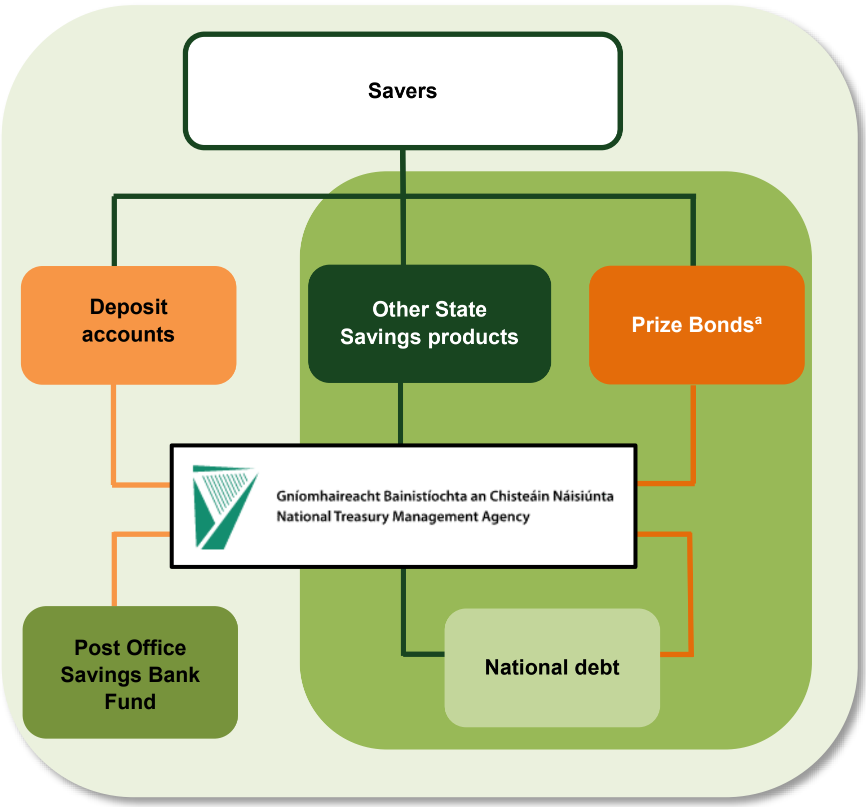
16 Post Office Savings Bank Fund

16.1 'State Savings' is the combined name applied by the National Treasury Management Agency (NTMA) to a range of government savings products offered to savers in Ireland. The products typically offer savers low risk investments with no fees, charges or commissions, and include variable rate deposit accounts, Prize Bonds and a variety of fixed-rate fixed-term options.[1,2]

16.2 The NTMA has two agency contracts in place for the distribution and administration of State Savings products. A contract with An Post provides for the distribution and administration of the deposit accounts and other State Savings products, with the exception of Prize Bonds. An Post also has a statutory role in relation to the administration of deposit accounts, as set out in the Post Office Savings Bank Act 1861 (as amended) and the Post Office Savings Bank Regulations 1921 (as amended). A contract with the Prize Bond Company provides for the distribution and administration of Prize Bonds, and is a joint venture between An Post and a private company (Fexco).

16.3 Most State Savings products are accounted for in the financial statements of the national debt (see Figure 16.1). The exception is balances held in deposit accounts which under legislation[3] are required to be accounted for by the NTMA in the financial statements of the Post Office Savings Bank Fund.

Figure 16.1 State Savings products



Source: Analysis by the Office of the Comptroller and Auditor General

Note: a Prize Bonds services are provided by the Prize Bond Company DAC.

