrangement matter.

**Deputy Pearse Doherty:** It is.

**Deputy Richard Boyd Barrett:** It is in the sense that there are certain things like-----

**Chairman:** I have a copy of that book here some place that proves the Deputy studied and presented economics.

**Deputy Richard Boyd Barrett:** -----poverty analysis and all that kind of stuff, which were not in previous budgets. A big lacuna in the-----

**Chairman:** The Deputy wants to know if the ESRI has completed the research.

**Deputy Richard Boyd Barrett:** How close is the ESRI to completing the research?

**Chairman:** I urge Professor Barrett to pick one sentence.

**Deputy Richard Boyd Barrett:** I ask Professor Barrett to bank my question as I have another question. I am afraid that the models do not take enough account of human experience, which kind of follows Deputy Burton's comment. Should the models include surveys of target groups? The people affected should be asked how something will impact on them, rather than just use statistics and figures. I often think statistics and figures can be limited in what they say about the impact on human beings, which is after all what this is really all about.

**Professor Alan Barrett:** In terms of when the wealth tax work will be available, the Department of Finance holds an annual taxation conference in November. I cannot remember the precise date but I know a presentation is scheduled. I will make sure an invitation is sent directly to the Deputy.

The Deputy does not understand that even economists have feelings but I will not rehearse the discussion we had on this once before. I agree with him that only so much can be captured in a model. He needs to understand that economists are, increasingly, looking at a whole range of indicators, including notions of well-being. It is becoming a big part of what we do and I shall give a personal example. My most recent economics paper is on the mental effects of retirement and was published a few weeks ago. In terms of what was the dependent variable that I was interested in, and we have used Trinity's TILDA data, The Irish Longitudinal Study on Ageing, we are looking at whether people's depressive symptoms increase when they retire.

I read in a press release this morning that there will be a paper next week on issues and indicators of quality of life. The institute is doing a lot of work and not silent on these issues. Including quality of life issues in a macro model is a big project and I hope we can ultimately do something in that regard. We are active in the areas in question.

**Deputy Thomas P. Broughan:** I welcome Professor Barrett and his colleagues. Does he envisage the ESRI not having a formal relationship with the new committee as such? Does he see it giving information or advice at particular intersections in the fiscal and budgetary cycles without, in fact, having a formal relationship? Would the institute need significant additional capacity such as 100 staff to adequately assist the committee and resource it if a formal relationship was required? It is now significantly bigger than it was before the crash. There was criticism of it in the run-in to the crash.

Professor Barrett has stressed that data are crucial. I had a similar experience to that of Deputy Richard Boyd Barrett when I brought before the last Dáil my High Pay and Wealth Commission Bill which the Government refused to advance. At the time, I was of the view that there were large gaps in the data available, especially data indicating the level of interaction

with Revenue. Is there a web of information which we do not have but which other countries' budget committees do? In Norway everybody knows what everyone earns and how much wealth everyone has. Is that something we should try to advance?

**Professor Alan Barrett:** A formal relationship between the ESRI and the committee would be possible and is something we can explore. There would be no problem if the relationship involved relatively minor inputs such as ESRI staff presenting on various issues. That is part of our public good remit. If the committee wanted to have pieces of work done, that would be possible and we would be happy to engage in those discussions. I hate mentioning money, but that is an issue that would accompany it. I am not allowed to go back to headquarters unless that message is well understood. We can have discussions and there are possibilities.

There is an issue as to whether data are being collected. The situation in Scandinavia is different because there is the tracking of individuals. I attended a presentation recently with the head of the Danish statistics office. He said their census was run by two guys and that it took them about one week to complete. They do not have to go out and count everybody because they have data for everybody. They have phenomenal data which are collected over time. They are not just for their income and wealth but also their engagement with the health system and so forth. They have very different ways of doing it for historical reasons. We do not have that level of data available. However, more data are being collected over time. The wealth issue is one on which we typically did not collect data in Ireland, but that gap is being plugged through the Central Statistics Office and the Central Bank. From an ESRI perspective, we find the CSO very accommodating. Subject to the rules of data protection, it generally tries to facilitate us with data it has available. If the data are available, we have good access to them.

Professor John McHale and his colleagues will talk about their more direct interactions with the Department of Finance.

**Chairman:** I thank Professor Alan Barrett for his attendance. I am sure that when the committee is established properly, we will be back in touch.

### **Engagement with Irish Fiscal Advisory Council**

**Chairman:** I welcome the representatives of the Irish Fiscal Advisory Council. I draw their attention to the fact that they are protected by absolute privilege in respect of their evidence to the committee. However, if they are directed by it to cease giving evidence on a particular matter and continue to 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. I invite Professor John McHale to make his opening statement.

**Professor John McHale:** On behalf of the Irish Fiscal Advisory Council, I thank the committee for giving us the opportunity to share our views on the proposed changes to the budgetary process. As noted in our most recent fiscal assessment report published on 8 June, the council welcomes the proposals to reform the budgetary process to allow for greater Oireachtas scrutiny. With me are council members Mr. Seamus Coffey and Mr. Michael Tutty, as well as the council secretariat. Our chief economist is, however, in Lille.

**Chairman:** We are all there in spirit.

**Professor John McHale:** He is attending a conference.

*(Interruptions).*

**Professor John McHale:** Starting with its role in the new budgetary process, the council favours retaining the two appearances its representatives currently make before the Oireachtas. It could also provide a valuable input at two other stages in the budgetary cycle. Up until now, its representatives have appeared before the Joint Committee on Finance, Public Expenditure and Reform twice a year, in December and June after publication of the council's fiscal assessment reports in which the autumn budget and spring SPU, stability programme update, are assessed. A third appearance by them following publication of the council's pre-budget statement in mid-September could also be useful. The statement sets out the macroeconomic and fiscal context for the forthcoming budget and discusses the council's view of the appropriate fiscal stance.

Although the council favours publication of the summer economic statement at the same time as the SPU in April, the role of its pre-budget statement would be enhanced in the new system if the timing of the summer economic statement was similar to this year. Given the greater Oireachtas focus on the national economic dialogue, this is a fourth stage in the new budgetary process where the council would welcome the opportunity to provide an input. It could play an important briefing role at the dialogue by providing the macroeconomic and fiscal context for discussion at this event.

Our written submission deals with two other issues. The council would like to emphasise the importance of informative medium-term fiscal forecasts to underpin the proposed new budgetary process. We need the data and forecasts, including those of the Department of Finance, to be published before we can carry out the assessments. That is why our two key reports thus far came out after the SPU. When the information is available, we need time to analyse it, but we bring out our analysis as quickly as we can. It comes out in early June. Following the budget, we carry out a series of statutory assessments and the report comes out in late November or early December.

The third appearance we suggested following our pre-budget statement has somewhat more of an *ex ante* flavour to it in terms of our recommendations, particularly on the fiscal stance. However, it could also be more constructive because it would follow on from the summer economic statement and the mid-term expenditure report. We can have most value when we are actually commenting on specific publications or documents, but we certainly would be open to having the engagement earlier. In recent years we have produced our pre-budget statement in September. It would make sense to have it earlier, potentially in August, but still following the mid-term expenditure report and the summer economic statement. Beyond this, we would be open to suggestions on how we could be of even further help to the committee. If other appearances would be useful even earlier in the process, while recognising our key function is carrying out the various statutory assessments, we would certainly be open to making them. Our goal is to be as supportive as we possibly can. We would be very happy to discuss suggestions members might have on when the committee would like to receive input from the council.

**Deputy Eamon Ryan:** Professor McHale states most analysis is *ex post* analysis. Let me outline my understanding from our discussions with the Department of Finance and others involved in the process. There was a question about whether the Oireachtas committee could be

involved in the stability programme update in advance of being published and considering the question of when it could take place. There are tight timelines. Data are required in March for the first quarter returns. My understanding of the process is the Irish Fiscal Advisory Council was directly involved with the Department of Finance in the process of shaping in advance of the stability programme update being written. In that case, the council's work is *ex ante* with the Department. My question is whether we can include the Oireachtas in the *ex ante* assessment of what the stability programme update might be, even if there is a tight timeline.

