

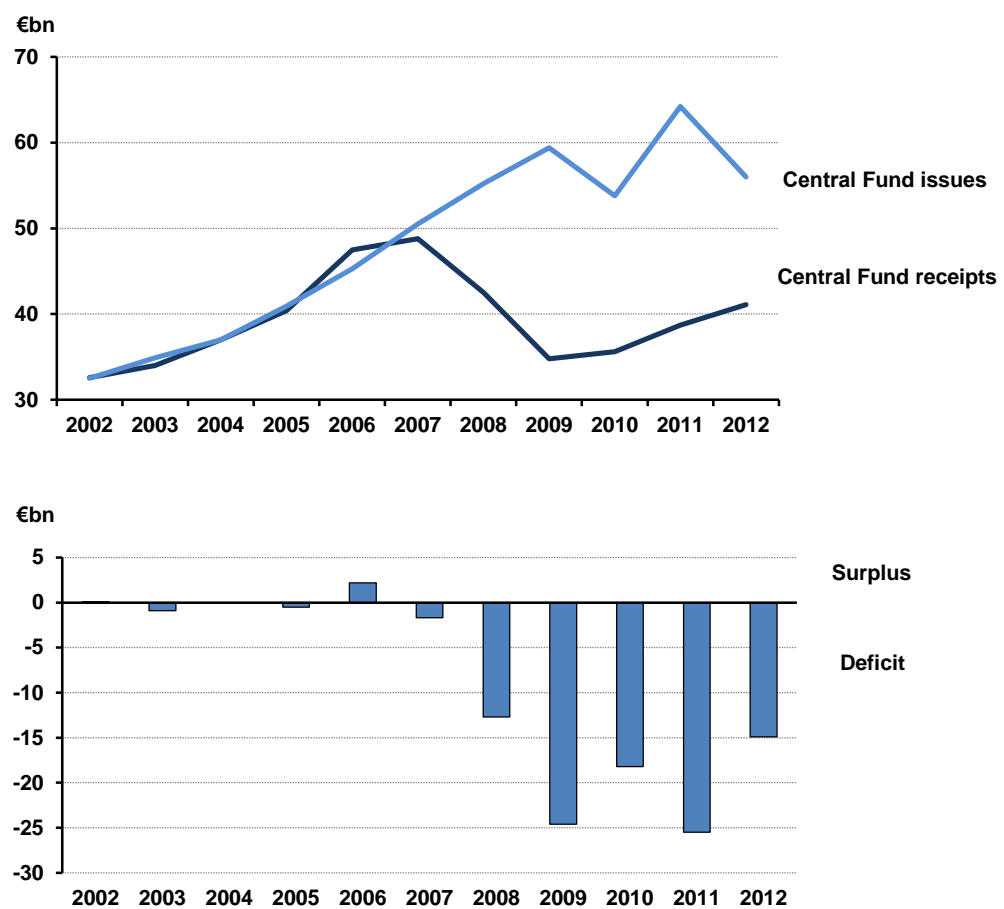
1 Exchequer Financial Outturn for 2012

- 1.1 All revenues of the State are paid into the Central Fund of the Exchequer unless otherwise determined by law.¹ Central Fund receipts include tax revenues and the proceeds of borrowing undertaken on behalf of the State by the National Treasury Management Agency (NTMA). Issues from the Central Fund are used to fund expenditure on State services.
- 1.2 The annual Finance Accounts present the receipts into and issues from the Central Fund together with details relating to NTMA borrowing and information about certain liabilities and assets of the State. This report summarises the transactions on the Central Fund and highlights some key trends. It also provides an overview of certain major liabilities and assets of the State which are not reflected in the Finance Accounts.

Central Fund Receipts and Issues

- 1.3 The movement in Central Fund receipts and issues over the period 2002 to 2012 and the surplus or deficit for each of those years is set out in Figure 1.1. In 2012, the deficit was just under €15 billion.

Figure 1.1 Central Fund receipts and issues and surplus/deficit, 2002 to 2012



¹ Examples of State revenue which is not paid into the Central Fund include Pay Related Social Insurance receipts which are paid into the Social Insurance Fund and the proceeds of motor tax which are paid into the Local Government Fund.