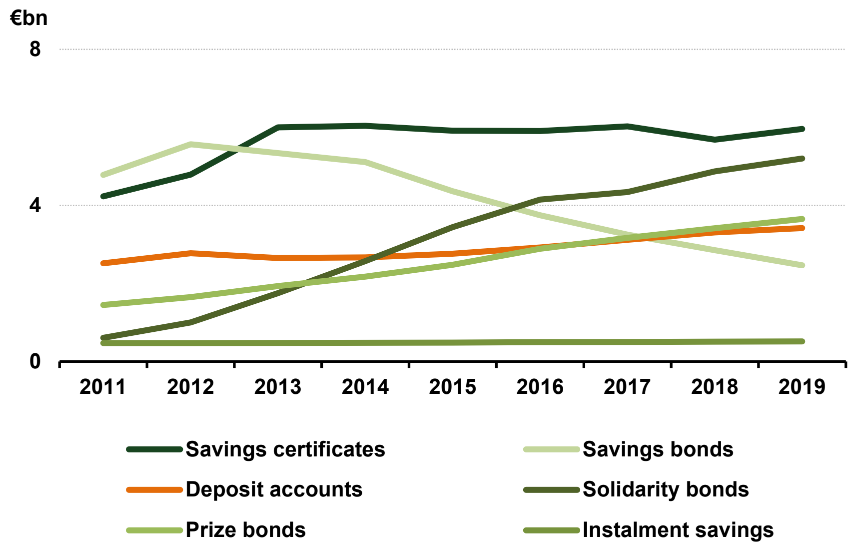
1 There are a number of variable deposit accounts available to savers, including routine demand deposit accounts, pension savings accounts and childcare savings accounts.

2 Fixed term savings products include 3-year savings bonds, 4-year national solidarity bonds, 5-year savings certificates, 6-year instalment savings and 10-year national solidarity bonds.

3 SI No. 277 of 1990, National Treasury Management Agency Act 1990 (Delegation of and Declaration as to Functions) Order 1990.

16.4 There have been significant movements in the popularity with savers of the various products over the past decade (see Figure 16.2). In particular, there has been a movement out of savings bonds and into solidarity bonds. Post Office deposit account savings have increased moderately, from balances of around €2.5 billion at the end of 2011 to €3.4 billion at the end of 2019.

Figure 16.2 State Savings products, balances held at year-end, 2011 to 2019[a]



Source: Financial statements of the National Debt of Ireland, 2011 to 2019. Financial statements of the Post Office Savings Bank Fund, 2011 to 2019. Analysis by the Office of the Comptroller and Auditor General.

Note: a Savings stamps of €2 million have not been included.

Purpose of the Post Office Savings Bank Fund

16.5 The Post Office Savings Bank Act 1861 (as amended) outlines the framework for the creation of the Post Office Savings Bank Fund (the Fund) and the authority for the investment of the associated deposits.

16.6 The Fund is used to

- advance surplus moneys in the Fund to the Exchequer as 'ways and means' loans[1,2]
- assist in the functioning of the Irish government bond market from an issuer perspective by
  - providing liquidity and monitoring, through investment activity in Irish government bonds as part of a secondary bond trading portfolio
  - undertake sale and repurchase transactions of Irish government bonds as an intermediary between the national debt and other market counterparties
- provide short-term funding to the State Claims Agency (SCA) and the National Development Finance Agency (NDFA) for the purpose of funding their activities
- provide 'central treasury' loans to designated State bodies such as local authorities and other designated non-commercial State bodies.[3]

1 The Fund does not form part of the Exchequer.

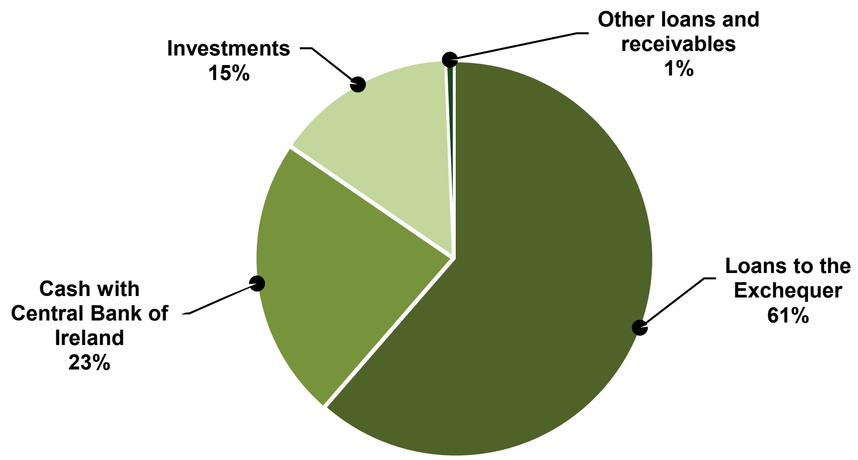
2 Surplus moneys lent to the Exchequer as ways and means advances are part of the short-term borrowing of the national debt.