**Professor John McHale:** One of our functions is to endorse the macro-economic forecast, not the budgetary forecast, on which the stability programme and budget are based. We do see the Department's forecasts in advance of their being published and we then undergo a very rigorous endorsement exercise. We produce our own benchmark forecasts as part of that process, which we use for comparison purposes with the official forecasts. However, the Department has made important points on the need for reasonably up-to-date data in order to produce its forecasts. It is only in March that the national accounts for the previous year are available. To try to produce forecasts in advance of having the data would lead to lower quality forecasts. Even when we receive the forecasts, the timelines are very tight because they are produced only after the data become available. In terms of forecast provision, it would be difficult to bring it forward.

The main issue is not so much the timing of the SPU but the content. If I were in the members' position, it would be a matter of trying to get as much detail as possible on the actual policy plans contained in the SPU and associated spring or summer statement, depending on the timing. As explained in its reports, the projections made in the SPU have recently contained limited detail on the Government's envisaged policies and do not fully incorporate the costs of maintaining existing public service levels and real benefits. Yesterday's summer economic statement goes some distance towards incorporating envisaged Government policies in official forecasts by showing the path for revenue and expenditure in a scenario where the available net physical space is used. However, it is still not clear how this is to be reconciled with the estimated costs of simply standing still in the provision of public services and maintaining the purchasing power of social protection benefits. In the absence of informative medium-term forecasts for revenue, expenditure, the deficit and the debt, the capacity to have a meaningful Oireachtas input in advance of the budget and SPU would be severely limited as policy debate would be based on unrealistic technical projections for the public finances. The reform of the budgetary process should be accompanied by a move to provide more informative medium-term forecasts on a stand-still basis, as well as by a forecast that includes the impact of the Government's envisaged tax and spending policies. Such plans are needed for effective management of the public finances, as well as being a requirement of the EU budgetary frameworks directive.

While the proposed parliamentary budget office, PBO, could play a valuable role in the budgetary process, its precise design and functions need to be carefully considered to ensure its effectiveness. The committee could consider a PBO, the role of which would lie somewhere between the current proposal for a PBO with limited functions and one with a more extensive remit. A PBO that is well resourced but with a degree of discretion and strong independence seems to be a better model compared to the one proposed.

Summing up, the council believes it could play a valuable supporting role for the Oireachtas in augmenting the two current appearances by its representatives before the Oireachtas with a third in September following publication of its pre-budget statement. In addition, it could con-

tribute to the new budgetary process by providing a briefing for the national economic dialogue. To allow meaningful Oireachtas participation, the proposed changes to the budgetary process need to be underpinned by the provision of informative medium-term budgetary forecasts.

The council is grateful for the opportunity to share with the committee its views on the proposed new budgetary process and welcomes members' questions and feedback.

**Deputy Eamon Ryan:** On the issue of timing, the possibility of having a third meeting would make a lot of sense. My general understanding of the OECD review of the budgetary scrutiny process is that there is a need for more timely intervention by the Oireachtas in advance of decisions being made as part of the process. As we heard in an earlier presentation, such open scrutiny would improve the public policy approach to budgeting. Is it not possible in order to inform the process, rather than having a meeting in December after the budget is published and a meeting during the summer after publication of the summer economic statement, to have dialogue between the committee and the fiscal advisory council in the interim period, possibly in April before publication of the stability update or in June in advance of publication of the summer statement or the national economic dialogue? A meeting held in advance might improve the quality of that dialogue. Similarly, the idea of having a meeting in September in advance of the more final budget negotiations makes sense. If we are to have a third meeting which would be good, could we switch the date to make it part of a live process?

I was interested in what Professor McHale had to say about the need for better forecasting in the medium term. I do not know whether he heard Professor Barrett from the ESRI. What is the difference between forecasting and modelling? Is the model the tool to deliver forecasts? Is Professor McHale saying we need to use that model as part of this process to deliver forecasts? Is there another mechanism for delivering the forecasts he is considering?

**Professor John McHale:** I thank the Deputy for his questions.

On the timing, I must draw attention to the mandate of the council. Its function essentially is to provide a number of assessments and endorsements. Thus, it has a certain *ex post* focus. We assess the budgetary forecasts. We also assess and endorse the macroeconomic forecasts. We assess the Government's fiscal stance on the basis of whether it is conducive to prudent economic and budgetary management. We also assess compliance with fiscal rules. It should be noted that we have been quite critical in recent reports of the lack of information on medium-term plans in the stability programme update, SPU, and last year of the content of the spring statement. There has been considerable progress in the summer statement. One of the problems in the past was that the medium-term forecasts, that is, the budgetary forecasts, were developed based on the scenario of no policy change. Even though last year it was indicated that the intention was to use the available fiscal space, the medium-term forecasts put forward were based on none of that fiscal space actually being used, which led to very uninformative medium-term forecasts. There has been a substantial advance in the summer statement which includes medium-term forecasts that are based on the Government's plans in terms of the use of the fiscal space. However, I think more detail could be provided and, from the point of view of the scrutiny role of this committee, the more information that the committee has on Government plans the better it will be able to do the job of scrutiny. The committee must avoid a situation where it is being asked for suggestions that may or may not be taken into account. However, the more it knows what the Government is planning to do and the more that information is built into the forecasts, the more effective that scrutiny role can be.

**Chairman:** We have to try to avoid a situation that might have obtained in the past whereby

committees were swamped with information. It is not just about the volume of information, it is also about the quality of that information and whether we obtain the information we really want. There may have been a perception in the past that certain Departments, in an attempt not to see any action by a committee, might provide large amounts of information to ensure that nothing would happen.

**Professor John McHale:** That is a very valid point. It is a balancing act and I recognise that there are certain limits to the level of detail that can be provided. In its draft document, the committee notes that there is certain detail on tax measures that one would not want to announce in advance because it could lead to a behavioural response. All of those things would have to be taken into account. There is a happy medium where the committee is given a broad outline - but still more detail than was present in the summer statement - with adequate costings around that. That would allow for a more constructive debate to take place post-SPU.

**Chairman:** Before I call Deputy Burton, Professor McHale's two colleagues should feel free to comment.

**Mr. Seamus Coffey:** I will speak briefly on a point Deputy Eamon Ryan made about modelling and forecasting. One does not need a model to forecast. One can put one's finger in the air and come up with a number. As Professor Alan Barrett suggested earlier, if one has a number, one must be able to justify it. One of the justifications for it is that one has some solid background to it. When it comes to trying to make forecasts for the economy, one would look at past patterns and relations between different variables and see what one might get from that. The model produces a number but one will have to sit down and question whether it makes sense. There is some subjective basis to it but one is moving from a situation where one at least has a sound theoretical base from which one can question what is happening in the economy and one can then make a judgment call either up or down. One needs a starting base to begin with. In recent years, modelling on the Irish economy has improved but it is still not, and never will be, perfect. There should be a complementarity between modelling and forecasting. A model should feed into it. However, there is some subjective element to it.

**Mr. Michael Tutty:** I will comment on Deputy Ryan's point on the SPU. In case it was not quite clear, the only part of the SPU that we see in advance is the medium-term forecasts. We do not see the rest. We only see the medium-term forecasts a week or two before the actual publication. We are not way ahead of the rest of the world in terms of knowing what is in the SPU.

In terms of having too much information, what we are saying in respect of the medium term is that we should have what is there at present, namely, the no-policy-change approach, a stand-still position showing everything, including indexation, and what the Government intends to do in terms of the overall aggregates. Those three simple pieces of information give one a lot of meat to get into. What we are suggesting would not swamp the committee at all.

**Deputy Joan Burton:** I welcome the witnesses. Mr. Tutty's final comment was very helpful. Yesterday, we had a reasonable example of what happens, the Department of Finance telephoned about an hour before the release of the document. We were invited to the Department of Finance. Those of us who read the newspapers or engage in social media had the privilege of reading a summary and commentary on it. I do not know how constrained the officials are in the Department, I know they are present, but other than getting the actual document on which there was an embargo of one hour into our hands, I did not see any particular usefulness to the exercise.