Figure 1.2 Central Fund receipts and issues, 2008 to 2012^a

	2008	2009	2010	2011	2012
	€m	€m	€m	€m	€m
Receipts					
Tax revenue	40,777	33,043	31,753	34,027	36,646
Other current revenues	847	838	2,687	2,520	2,765
Loans/advances repaid by					
European Agricultural Guarantee Fund	740	741	790	673	720
Social Insurance Fund ^b	—	—	—	254	355
National Asset Management Agency	—	—	250	49	—
Other	9	9	3	10	2
National Pensions Reserve Fund withdrawal	—	—	—	1,018	—
Sale of mobile phone licences	—	—	—	—	450
Other capital receipts	161	140	138	116	150
Total receipts	42,534	34,771	35,621	38,667	41,088
Issues					
Issues for voted expenditure	49,313	47,163	46,434	45,711	44,950
Service of national debt	1,611	2,641	3,619	4,736	5,823
Contribution to EU budget	1,587	1,486	1,352	1,350	1,393
Oireachtas Commission	119	123	103	130	105
Share capital acquired in banks	—	4,000	725	2,300	1,300
Bank recapitalisation payments	—	—	—	5,268	—
Promissory notes repayment	—	—	—	3,085	25
National Pensions Reserve Fund contribution	1,690	3,000	—	—	—
European Stability Mechanism	—	—	—	—	510
Credit Union Fund	—	—	—	—	250
Loans/advances issued to					
European Agricultural Guarantee Fund	741	790	673	720	730
Social Insurance Fund ^b	—	—	110	199	300
Insurance Compensation Fund	—	—	—	280	455
National Asset Management Agency	—	—	299	—	—
EU stability support for Greece	—	—	346	—	—
Other payments	187	209	105	406	139
Total issues	55,248	59,412	53,766	64,185	55,980
Deficit for the year	12,714	24,641	18,145	25,518	14,892

Source: Finance Accounts 2008 to 2012

- Notes:
- a Transactions processed through the Exchequer Account and the Capital Services Redemption Account are consolidated. The latter account is a facility maintained by the National Treasury Management Agency for the purpose of servicing national debt and transactions of a normal banking nature.
 - b Funds are advanced to the Social Insurance Fund as a working facility and subsequently repaid. All funds advanced had been repaid at the end of 2012.

Receipts

- 1.4** Receipts into the Central Fund in 2012 totalled €41.1 billion (see Figure 1.2). This represented an increase of €2.4 billion (6%) relative to 2011 receipts. 89% of receipts was the proceeds of taxation, which rose by €2.6 billion compared with 2011.¹
- 1.5** Non-tax current revenues in 2012 amounted to €2.8 billion. The bulk of this related to banking stabilisation activity and the activities of the Central Bank, and comprised
- over €1 billion from credit institutions in respect of fees under the Eligible Liabilities Guarantee (ELG) scheme
 - €958 million in Central Bank surplus income arising in 2011 and paid into the Central Fund in 2012
 - €300 million in interest received on contingent capital notes held in banks.

To date in 2013, €1.15 billion in Central Bank surplus income was paid into the Central Fund. This was a historically high level of surplus income which may not be maintained in the future. Revenue from the ELG scheme is also likely to decline due to the closing of the scheme to new liabilities from the end of March 2013.

- 1.6** €450 million was paid into the Central Fund by ComReg in respect of upfront fees following the award of mobile phone licences at the end of 2012. ComReg received €482 million. A further €24 million will be paid into the Central Fund during 2013 and the balance used to make refunds that are due.² In addition, usage fees totalling €373 million (adjusted for inflation) are payable in instalments by the successful companies over the life of the licences (2013 to 2030).

Issues

- 1.7** Issues from the Central Fund in 2012 amounted to €56 billion, a decrease of €8.2 billion, or 13%, on the 2011 level.
- 1.8** Issues from the Fund for voted services were down by almost 2% when compared with 2011. The cumulative decline in voted expenditure issues since 2008 is just under 9%.
- 1.9** Payments related to servicing of borrowing undertaken by the NTMA increased year-on-year by €1.1 billion or 23%.
- 1.10** The main cause of the fall in issues was a drop in payments in respect of bank stabilisation, which were €9.4 billion lower than in 2011.
- In 2011, €7.6 billion had been spent in respect of acquiring share capital in the banks and other recapitalisation measures. The only comparable transaction in 2012 occurred when the State purchased Irish Life for €1.3 billion.³
 - In 2011, the State paid almost €3.1 billion in promissory note repayments. The issues from the Central Fund were lower in 2012, at just €25 million, because the State paid €3.06 billion due to Irish Bank Resolution Corporation (IBRC) through the issue of Government bonds.⁴
- 1.11** €455 million was advanced to the Insurance Compensation Fund in 2012 arising from the administration of Quinn Insurance Limited, bringing the total advanced at the end of 2012 to €735 million. It is expected that the loans will ultimately be repaid mainly from levy receipts on insurance sales.