3 Section 18 of the NTMA (Amendment) Act 2000 provides for the NTMA's central treasury services relating to the taking of deposits, or the making of advances to designated bodies.

Fund assets

16.7 The Fund had assets of €3.5 billion at 31 December 2019. At that date, over 60% of the Fund was provided to the Exchequer as a 'ways and means' loan, with an additional 23% held as cash in the Central Bank of Ireland (see Figure 16.3). Just 15% of the Fund's assets were in the form of investments.

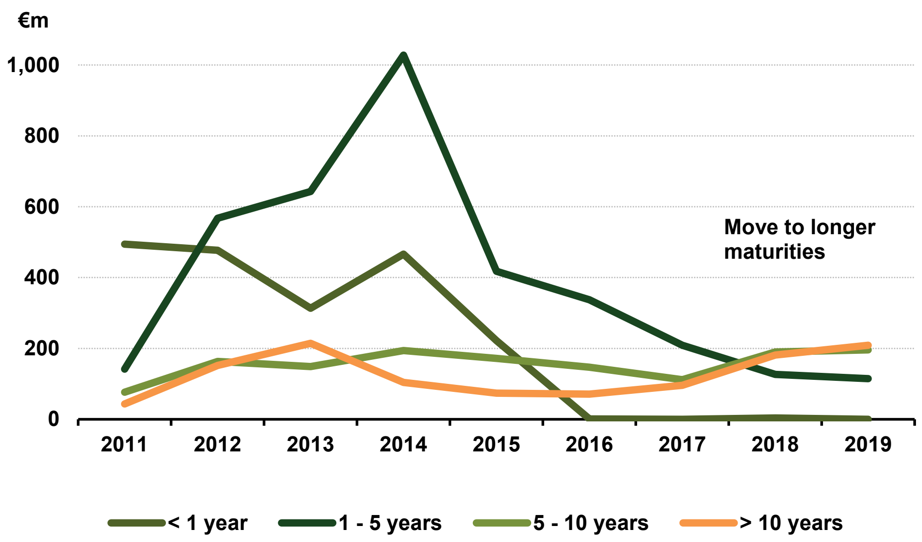
Figure 16.3 Post Office Savings Bank Fund assets, 31 December 2019



Source: Financial statements of the Post Office Savings Bank Fund 2019. Analysis by the Office of the Comptroller and Auditor General.

16.8 The amount of the Fund held in the form of investments increased in the period following the financial crisis, peaking in 2014 at €1.8 billion. Since then, the level of investment has declined. By end 2019, the amount of investments stood at €520 million. From holding a majority of the investments in short to medium term (< 5 year) government bonds in 2014, there has been a relative shift to longer term maturity bonds (see Figure 16.4).

Figure 16.4 Maturities of the Fund's investment portfolio, 2011 to 2019

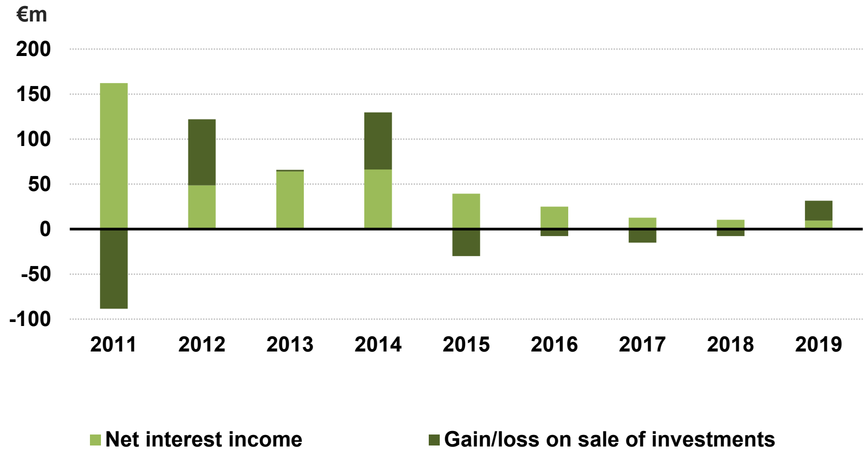


Source: Financial statements of the Post Office Savings Bank Fund, 2011 to 2019. Analysis by the Office of the Comptroller and Auditor General.