As I understand it, but I may be incorrect, the budgetary oversight committee is to have a role in the scrutiny, and is to be in a position to do some analysis in a summary way, of the information flows on a timely basis. It would be very useful if we had details of the Irish budget, similar to the way on a previous occasion the German Bundestag had details of the Irish budget, which shocked people in this country, but was entirely routine in Germany. How do we arrive at a position where as the committee develops, we are provided with the documentation and information that we can then analyse on the basis that we have been discussing? That would be very helpful.

I think it applies as much to capital expenditure as to current expenditure. Having come out of a very difficult period and moving into recovery and an expansionary period, how do we get quality information on how the capital spend is going? The Irish Fiscal Advisory Council does the medium-term forecast. We need information flows as that is very important in how the economy grows.

**Professor John McHale:** I do not have very much to say on that. Returning to my previous response to Deputy Eamon Ryan, the great advantage of this new process is that we are getting away from the big bang budget approach where we did not know anything until the Budget Statement was made. I think the whole period should be looked at. Getting documents in advance of publication is less important, particularly if there is a very short time advantage as Deputy Burton described in the case of the summer economic statement; what really matters is the content of the documents themselves given that one has a period of time to apply scrutiny. There are two issues, timing and content. I would think that ultimately it is the content that matters, even if one does not have a particular advantage in terms of early access to the documents.

**Deputy Joan Burton:** In the context of the standard publications from the Departments, would additional information be useful? For example, would it be useful to have a percentage analysis of changes which do not tend to be in the published documents but which the Department probably does automatically on their programmes? The members of the committee should not have to sit down and re-analyse or have somebody in the budgetary office re-analyse what is probably in a programme in the Department anyway.

**Professor John McHale:** Certainly if that would be useful to members of the committee to get the data in the form that is most user friendly, that definitely could be looked at. On the whole, the documents are put together in a reasonably user-friendly manner in terms of access to the information. It may be the case, however, that certain underlying background data are not included in the final document, partly because the Departments want to make it accessible and do not want to swamp the public with data. It may be very important, however, in terms of the committee's role in scrutiny that data are provided in an accessible manner.

**Deputy Joan Burton:** Does Professor McHale wish to comment on the information available on the capital programme?

**Professor John McHale:** This again goes back to the broader question. Mr. Tutty laid out very well what one would ideally like to see in terms of a medium-term plan. One of the things we have been pushing strongly for is that the forecasts be provided based on an estimate of the cost of what the Irish Fiscal Advisory Council refers to as standing still while continuing to provide the existing level of public services and maintaining the purchasing power of benefits. Beyond that, the more detail that can be provided in terms of the different aggregates the better. From our point of view in terms of accessing forecasts, we do not need so much disaggregated detail to assess the forecasts. However, in terms of the committee's particular role in assessing

the plans and perhaps making alternative budget neutral suggestions for the plans, it seems the more detail the committee can get, including on the capital side, the better.

**Deputy Richard Boyd Barrett:** I welcome representatives of the Irish Fiscal Advisory Council back again. Meeting them is one of my favourite engagements of the year. I very much welcome the council's proposals for its involvement in the new budgetary process and agree with everything it has suggested. The Irish Fiscal Advisory Council is leaving open the possibility of having two additional engagements. It proposes a pre-budget engagement with the committee in September when it has had a chance to consider the summer economic statement.

**Professor John McHale:** The meeting could be held earlier than that if it was helpful.

**Deputy Richard Boyd Barrett:** It also proposes to engage with the committee at the time of the national economic dialogue to give its take, as it were, on questions of fiscal space and compatibility with fiscal rules.

**Professor John McHale:** We could have a useful role in that we provided a briefing at the national economic dialogue last year. We have not been asked to do so again this year and perhaps there is an argument that it is not necessary every year. However, given the amount of work we do on the fiscal rules and fiscal space, we could usefully provide a briefing at the dialogue to all participants, including members of the committee.

**Deputy Richard Boyd Barrett:** I do not have many questions because I agree with the Irish Fiscal Advisory Council's proposals, which would be very helpful. The council suggests the model for the parliamentary budget office, PBO, should be somewhere between the current proposal and a model in which it plays an extensive role. Will Professor McHale elaborate a little on that suggestion?

**Professor John McHale:** One can think of a spectrum of models for the parliamentary budget office. It seems to us, and this was also evident in the OECD report, that what is being proposed is at the less ambitious end of the spectrum. In particular, under the current proposal, the office would not have direct responsibility for or capacity to do its own costings, even though it would have an important role in the validation of costings coming from Government. Clearly, it would have very important roles in terms of analysis and validation. On the other hand, in the election campaign it seemed that some very ambitious models of the office were proposed. Under these, the office would have almost unlimited demands placed on it in terms of costings from various bodies.

One thing that is clear from international comparisons of different types of independent fiscal institutions is that costing work is extremely resource intensive. The Irish Fiscal Advisory Council can run on a relatively lean model because the nature of its mandate is such that the various assessments do not require many people to do them. However, providing costings and analysis of specific policies and proposals is an extremely resource-intensive activity. Much of this detailed specific analysis is done by the ESRI. Professor Barrett discussed this earlier. The ESRI is a substantially larger body than the proposed model for the PBO.

We believe there is potentially a middle ground that would show more ambition than the current model. It is important that the new body have real capacity to do costings, even if, for the most part, it outsources much of that costing responsibility to the Government, which does a significant amount of it already. To be able to validate costings, it is necessary to have the capacity to do it oneself and also to do the cost-benefit analysis and micro-simulations of poli-

cies. It is important also that the body have a degree of discretion. The Congressional Budget Office in the United States is required to cost all legislation. It also receives a large number of information requests to cost various proposals and has a degree of discretion in this regard. Depending on its resources and recognising the level of resources required to perform this function well, it does not have to accept all requests. It could be worth considering some sort of middle ground.

**Deputy Richard Boyd Barrett:** Is the Irish Fiscal Advisory Council proposing that it have a role in assessing these costings? Would it provide analysis, particularly of alternative budget proposals, in its engagement with us in September?

**Professor John McHale:** The mandate of the Irish Fiscal Advisory Council does not extend to getting into specific policy proposals. It is specific in terms of the overall budgetary forecasts, in other words, the macro-forecasts to which I referred earlier. Unless the mandate of the council is changed, it would not be appropriate for us to get involved in that area.

**Deputy Richard Boyd Barrett:** In terms of the information available to us in the context of these debates, is there a major gap in terms of whether the information provided on corporation tax is detailed and up to date? I do not know if I have ever pointed out to Professor McHale that when Deputies ask questions about corporate tax, the most recent figures supplied to us are from 2011. This is extraordinary when one considers, for example, that €2 billion in corporate tax suddenly appeared last October and nobody knows the reason this happened or whether it will happen again. These are large numbers which could have a significant impact on the revenues available to the State. When Deputies seek to get to the bottom of the issue and ask questions about whether this revenue will continue to be generated, the reason for it and how it fits into the pattern of corporate tax receipts over time, the information is either not available to us or we are provided with information from 2011. Does something need to be done to ensure Deputies have access to up-to-date information?

**Professor John McHale:** Mr. Coffey, our expert on corporation tax, will answer the Deputy's questions.

**Mr. Seamus Coffey:** Timing is an issue and I agree with the Deputy that we do not have a large amount of information. However, one of the issues is that the relevant information is not available. We receive the monthly Exchequer returns which means it is known within two days that money is being collected. The issue then is how this came about and how quickly Revenue can compile the data. Companies do not submit their final tax return until nine months after their year end. They pay their tax in advance and make an estimate of how much tax is due before their year end. They do not submit their final return to Revenue until nine months after year end. This means that companies which had their year end at the end of December last year will not submit their tax return until September. These returns then have to be processed and all the information must be put together, which can take another nine, 12 or 15 months. There is, therefore, a lag of two and a half years, extending from the end of the year when the Exchequer shows the money being received to the point at which Revenue is able to publish details on how it was collected. Revenue published a letter last year that gave broad indications of where the money was coming from. The simple reason companies are paying more corporation tax is that they are making more profits. While we might not have great detail on it Revenue provided a breakdown by sector, in rough terms, of where the money came from and the type and size of companies that were paying the money. One can go through the tables and see the gross profits, deductions allowed and how much tax was taken. The starting point was much higher. One issue is timing. The information takes time to come in and be collated. While it would be great

if it came out quicker, it is not possible.