¹ See Chapter 23, Revenue Collection for further details of tax proceeds in 2012.

² Fees may be adjusted for a number of factors including, for example, late commencement.

³ In February 2013, the State agreed to sell Irish Life to Great-West Life Co for €1.3 billion. The sale was completed in July 2013.

⁴ For further detail on this transaction, see Chapter 2 Government Debt.

- 1.12** The European Stability Mechanism has total approved paid-in capital of €80 billion of which Ireland's share is €1.274 billion, due to be paid in five equal tranches. The payment in 2012 represents the first 40% of Ireland's contribution to the share capital.

Exchequer Assets and Liabilities

- 1.13** The Finance Accounts do not include a balance sheet summarising the State's assets and liabilities at year end. The summary position in relation to key assets and liabilities is set out below.

State Cash and Financial Asset Balances

- 1.14** The movements in the balance on the Exchequer account at the Central Bank and other State financial assets are shown in Figure 1.3.

Figure 1.3 Movements in Exchequer cash and financial asset balances, 2008 to 2012

	2008	2009	2010	2011	2012
	€m	€m	€m	€m	€m
Balance at 1 January	4,486	22,059	21,816	16,164	17,692
Movements in year					
Net Exchequer borrowing in year	30,287	24,397	12,493	27,046	21,050 ^a
(Deficit) of issues over receipts	(12,714)	(24,641)	(18,145)	(25,518)	(14,892)
Balance at 31 December	22,059	21,816	16,164	17,692	23,850

Source: Finance Accounts 2008 to 2012.

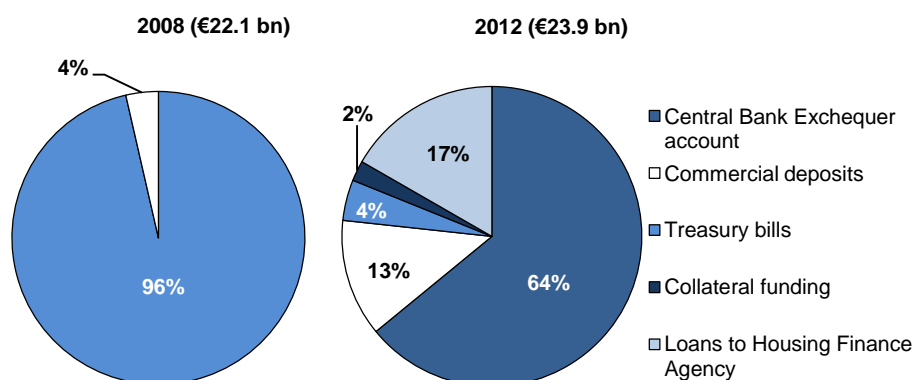
Note: a Excludes Government bond issue of €3.5 billion to meet the cost of the promissory note payment of €3.06 billion to IBRC due in March 2012. This transaction is explained further in Chapter 2, Government Debt.

- 1.15** There has been significant change in the composition of the State's cash and financial assets between 2008 and 2012 as shown in Figure 1.4. Prior to 2008, surplus Exchequer cash was generally held in the Central Bank Exchequer Account.
- 1.16** Since 2007, the NTMA has placed some surplus Exchequer cash on deposit with commercial financial institutions. At the end of 2012, the State held deposits amounting to over €3 billion in commercial banks. In comparison, the end 2011 level of deposits in commercial banks was just €30 million.¹
- 1.17** In 2010, the NTMA commenced lending to the Housing Finance Agency (HFA). Prior to that, the NTMA had acted as agent, and borrowed on behalf of the HFA whose borrowings were guaranteed by the Minister for Finance. Short term loans by the Central Fund to the HFA amounted to almost €4 billion at the end of 2012. In practice, these loans could not be readily realised by the Central Fund.

¹ Commercial deposits are deposits placed by the NTMA with financial institutions for periods ranging from one to 365 days. In order to manage counterparty credit risk, the NTMA may receive collateral (such as government bonds) for cash placed on deposit.

Figure 1.4 State cash and financial asset balances, 2008 to 2012

	2008	2009	2010	2011	2012
	€m	€m	€m	€m	€m
Balance at 31 December					
Central Bank Exchequer account	21,269	21,026	11,399	13,099	15,280
Capital Services Redemption Account ^a	—	—	600	—	—
Bank deposits (including collateralised deposits)	790	790	580	30	3,020
Non-Irish treasury bills	—	—	—	—	1,045
Loans to Housing Finance Agency	—	—	3,585	3,848	3,982
Collateral funding	—	—	—	715	523
Total cash and financial assets	22,059	21,816	16,164	17,692	23,850



Source: Finance Accounts 2008 to 2012

Note: a Balance in the account at year end was less than €500,000 each year, except 2010.