Financial performance of the Fund

16.9 The main income streams of the Fund are net interest income[1] and income realised on the sale of investments. Both these sources of income have declined significantly since 2014, reflecting the lower prevailing coupons on bonds in recent years and lower return on cash held (see Figure 16.5).[2]

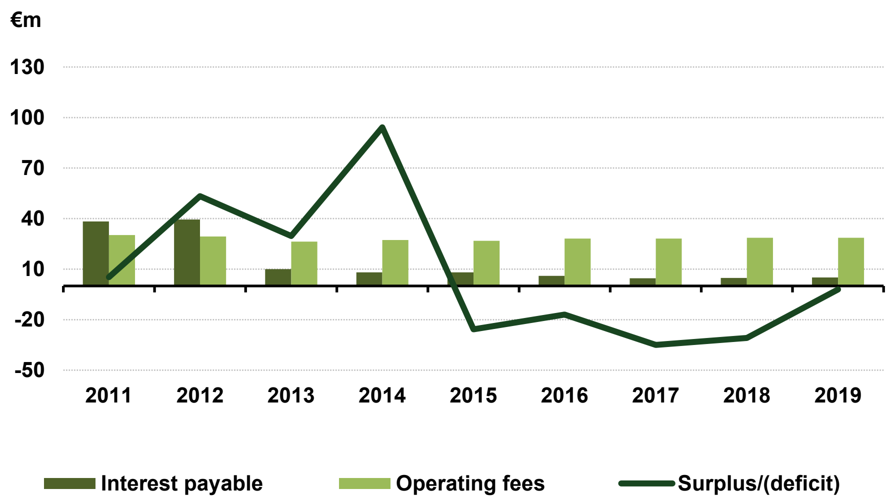
Figure 16.5 Fund income, 2011 to 2019[3]



Source: Financial statements of the Post Office Savings Bank Fund, 2011 to 2019. Analysis by the Office of the Comptroller and Auditor General.

16.10 Corresponding to the decline in market interest rates over the last number of years, there was decline also in the interest paid to savers on their deposits to the Fund (see Figure 16.6). However, the operating fees payable to An Post remained relatively constant between 2011 and 2019. (The expenditure on such fees in 2019 was €28.6 million.) The net result was that the Fund incurred deficits each year from 2015 to 2019.

Figure 16.6 Fund expenditure and surplus/(deficit), 2011 to 2019[3]



Source: Financial statements of the Post Office Savings Bank Fund, 2011 to 2019. Analysis by the Office of the Comptroller and Auditor General.

1 Net interest income includes net investment interest and interest on cash held at the Central Bank of Ireland.

2 Negative interest rates were introduced by the Central Bank of Ireland in June 2014.

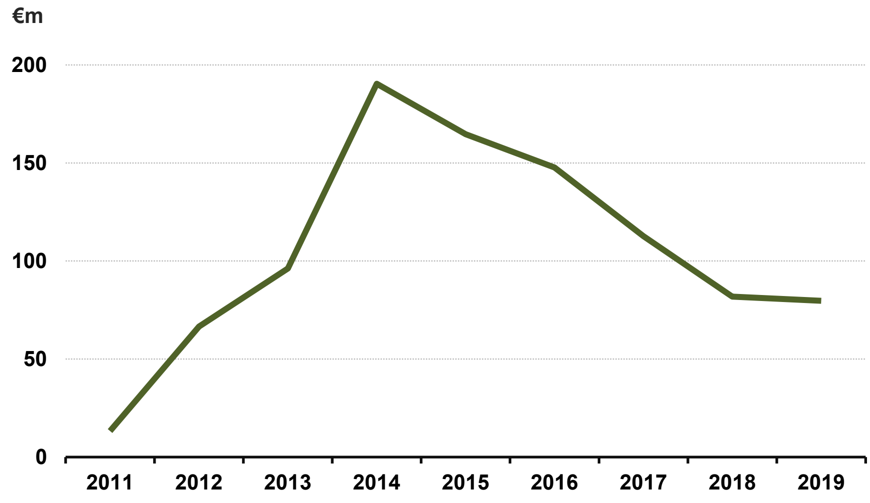
3 In 2014, profit on the sale of investments was €63 million, which included once-off gains of €52.2 million arising from the sale of longer-dated amortising bonds acquired during the financial crisis at high yields.