**Deputy Richard Boyd Barrett:** Would it be possible to have provisional figures based on the tax paid, even if qualified by the fact that they could change when the final figures are processed?

**Mr. Seamus Coffey:** Revenue does not have the inputs. When companies submit their preliminary tax, they tell the Revenue how much tax they think they owe and they pay 90% of it. They do not provide great detail. Companies must file a very detailed corporate tax return nine months after their year end. We could not get any additional information much quicker, unfortunately.

**Deputy Richard Boyd Barrett:** While it is not Mr. Coffey's fault, it is extremely unsatisfactory that we cannot show the pattern over time in the different tax categories, up to as recently as possible, and what it represents as a proportion of overall tax revenue. It would be very helpful for us to understand the pattern over time, not just what we are proposing in any given year in terms of adjusting tax and expenditure, but to see how it fits into an overall pattern. Is the information available in a digestible form and should it be included in such statements, which it is not?

**Professor John McHale:** The monthly Exchequer returns have much detailed data in which one can see the trends and how various tax heads are performing relative to profile. Although one has to do some digging to get it, the information is there. Regarding the SPU or summer statement, there is a trade-off between having documents that are too big - sometimes IFAC is accused of putting too much information into its documents-----

**Deputy Richard Boyd Barrett:** I would like that.

**Professor John McHale:** We do an intensive interrogation of the budgetary and macroeconomic forecasts related to all elements of the mandate. If the Deputy would like to see the data in particular ways in our reports, we would be very happy to talk to him and see how we can accommodate it in our reports. I am sure the Departments of Finance and Public Expenditure and Reform would do the same. We want to be as helpful as we can.

**Deputy Richard Boyd Barrett:** I hope that suggestion can be taken on board. While I take the point about digging, the time to dig and collate is limited, as it probably is for the witnesses too. To have this kind of information available in easily digestible tables would be extremely helpful for us.

**Deputy Seán Barrett:** I welcome the witnesses. The committee was established to examine arrangements for budgetary scrutiny. Rather than having everybody getting in each other's way and having so many bodies examining different things, we must work out a structure in which there is a real input at particular times with the committee when it is established. IFAC's role is to independently assess and publicly comment on whether the Government is meeting its stated budgetary targets. I would like to hear from IFAC about where it fits into the structure. If not today, could witnesses think about it and make a submission on where they see IFAC's role? We will have a parliamentary budget office and inputs from the ESRI, IFAC, the Department and so on. I am afraid we will all be chasing each other. At what point should people come into play? Perhaps, the witnesses could, in due course, give it some thought. When the committee is properly established and is doing its job and working with the parliamentary budget office, where does IFAC fit into it, regarding having a real input at a particular time? IFAC is charged

with a particular responsibility in its establishment. Would it have its input at a particular time of the year, for example?

**Mr. Michael Tutty:** I thought we were doing it in our presentation today. We see ourselves interacting with the committee, twice a year now, and potentially three or four times per year. As Professor McHale outlined at the beginning, our role comes after certain events rather than before them. We are more limited in what we can do for the committee before the stability programme update, SPU, comes out or immediately before the budget. The one area where we could, perhaps, get more involved is our pre-budget statement, if it can be brought forward to an earlier time than mid-September, which is when it comes out and which is late in terms of the committee's deliberations on what should be in the budget.

We need inputs from the Department and the Government for our work. We need to know what their projections and plans are and we can then assess them in terms of how they fit with the fiscal rules and what flexibility is there. The Departments of Finance and Public Expenditure and Reform should supply the committee with the basic information for its deliberations. We should also receive this input for our deliberations, and we can then help the committee to comment on or interpret them.

This is where the parliamentary budget office comes in. In some of the proposals at the time of the election there was a suggestion that IFAC might become the parliamentary budget office. We did not see it as being a suitable role for us and the Parliament has gone down a different road in terms of establishing a separate parliamentary budget office. The committee should look to the parliamentary budget office to see how it can help the committee better. The parliamentary budget office will be on site here, dedicated to looking after the interests of all the Deputies and Senators. Our input will come at specific times. We cannot play the role of holding the members' hands throughout the year and helping them with every step along the way. The parliamentary budget office should be developed to play this role.

**Deputy Pearse Doherty:** The submission was very good and very focused on the work we have to do. There have been many submissions about IFAC taking on the role of costings, which I was never 100% convinced of. I think it could interfere with the independence of the office. One is then dealing with political parties and elections which could take away from it.

Three options have been spelled out. Will Professor McHale explain how he sees option 3, the hybrid option, working in terms of it not being a clearing house but being able to do independent costings of budget proposals? When one speaks of independent costings of budget proposals, is that independent of the Departments of Finance and Public Expenditure and Reform or is it approved by the parliamentary budget office? Is it the case that the office would have access to the information, as suggested, and data from all Departments, including the Revenue but they could decide that is under-providing and have autonomy in that regard.

**Professor John McHale:** In terms of independence, the parliamentary budget office is a body that would not take instructions from Government. It would not take instructions from Parliament either. It would be an independent body and would have a very clear remit and set of responsibilities, for instance like the Congressional Budget Office in the United States which very much protects its independence. That would be critical. In the hybrid model the idea is that it would have the capacity necessary to do the kind of analysis that would be asked of it by the Oireachtas, that is analysis of policies, including cost benefit analysis but also the ability to do costings, including various costing tools, such as expertise in micro simulation. The point I was making is that it requires resources, that it cannot be done on a shoestring, if one is to do

it properly. At the same time, one cannot expect it to meet every demand that is placed on it for a costing, particularly when one is costing specific measure or doing a cost benefit analysis of specific measures. Sometimes that can be extremely complicated as Professor Alan Barrett discussed earlier. It is as the Deputy describe some sort of hybrid model that would retain the advantages of having a strong capable office, but not move so far in terms of the demands placed on it that it becomes unworkable.

**Deputy Pearse Doherty:** Should the office have the ability to have independent costings of the relevant Department, so if it was a taxation issue, that it could be independent of the Department of Finance's costings?

**Professor John McHale:** I think it should have the capacity to do its own costings and that does require resources. Also one does not want to have too much duplication so that a lot of costing goes on within Departments and one would want to build on that. In many cases it may be that one is validating the costings of Government. The Deputy will be talking to the head of the Office for Budget Responsibility in the United Kingdom who does a lot of this work, but the Deputy should not underestimate the level of expertise and the resources required to do this well. I worry as I look at the model that it looks like it will be resourced at quite a low level even when it reaches steady state. I suppose the message, as we look at the international experience, is to recognise how resource intensive costing and associated budgetary analysis is.

**Deputy Pearse Doherty:** That is quite interesting and it clarifies my own views on this matter as well. The Department will have a very strong view that there will be no second set of costings. The Department of Finance costings are the costings. The Department of Public Expenditure costings are the costings and the question is then what does one do, as Professor McHale mentioned - is it just a clearing house, where one filters these costs through or is there a validation?

One of the issues I have been trying to get to the bottom of is the cost of abolishing the USC. This has been debated for the past two years. We have costs provided to us by the Department of Finance on a number of occasions that it would cost €3.7 billion because that is the amount it would cost to abolish the USC this year. However, the Department of Finance tells us a phased abolition of the USC cannot be costed, even when we give it the figures by how much we want to reduce it year by year. The Department can tell us how much it will bring in each year, up to €5.4 billion by 2021, but it cannot tell us the cost of abolishing the USC on a phased basis.

Using that as an example, does Professor McHale believe that when the Department of Finance says it knows the USC will bring in X amount each year up to 2021 and knows if it abolishes it in 2017, it would cost X amount but phasing it out in the way described, the independent costing units would have the ability to come in and say that can be costed or assumptions can be made that can provide costings, because every costing is based on a certain assumptions?