1.18 In 2012, the NTMA lent on a short-term basis to other states, through the purchase of sovereign treasury bills. At the end of 2012, the value of non-Irish treasury bills held by the State was just over €1 billion and their residual maturities were between 45 and 150 days.¹

1.19 Since 2011, the NTMA has placed collateral with derivative counterparties. This requirement arises from credit support arrangements the NTMA has with the counterparties to derivative contracts under which the party who is 'out of the money' is required to deposit collateral with its counterparty. The excess of payments over receipts is funded by the Exchequer. At the end of 2012, a net €523 million was funded by and is due to be repaid to the Exchequer.²

1.20 The Capital Services Redemption Account was established to set funds aside to meet the cost of servicing and redeeming State debt. It is maintained by the NTMA and is operated subject to guidelines issued by the Minister for Finance, including the maximum amount that may be held in the account at year end. The year end limit set by the Minister is normally €1 million.³

¹ Treasury bills are a form of short-term lending. The NTMA purchases treasury bills issued by other states as an alternative to placing funds on overnight deposit, because the rate of return is higher.

² Further details regarding these transactions are outlined in Chapter 2 on Government Debt.

³ For end 2010, the Minister set the limit on the balance at €601 million.

Loans and Advances

- 1.21** Loans and advances provided from the Central Fund totalling €1.84 billion were outstanding at the end of 2012, an increase of €463 million when compared with 2011. The loans outstanding at the end of 2012 include €730 million in respect of advances to fund costs associated with the operation of EAGF schemes, €346 million in relation to Ireland's contribution to EU stability support for Greece and €735 million advanced to the Insurance Compensation Fund.

Government Debt

- 1.22** The General Government Debt (GGDebt) measures indebtedness taking account of all liabilities of the State to third parties.¹ At 31 December 2012, the GGDebt is estimated to be €192.5 billion, an increase of almost 14% when compared with 2011 GGDebt of €169 billion.²
- 1.23** The main component of the GGDebt was cumulative borrowing undertaken by the NTMA on behalf of the State. At end December 2012, this amounted to €161.5 billion (at nominal or redeemable par values). This compared to €136.8 billion at the end of 2011 — an increase in debt of €24.7 billion.
- 1.24** The GGDebt also included the balance of the State's promissory note liability at end 2012, amounting to €25.3 billion. In February 2013, following the liquidation of IBRC, promissory notes provided to IBRC were cancelled and replaced by floating rate bonds, with maturities ranging from 25 to 40 years, issued by the NTMA to the Central Bank. This left the balance outstanding on promissory notes at €227 million in respect of EBS.
- 1.25** Other liabilities of the State included in the GGDebt amounted to almost €6 billion. These include Post Office Savings Bank deposits as well as external debt of the HFA, local authorities and other (non-commercial) State bodies.

Financial Commitments under PPP Contracts

- 1.26** Central government departments and agencies have entered into long-term public private partnership (PPP) deals for the provision of a range of services and infrastructure. These include commitments to future payments over the terms of the contracts.
- 1.27** The total value of the future commitments to be met in respect of contracts in place at the end of 2012 is estimated at just under €4.2 billion. Part of this commitment represents the cost of future operation and maintenance, which in projects or services that are conventionally procured, are met on a 'pay as you go' basis.³
- 1.28** Further PPP projects are in the course of development or procurement, but financial commitments in respect of those projects will not arise until they reach formal contract stage.

¹ Specifically, GGDebt is defined as the consolidated liabilities of the general government sector in the following European System of Accounts 1995 (ESA95) categories: currency and deposits; securities other than shares excluding financial derivatives; and loans.

² See Chapter 2 Government Debt.

³ See Chapter 3 on Financial Commitments under Public Private Partnerships.

Public Service Pension Costs and Liabilities

- 1.29** Accrued pension entitlements of public servants are a significant liability of the State. At end December 2009, an estimated €116 billion had accrued in respect of occupational pensions payable to public servants.¹ Later assessments of the liability have not been made. The 2012 Finance Accounts continue to report the end 2009 liability.
- 1.30** In my 2011 report, I recommended that actuarial reviews and projections of public service pension outflows should be carried out on a regular basis, to ensure that decision makers are aware of the long term cost impact of pensions and of changes in pension terms, and the timing of pension outflows.
- 1.31** The Accounting Officer of the Department of Public Expenditure and Reform accepted the recommendation and undertook to commission an actuarial assessment that takes account of the significant changes since 2009. Work has commenced on this assessment and the Accounting Officer expects that the main part of the exercise will be completed by the end of 2013.