16.11 The Fund achieved a near break-even position in 2019. This reflected net realised gains on the turnover of Irish government bonds, the prices of which generally increased as Irish government bond yields fell during the year.

Accumulated reserves of the Fund

16.12 The surpluses earned by the Fund are retained and held as accumulated reserves. As reported in the financial statements, these reserves declined significantly as a result of the deficits incurred each year from 2015 to 2019 (see Figure 16.7). At the end of 2019, the Fund's accumulated reserves amounted to €79.7 million. This was equivalent to just under 42% of the peak reserves of €190 million held at the end of 2014.

Figure 16.7 Post Office Savings Bank Fund, accumulated reserves, 2011 to 2019



Source: Financial statements of the Post Office Savings Bank Fund, 2011 to 2019. Analysis by the Office of the Comptroller and Auditor General.

16.13 The Fund's performance in 2019 was largely attributable to the realisation of market gains on the disposal of some investment assets.

16.14 The NTMA has prescribed fund limits in place across its various policies (e.g. market risk and liquidity polices). These limits are monitored and reported by the NTMA Risk department. Under Ministerial guidelines, the NTMA must not allow the Fund reserves to fall below €5 million. There is provision for the Exchequer to cover any potential shortfall in the Fund to the extent necessary, to prevent this. The main mechanism available for this is for the NTMA to vary the level of interest charged on the ways and means advances to the Exchequer.

16.15 The financial statements of the Fund are prepared by the NTMA under section 12 of the National Treasury Management Agency Act 1990 (as amended) and are prepared on an accruals basis under the historical cost convention. The accounts are published as part of the NTMA annual report.[1]

1 The 2019 financial statements for the Fund were published on 15 June 2020.

16.16 The Minister for Finance has the statutory authority to direct the accounting framework to be used for the Fund's annual financial statements. Under the current framework, the Fund's investments are recorded at their original cost. While the current market value of the Fund's investments at year-end are disclosed as part of the notes to the financial statements, the associated unrealised gains or losses are not recognised in the primary financial statements under the current accounting framework. This does not conform with current generally accepted accounting frameworks, which require investments to be recognised at their current market value.

16.17 Other investment activities managed by the NTMA, such as the National Surplus (Exceptional Contingencies) Reserve Fund and the Ireland Apple Escrow Fund are accounted for under generally accepted accounting frameworks. These include reporting on investment balances on a market or fair value basis.

Conclusions and recommendations

16.18 Although operating expenses associated with the Fund have remained relatively constant, there has been a large decrease in the income of the Fund from 2015 onwards, reflecting the general low interest rate environment. Consequently, the balance of the Fund reserves has fallen from its peak in 2014 of €190 million, to just under €80 million at the end of 2019. The Fund's investments are also declining as a proportion of the Fund's total assets.

16.19 Under Ministerial guidelines, the NTMA has a mechanism available to vary the level of interest charged on the ways and means advances to the Exchequer. The rate charged does not have to reflect the low (or negative) rates of interest available in the market. However, charging a higher rate of interest on these advances will result in an increase in the cost to the State of servicing the national debt.

16.20 The accounting framework used for the financial statements of the Fund is historic in nature and does not conform to generally accepted accounting principles. In particular, readily traded investments are not recorded at market value. This is not consistent with the accounting used by the NTMA for other funds, where generally accepted accounting frameworks are in place.

Recommendation 16.1

The Department of Finance should consider the appropriateness of accounting for investments in different ways in different accounts.

Secretary General's response

Agreed.

The Department of Finance will discuss possible options in this respect with the National Treasury Management Agency.