**Professor John McHale:** The Deputy has more or less answered the question himself, in the sense that the more capacity that one has, the more knowledge of costings that one has, the better position one will be in to push back so that if one gets an answer that this cannot be costed or one may have questions on the way it has been costed, if one has that capacity, one will be in a better position to interrogate what is coming back in terms of those costings. This could be with a model where, for the most part, it is a validation exercise where the more detailed work is being done at departmental level but to play that validation exercise and where necessary go beyond it, one needs a certain level of capacity and that requires resources.

**Deputy Pearse Doherty:** I think Professor McHale mentioned he was open to providing data that underpins his report to the committee. I am not sure if I ever sent a letter looking for that data. I do not think I got it anyway.

**Professor John McHale:** We now have the spreadsheets underlying all the tables published in the online version of the report, so it was making that data available. If one wants to do different things with the data and interrogate them in different ways, we want to make them available to everybody. We have done that, partly at the Deputy's suggestion. If we misunderstood exactly what he was looking for, we can-----

**Deputy Pearse Doherty:** Professor McHale knows more than most that data can be abused. The Office for Budget Responsibility in London has come out and said in regard to the election campaign that there was a massive abuse of data by some of the campaigners. That is why it is important to have as much data as possible but I take the point that a data dump will frustrate the committee. I am not sure how many parliamentarians read the reports of the Irish Fiscal Advisory Council.

**Professor John McHale:** Not enough.

**Deputy Pearse Doherty:** That is the problem. We heard from the ESRI earlier of the number of reports from it which are not being read by all parliamentarians. I am not reading all their reports. We need to be careful in terms of the amount of data we have and the presentation of data. I agree 100% with Professor McHale in regard to the standstill position that should be presented. It gives a false reading by the Department when it does not include that data.

I was at the engagement with the Department of Finance yesterday and I put the following point to it, namely, the argy-bargy between IFAC and the Department of Finance in regard to the fiscal space, because it is deeply frustrating for me as finance spokesperson. That is my language but Professor McHale will suggest there is no argy-bargy and that everybody agrees. When I put it to the Department that we should include inflationary cost for non-pay items, it said that should not happen and that it is the responsibility of Government to manage budgets and, therefore, within a budget envelope, inflationary costs should be dealt with within that envelope. The reality is that when one is dealing with a health budget where so much of the budget is for pay, there will be health inflation. Will Professor McHale comment on that given the fact he said there should be three sets of data presented, the no-policy change, the assumptions based on the policy intentions of the Government and the standstill position. Given the Department of Finance's view that it should not happen, what is his view on that?

In Professor McHale's interview on "Morning Ireland" where the committee and the public learned what was in his report, he was pulling his punches but we will have a chance at the finance committee to scrutinise that a bit more.

Regarding the data on the size of the fiscal space in the context of a stand still position, the position of the Irish Fiscal Advisory Council, IFAC, continues to be that it is in the region of €3 billion to €4 billion and not the €8 billion that the Government claims. However, the data that underpin those assumptions have never been released, to my knowledge. If we are to have an informative debate and discussion based on quality information, we must have the engagement that Professor McHale is suggesting with IFAC on a more regular basis during those set pieces and the data that underpin the assumptions of the council must be provided to us. The IFAC is giving its projections for this year, to which I subscribe, but the Department of Finance is saying something completely different. There are figures floating about but nobody is getting to the

bottom of it at the end of the day. One body is saying X because it is assuming Y, while another is saying A because it assuming B. The data that underpin all of that must be made available. The council's reports continually suggest that we are not providing adequately for demographic changes but to my knowledge, and Professor McHale can correct me if I am wrong, we have no data to show what provision we should be making for demographic issues.

I will leave it at that. While I am being critical now, I believe that the IFAC has a huge role to play in terms of the rules and the budget. Outside of the set pieces, members of the committee should, if possible, be able to draw on the expertise of the IFAC on an ongoing basis, albeit within certain limitations. We received a briefing document from Department of Finance officials yesterday on the summer economic statement. On examining it in detail, I noted that €3 billion of the fiscal space was being allocated to the contingency fund every year which should, over three years, amount to a €6 billion fund but Table 3 in the statement shows that there will only be €3 billion in the fund. How does that work? These are questions we need to be able to ask the IFAC because the debate is going on but we do not have accurate information. We had statements on it yesterday but we have no expertise to draw on in terms of how the figures are being presented, used or abused.

**Professor John McHale:** The Deputy has raised a variety of issues which gives me a useful opportunity to clarify some points. First, the council absolutely accepts that legislation related to something like increasing social protection benefits is drafted at the time of the budget. However, one must distinguish between the point at which the policy decision is made and the process of forecasting. One must, as part of the planning process, have good forecasts for what will happen over the next number of years. If one has a set of forecasts based on the assumption that there will be no change in benefits at all or no wage increases post the Lansdowne road agreement, then such forecasts will have very little value. Therefore, the idea is that one develops certain conventions, recognising that these are not policy commitments but outlining what it would cost to keep benefits constant in purchasing power terms. In other words, one outlines what it would cost to ensure that spending keeps up with demographics so that one maintains the same level of provision of public services. One makes those sorts of assumptions, recognising that the Government may do something different like, for example, increase benefits by more or even less than the rate of inflation or freeze them if it is dealing with difficult fiscal circumstances.

It is necessary, as part of the planning process, to produce good forecasts and these can be called no-policy-change forecasts. What we are saying is that informative no-policy-change forecasts would be developed on a stand still basis, outlining what it would cost to continue to do what is being done at present while completely distinguishing that from policy. We do not accept the criticism that until they are passed in the budget, one cannot talk about them because they are for two different purposes.

I agree with Deputy Doherty that there was some confusion about our estimates of fiscal space in advance of the election campaign.

**Chairman:** There was general confusion but I do not think it was on the advisory council's side.

**Professor John McHale:** I was a little surprised by the confusion. Essentially the point we were making, while largely accepting the net fiscal space number produced by the Government - we produced our own for internal purposes which was broadly in the same ball park - was the stand still one. We were pointing out that a substantial chunk of the fiscal space would be

required just to stand still. We probably made a tactical error in doing the subtraction because then there was another number for the fiscal space floating out there. It would have been better to say this is the net fiscal space figure, the Government did a good job in estimating it and this is the amount of it that would be required to stand still. Then parliamentarians and others would have had better information in terms of understanding what the real scope was for truly new initiatives beyond what was being done already. That would be important information from the point of view of scrutinising Government plans and coming up with alternative suggestions. In a sense, the two points are linked.

In terms of providing information to the committee, we are completely non-political and have to tread carefully. We try to respect our mandate but certainly at the level of the secretariat of the council, we are very open to talking to anyone about technical details, which is what I think Deputy Doherty is talking about.

**Deputy Pearse Doherty:** Yes.

**Professor John McHale:** I know his office has availed of that in the past, as have others. In terms of technical discussions with the secretariat - as opposed to the council itself which must be a bit more careful - on things like the budget or the SPU, we are open to that.

**Deputy Stephen S. Donnelly:** I will start by agreeing that the council's submission is spot on, although there are one or two parts with which I might disagree. The second half of page four and all of page five of IFAC's submission pretty much nails the analytical opportunity. It is the bit that is missing. Deputy Doherty, myself and many other members of the finance committee begged the previous Government for that information. We asked the Government to show us what the fiscal space was before policy changes with socio-demographics and inflation included and what it proposed to do. We also asked it to tell us how what it proposed to do, on an item-by-item basis, would affect the available fiscal space. We could not get any movement on it in five years. The way the council has laid that out on pages four and five is spot on in terms of the information the Oireachtas and the standing committee will need to do its job.

My first question is simple and relates to the SPU. There is a debate as to how much time the committee would get with the draft SPU before it is sent off to the European Commission. The proposal from the Minister is five to ten working days, as I understand it.

**Chairman:** I think it is ten days.

**Deputy Stephen S. Donnelly:** It is about ten but that is not remotely enough time to interrogate it, be briefed on it, hear submissions from the advisory council and others on it, come up with recommendations and then leave the Minister and his officials with enough time to deliberate on those recommendations and incorporate them into the SPU. It was suggested that the committee would take the draft SPU at the same time as the council but two reasons were put forward by the Minister for not doing that. The first was that the IFAC might change the SPU and, therefore, the committee would be given information that might change and the second was that things change and that the less time we have it, the more accurate the information contained therein. I do not accept either of those arguments and would like to hear Professor McHale's view as to whether they are reasonable. Would the council have any issue with the committee getting the SPU at the same time as the council, with the obvious caveat that it might make recommendations to change some elements of it?

The second question is on the budgetary office. Professor McHale has laid out three pos-

sibilities in terms of costings - one is that the budgetary office does all of the costings; another is that it acts as a clearing house; and the other possibility is in between those two. There is an interesting debate about who should do the costings. From a cost perspective to the Oireachtas, staffing a parliamentary budget office to do independent costings of the Departments would be very significant. There would be very serious duplication implications because they not only have to be able to cost taxation measures but other measures like transport, health care, social protection and broadband. Professor McHale has laid out three possibilities. The path of least resistance is that the Departments would continue to do the costings and the parliamentary budget office would provide quality assurance and some air traffic control. For example, if Deputy Boyd Barrett and I were looking for largely similar costings, the budgetary office might be able to do one for us. What is Professor McHale's view on this? Is there any issue with the Departments doing the costings and having the parliamentary budgetary office acting in a co-ordination and quality assurance role?

My final question goes back to what has been raised a number of times on the amount of information. The Commission's annual growth survey was published in December, followed by the SPU, which was then followed by the spring economic statement. Somewhere in between all of that were the Estimates and Revised Estimates and after that the taxation papers. After that there will probably be some pre-budget document and then there will be the budget. The budget is laid across three separate places - taxation, social protection and expenditure. It goes on and on and there are many different moving parts. Is it possible to bring all of it together? We do not have a comprehensive document with both macro and micro data in it.

On page 4 of his submission, Professor McHale laid out the amount of budgetary space available if we do nothing; what happens if we account for socio-demographics and inflation; and what the Government is proposing to do. It then moves from a macro view to a micro view that gives the ten big ticket items, for example a change to the minimum wage and health care. I have a concern that the committee will drown in well-intentioned information. All the bits are in different places. The Estimates, Revised Estimates, social protection and taxation are all in different places. Is it possible to start consolidating this to a master document that would allow a committee get its collective head around the entire position?

**Professor John McHale:** Deputy Donnelly asked some very important questions. Mr. Michael Tutty mentioned earlier that we do not get the SPU early. We only get the macroeconomic forecasts because our function is limited at that point to endorsing or not endorsing those macroeconomic forecasts so that is all we see. We get a spreadsheet and we get a detailed presentation from the Department of Finance which is the same presentation that members get. It has been stated we are in a privileged position and see the SPU in advance but we see it at the same time as everybody else. Deputy Donnelly should not get hung up on the timing of access to the SPU and getting it a bit earlier. The Deputy mentioned page 4 of our submission and the focus should be on the content of the SPU rather than on getting that content early. Members of the committee will then have a period of time before the budget is passed to really scrutinise and potentially influence what will happen in the budget. There still seems to be an awful lot of time involved. In those weeks before the SPU, a plan is being set out but the decisions are not really being made at that point. The emphasis should be on the content rather than the timing. There is a process and a budgetary cycle which cannot all happen at the same time. The Deputy is almost trying to get away from that with the big-bang-budget approach of detailed plans and forecasts early in the year to avoid information overload so members can absorb the information they need. The Deputy makes a very good point about that but to have time to really influence the budget requires a staged process. Trying to come up with one master document would

seem to be difficult in that regard.

The Deputy is right that the details of the division of labour between the budget office and the various Departments would have to be worked out. The model would probably involve a lot of the work still being done by the Departments and the worry is that the model is very under-resourced. It should be a strong, independent body with a very strong reputation. There are international models and the Office for Budget Responsibility, OBR, in the UK is a very good example, about which the committee will be hearing soon. It requires strong leadership, potentially international leadership, and it has to be well-resourced, with access to expertise including secondments. It also requires very strong access to information. Attention must be paid to the foundation of the office because the way it is established will have a huge effect on what kind of office it will be. I worry that there is too little ambition being shown at the moment to put it in place on a very solid foundation.

**Mr. Michael Tutty:** I do not advocate trying to duplicate what the Departments or the Revenue Commissioners are doing. The PBO needs to be able to assess whether measures look reasonable or not and be able to go back if it does not think they are. It has to be able to go beyond just the static costings of a measure to see what further effects it has beyond the first round effects so it can simulate its effect on the economy as opposed to just the basic tax effect. We have to look at what more the budget office can do apart from the static costings that come from the Departments. The committee should look at whether it needs to do a cost-benefit analysis of things that go well beyond what the Departments give. It seems from the proposals that the budget office would merely be passing on things they get from Departments rather than playing a real role in helping Deputies to understand what is going on or what more they can do.

**Chairman:** I thank the witnesses and their staff for attending. Once the committee is up and running, I am sure we will see plenty more of each other. I thank them for coming before us this morning.

### **Engagement with Office for Budget Responsibility**

**Chairman:** We will start the final part of this afternoon's meeting. I thank Mr. Robert Chote for his attendance here today and apologise for what happened last week, when it was all picture and no sound. I thank him for coming over. I draw the attention of the witness to the fact that by virtue of section 17(2)(f) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to the committee. However, if they are directed by the committee to cease giving evidence on a particular matter and they continue to do so, they are entitled thereafter only to a qualified privilege in respect of their evidence. They are directed that only evidence connected with the subject matter of these proceedings is to be given and they are asked to respect the parliamentary practice to the effect that, where possible, they should not criticise or make charges against any person, persons or entity by name or in such a way as to make him, her or it identifiable. I invite Mr. Chote to make his opening comments.

**Mr. Robert Chote:** I thank the Chairman for the invitation. It is a great pleasure to be here. Perhaps the easiest thing to do would be to say a bit about the functions of the Office for Budget Responsibility, OBR, and how the costing role, in particular, fits in. The OBR was established in 2010. Our tasks are fourfold. Twice a year, we produce five-year-ahead forecasts for the economy and the public finances. In contrast to many other countries, the British Government no longer produces projections of its own. In some cases, independent fiscal bodies comment

on the Government's numbers. In some instances, they produce parallel sets of numbers which can be compared. In the UK, the OBR produces the official numbers and it is then for Ministers to respond to those in setting out and explaining their policy decisions. We use those five-year-ahead forecasts to assess the British Government's progress against the domestic fiscal rules it has set. It is not our job to say whether those rules are sensible or whether the Government should aim to hit them at any given moment, it is our job to say whether the Government has a better than 50% chance of hitting them as they stand.

The third element, which leads directly to the issue of costings, is that we scrutinise the costing of individual measures included in budgets. We have a thing called the autumn statement, which is supposed to be different but, to all intents and purposes, is just a second bite at the same cherry and a mini-budget. The Treasury submits a list of policy measures that it is considering at the time of each of these statements. It submits costings to us so if it is a tax measure, it will be analysis done by the revenue and customs department and if it is a social security measure, it will be done by the Department for Work and Pensions. We look at that and have an iterative discussion. All of this takes place confidentially before the budget is announced. At the end of the day, we have to say publicly whether we agree or disagree with it or that the Government did not give us enough time or information to reach a considered judgment. It is important to remember that because we are producing the forecast and the forecast necessarily has to include the impact of any measures that have been announced, if we did not agree with the Treasury's estimate of what a particular thing is going to cost or raise, we would have to put our own number in to have a comprehensive forecast that stands in its own right. Although formally speaking the process of scrutinising the costings is somewhat separate from the forecast, in fact we are producing a forecast. The Government is announcing policy measures and we must incorporate those in the package we produce.

The second round effects came up in earlier discussions and are the knock-on effects of measures on the economy and on the fiscal forecast. We tend to look at the second round effects of the package of measures as a whole. An average budget or autumn statement might have 50 to 80 measures and we would take an overall view, taking into account the fact that some are giving with one hand and some are taking with the other. There will be some measures that put inflation up and some that push it down. There might be some measures that affect the cost of capital in one direction or another. We do not provide a second round effect estimate for each and every measure. We look at that in the aggregate as part of the process.

The fourth and final thing we do is to produce long-term fiscal projections over a 50-year rather than a five-year rise, which many fiscal councils do. This brings in demographics and issues of that kind such as the evolution of a student loan system. We look at the measures of the public sector's balance sheet which allows one to bring in more elements of risk as well as the central forecast.

In the role we have been given, we are confined by legislation to analysing only the current policy of the current Government so we do not look at alternative policy measures that are put forward by Members of Parliament or by political parties. Since the OBR was created, there has been a long-running debate about whether we should take on the sort of role that the Dutch fiscal council has, which involves carrying out an explicit analysis of election manifestos and what their net effect on the public finances and the economy would be. That would be very largely a costing exercise and the decision so far has been that we should not play that role, although, for example, the chairman of the Treasury committee in the House of Commons still thinks that we should and is trying to push water up that particular hill. I think the letter that

I sent to the chairman of the Treasury committee when this issue was raised has already been circulated to members of the committee. The letter dealt with some of the pros and cons and the practical issues that would be raised by that, some of which came up implicitly in the discussion the committee has just had with Professor John McHale and colleagues, for example, where ownership of these things lies or whether one is reliant on the expertise in Departments. We are a relatively small office of a maximum of only 30 people over the next few years.

In terms of the costings and some of the discussion about what we should look at, we do not look at the costing of individual measures, for example, a new aircraft carrier programme or whether we should build an exciting new railway line connecting the north and south of the UK. As a reflection of the fact that the Treasury keeps very tight control of the aggregate amount of expenditure on what one might think of as public services and capital investment, when we are doing our forecasts we reach a judgment on whether those aggregate totals are going to be overshoot or undershot and by how much. This allows one to bring in some departmental intelligence, for example, it is a bad winter and the health service is having problems or the country is fighting a war and there is additional expenditure of that sort, but we do not do a bottom-up forecast regarding what we think everything the defence or transport Departments have said they are going to do will cost. There are elements of the costing function that some fiscal councils and parliamentary budget offices do which we do not even touch in our more limited scope. I will leave it there and I am happy to expand on any of it.

**Chairman:** I thank Mr. Chote. I cannot remember the name of the new rail proposal from the north of England which caused some controversy.

**Mr. Robert Chote:** HS2.

**Chairman:** What was the OBR's role in respect of the costing of this project? Did it have any role? Mr. Chote mentioned it in passing.

**Mr. Robert Chote:** We do not have any role in that. The Government sets out plans for departmental capital so that would be mostly departmental capital spending with some resource current spending.

Implicitly, it has set out plans through to 2019-2020, and indicative plans for a bit further ahead for the Department of Transport. If this thing has to be built it will take a chunk out of the Department of Transport's budget and some of the rest of the budget might not be so finely detailed, leaving members with the task of drawing conclusions as to what is left to spend on other things. We would not want to focus on that because, historically, the Treasury sets limits for public expenditure in those sorts of areas, sometimes moving them if it thinks it has more or less money to play with, but it tends not to break them by mistake. We take what it says about the aggregate capital budget, which would include something like HS2, and reach a judgment whether, given the near-term information, it is likely to overshoot or undershoot this year and in other years for which it has plans. We would not, however, say that we think HS2 will over-run by 50%. If we did reach that view - and this is possible given that we are fundamentally concerned about the state of the public finances - the question would be whether to borrow more or spend less on something and that, ultimately, is a political decision, not an economic one.

**Chairman:** Deputy Doherty asked about the stand still position at budget time and the necessary expenditure to meet changes in demographics and inflation. Does Mr. Chote factor that into his annual workings on the budget and the statement?

**Mr. Robert Chote:** Yes. We would take the overall public services expenditure envelopes over five years and assume that, if there were to be inflation shocks over that period, the Government would have to deal with them or change policy. If inflation turns out to move other than we anticipated the most obvious area it would show up would be in our estimates of debt interest costs because those that are linked to the retail prices index can be a source of near-term forecast volatility as a result of those sorts of changes. In our long-term projections we take explicit account of things such as demographics. Our working definition of an unchanged policy over the longer term, where the Government has not stated what that policy is, would assume that expenditure on most areas of public service is constant as a share of GDP but adjusted for the representative age of the population. If the population is getting older we assume we will have to spend more as a share of GDP on those things that elderly people are more likely to consume such as health care and long-term care.

**Chairman:** Pension payments.

**Mr. Robert Chote:** We forecast pension payments directly as, for public service pensions, it is a very simple top-down adjustment. We normally assume everything is constant as a share of GDP but we nudge up, or down, the bits that are age related.

**Chairman:** Are any costings prepared as regards the outcome of the vote tomorrow?

**Mr. Robert Chote:** Fortunately our legislation specifies that we can only look at the current policy of the current Government which, at the time of my leaving the country, was that we should remain in the EU. Should anybody be keen to explore this issue I remind members that I am under purdah on the matter until Friday. I would therefore have to plead the fifth amendment if anybody wanted to pursue the subject.

**Deputy Joan Burton:** What is the OBR's working relationship with the corresponding UK parliamentary committee and members of Parliament? Does he meet them regularly? Do they have a legal entitlement to a flow of documentation from him? Can they ring somebody in his office if they do not understand something, such as a line about health, etc.?

**Mr. Robert Chote:** The whole structure of the OBR, in contrast to similar bodies in other countries, reflects the fact that the executive is powerful relative to Parliament, something I suspect is true of Ireland too. In our case the Treasury is powerful relative to the rest of the executive in setting budget policy. In a sense, we have been set up primarily to take politically-motivated wishful thinking out of the analysis the Treasury uses to publish its plans, rather than to help parliamentarians consider alternative policy options. Our relationship with members is very much focused through the Treasury Committee, the committee of the Lower House which is responsible for looking at the work of the Treasury, the Bank of England, ourselves and other economic agencies. They take oral evidence from us after each budget and autumn statement. When the Chancellor of the Exchequer stands up and announces his budget statement, we have already spoken to them about it and, as soon as he sits down, we publish a report on what our forecast for the economy and public finances would have been had the Chancellor done nothing and, then, on the impact of all the measures he has just announced. We give a pre-measures and post-measures forecast, which are published literally as he sits down. Two hours later, I hold a press conference explaining the forecasts and taking questions from anybody who has them. As that happens, the House of Commons goes straight into a debate on the budget without waiting to read anything we or anybody else has said, something which has always slightly puzzled me. Nevertheless, it is a tradition that members get straight into the fight as soon as the Chancellor has sat down. There could be scope for a more informed relationship with a wider range of

parliamentarians who are interested.

The relationship at the moment is primarily mediated by the Treasury Committee, which takes evidence from us after each Budget Statement and autumn statement, typically some four or five days afterwards. They start off taking evidence from our equivalent of the ESRI and private sector economists. Then they hear from us and, within a relatively short period, from the Chancellor and Treasury officials. We get very few direct inquiries from members outside that committee but we stand ready to be helpful where we can. There is a lot of interest from Opposition spokespeople on welfare or the economy and we are happy to deal with them. We are required to lay our core publications before Parliament, which is a formal process of literally handing over hard copies to Parliament within a particular timetable so we are limited to publishing some of the big publications when Parliament is sitting.

The Treasury Committee has a veto over the appointment of myself and my two deputies. The finance Minister recommends somebody to do my job but the Treasury Committee has to approve it and the finance minister cannot sack me without the approval of the Treasury Committee. This feature is common elsewhere but it is rare in the UK for a committee to have such a formal role, rather than simply the ability to question people who have been newly appointed to jobs and to discuss their merits, etc.

The House of Lords, like the Seanad here, has a more limited constitutional role in financial issues and it is much more rare for me to be asked to speak to the Economic Affairs Committee of the House of Lords. The fact that the interest of parliamentarians is not more widespread may be due to a need to communicate better but it is also a result of the fact that, normally, the executive gets the budget it wants. Parliament occasionally amends it but often not very substantively.

**Deputy Stephen S. Donnelly:** I thank Mr. Chote for coming over; it is very much appreciated. As I understand the role of his office, the Chancellor of the Exchequer, in developing his or her budget, has some taxation items and some expenditure items. The Chancellor relies on the OBR to give aggregate impacts of a package of measures. Is that correct?

**Mr. Robert Chote:** Yes. It is an iterative process. For example, six to ten weeks ahead of a budget we would start working on a baseline forecast of what would happen to the economy and the public finances if there were no change in policy. Simultaneously, the Government will provide us with what is known as a draft scorecard, which is a list of measures that it is thinking of announcing, most of which would be specific tax and welfare transfer measures, plus decisions on the overall size of the spending envelope for public services. As I said, it would not come to us on issues such as the purchase and cost of aircraft carriers.

As the budget gets closer we go through successive iterations in finalising our pre-measures forecast. We also go through a process of examination of the list of measures provided by the Treasury. Typically, a lot of the measures provided eight weeks out will have dropped off the list as we get closer to the budget - in part, perhaps, because during the course of our discussions on a measure and the likely cost the Treasury may take the view that it is not something it would be happy with. The Treasury has never yet publicly pressed ahead with publishing a costing estimate that it knows we did not support. It is more likely that it would drop a measure rather than do that. Some measures will come on relatively late in the process, such that there is a nail-biting period in terms of the loss or gain of particular measures from or to the list. We set clear deadlines by which the Treasury needs to inform us of a measure that is substantive enough to affect the economic forecast and another deadline in respect of other new measures.

We also allow a little wriggle room in relation to measures it has already told us about. For example, it may want to change a tax rate from, say, 11% to 12% or something like that, which involves no great analytical content.

The final process is a pre-measures forecast. We can then say what the post-measures forecasts would look like once all of this has been taken into account. At the end of the day, the Treasury can choose what forecast it wants us to publish for the public finances, or it can choose the policies, but it cannot choose both simultaneously unless we think the two are consistent. There is a choice to be made. We do not get up on budget day and surprise the Treasury. We will have had this discussion beforehand and will have set out our view of what particular measures will cost or raise. We then reach an aggregate view on whether a package is a net giveaway and is therefore likely to result in a boost to the economy and to activity in the short term, or whether it is something that is likely to push measured inflation higher or lower. As I said, this is done at an aggregate level rather than measure by measure.

**Deputy Stephen S. Donnelly:** So when it comes to big-ticket items such as the commissioning by the Treasury of an aircraft carrier that will cost €2 billion per annum over five years, the OBR does not cost that but it does include that €2 billion in its assessments.

**Mr. Robert Chote:** Only implicitly, because the Treasury will have given us a departmental expenditure limit, DEL, which is aggregated over all Departments. There is one DEL for capital spending and another for current spending. It will tell us its aggregate capital and resource DELs, which are then used in the forecast. The only adjustment we make is an aggregate over- or underspend against that DEL, which we would base on recent history, intelligence from the Treasury, intelligence from Departments and knowledge. For example, we might know that there has been unexpected military action and that therefore some of the contingency reserve has been already spent, and that information would be taken into account. What we do not do is produce a bottom-up forecast that shows that total spending equals aircraft carriers plus high-speed train plus nurses plus so on and so on. It could be done that way, but that is a reflection of the fact that the Treasury carries a big stick. There are strong incentives for the Treasury and Departments in aggregate not to overspend, and they do not.

**Deputy Stephen S. Donnelly:** Am I correct that if the Department of Health informs the OBR that the NHS spend will be approximately €130 billion, rather than working out the number of doctors, nurses, hospitals, drugs and so on, the office may take the view that because the socio-demographics are moving in the opposite direction, it does not accept that NHS spending will decrease by 4% and therefore it does not accept the figure of €130 billion?

**Mr. Robert Chote:** We could do, but the argument would be that it is for the Government to decide what quality and quantity of public services it wants to deliver, which has been a very pertinent issue over the last few years. The Office of Budgetary Responsibility, OBR, was established at a time when the Government was starting a substantial fiscal consolidation programme, although not quite as substantial as the Irish programme. It was clear that the fiscal consolidation programme was premised on spending plans which would not maintain the quality and quantity of public services but it was Government policy to achieve that level of spending. We could in principle have said that we did not believe that it was politically and economically feasible for Government to deliver that share of GDP to be spent on public services spending but we did not do that. Frankly, had we chosen to do so, it would have been hard to come up with a firm analytical basis for it. What we would have been saying is that the Government has made a decision to pencil in a set of overall spending plans that most people are likely to conclude would not imply maintaining a given quantity and quality of public services but

we are in a fiscal consolidation and that is what the Government has chosen to do. Historically there is no reason to believe that if that is what Government says it is going to do, and it tries to do it, it will not achieve it. It is not for us to look at value for money or the outputs obtained from the inputs.

**Deputy Stephen S. Donnelly:** I have two more questions. The OBR provides the service for the Chancellor of the Exchequer. What mechanism is available to Opposition MPs or Opposition parties to have their budget or policy proposals costed and assessed?

**Mr. Robert Chote:** In some cases, they could ask parliamentary questions. For example, if they proposed to introduce a measure which proposed to raise income tax rate X to Y they could table a parliamentary question or an inquiry to the House of Commons Library. One often finds that some of the costing elements of manifesto packages are basically what MPs or parties have been told in response to parliamentary questions. Another route is the Institute for Fiscal Studies, which organisation I ran prior to taking up my role at the OBR. Obviously, the institute does not have all of the data and information that would be available within Government but in some cases it can come up with reasonably good estimates and in others it has to throw up its hands and admit it does not have the evidence to respond. There is no formal process for the sign-off of Opposition policy platforms. The Dutch are the most dramatic in this regard in terms of their having had 2,500 policy proposals from nine parties costed in the run up to its last election. It took 80 people three months, full-time, to do that work. It is an enormous exercise. For the Australians, which costed fewer proposals, it was a slightly lesser exercise.

I echo the point made earlier by Professor McHale that the idea of throwing inadequate resources to the job people are being asked to do is a recipe for destroying the credibility of the organisation almost before it is started. Alignment of the budget and the job is crucially important.

**Deputy Stephen S. Donnelly:** The role of this committee is to recommend a structure rather than to engage in the actual process. Based on what Mr. Chote has seen, international comparators and so on what does he believe the committee should definitely include in its report, what mistakes should we avoid and so on?

**Mr. Robert Chote:** There is no one size fits all answer to that question. It is important to tailor the structure to the particular parliamentary systems and domestic institutions. A very clear lesson is that any new organisation or restructured organisation must have a well defined remit rather than one that can be called into question or becomes a political issue if it chooses to do something or not. It is important it is set a clear task and that it is resourced adequately to do that task. If one says that a body is to do X, Y and Z but only funds it to do X, it wrecks the credibility of the body. One of the key things we have tried to emphasise is the need to recognise and be upfront about the uncertainty in respect of forecasting and costings. We have an explicit process in regard to every costing on which we sign off and in incorporating it into our forecasts we give it an uncertainty ranking, an idea I stole from the Australians. This is based on the quality of the underpinning data and on how complicated the modelling and the process of calculating the answer are. We ask if it is a measure that will result in big and unpredictable changes in people's behaviour. Only a madman sets fiscal policy on the basis that a set of medium-term fiscal forecasts and the costings they involve will be correct in every respect. One of the biggest services these bodies can provide is to ensure that it is front and centre from the point of view of the public and that the people making the decisions recognise that as much as anybody else.

ENGAGEMENT WITH OFFICE FOR BUDGET RESPONSIBILITY

**Deputy Stephen S. Donnelly:** Thank you.

**Chairman:** I thank Mr. Chote for his attendance and for giving us his thoughts. We had a discussion in his absence last week when we went through some of the documents he circulated to us. These will certainly form part of our discussions. We will start considering, on a line-by-line basis, what our report and recommendations will be in our meeting at 4 p.m. on Tuesday next week.

I also thank Mr. Beausang, Ms Swaine and Mr. Palmer for their attendance.

The select committee adjourned at 1.10 p.m. *sine die*.