Pensions Insolvency Payment Scheme Liabilities

- 1.32** The Pensions Insolvency Payment Scheme provides for the State to provide payments to retired members of defined benefit pension schemes in circumstances where the employer becomes insolvent and the pension scheme is wound up in deficit (referred to as the 'double insolvency' condition).²
- 1.33** Under the Pensions Insolvency Payment Scheme, following a successful application by the trustees of the pension scheme, the trustees pay the Exchequer a sum that will cover the cost of paying the pensions. The NTMA is responsible for calculating the sum to be paid by the trustees.³ The State carries the actuarial risk i.e. risk that the pension payments may be made for longer than projected and will benefit if the payments are less than those projected.
- 1.34** During 2012, two Waterford Crystal pension schemes, relating to over 600 pensioners, were accepted into the Pensions Insolvency Payment Scheme. In October 2012, the State assumed a liability estimated at €40.7 million, representing the present value of the projected future pension payments.

State Claims Agency

- 1.35** The State Claims Agency (SCA) manages personal injury and property damage claims against the State and certain State authorities. Currently, 54 State authorities, with over 200,000 State employees, are within the SCA's remit.
- 1.36** At the end of 2012, the SCA reported that the estimated potential liability in respect of all active claims was €1.13 billion. €970 million of this is in respect of clinical personal injury claims while around €160 million related to other forms of claims.⁴

¹ See Chapter 3 of the Report of the Comptroller and Auditor General on the Accounts of the Public Services 2009.

² Section 22 of the Social Welfare and Pensions Act 2009.

³ The sum paid by a scheme's trustees is the present value of the future stream of payments from the scheme to the scheme's pensioners. The rate used to discount the future payments is based on the long-term cost of borrowing to the State at the time. The mortality assumptions are based on the applicable professional guidance issued by the Society of Actuaries in Ireland.

⁴ See Chapter 29 Clinical Indemnity Scheme.

Pension Reserves

- 1.37** The National Pension Reserve Fund (the Fund) was valued at €14.7 billion on 31 December 2012 (2011: €13.4 billion).
- The discretionary investment of the Fund stood at €6.1 billion. These investments are valued at market prices.
 - The remaining assets of the Fund are investments made under direction of the Minister for Finance. €20.8 billion of the Fund’s assets had been devoted to bank capitalisation by the end of 2012.¹ The market value of the investments in the banks was €8.6 billion at 31 December 2012.

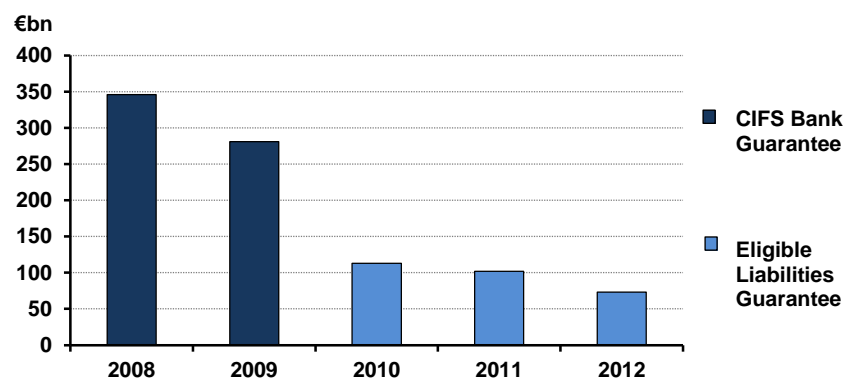
State Guarantees

- 1.38** At the end of December 2012, the Government has guaranteed, under specific legislation, the due payment of obligations in respect of certain liabilities. The principal or capital value of those liabilities outstanding was €119 billion, €4.5 billion of which relates to total borrowing by the HFA.

Eligible Liabilities Guarantee

- 1.39** The State has guaranteed the liabilities of certain Irish credit institutions under the Eligible Liabilities Guarantee (ELG) scheme. The value of the bank liabilities guaranteed at the end of December 2012 was of the order of €73 billion, almost €29 billion less than at the end of 2011.
- 1.40** The ELG scheme commenced in late 2009. It had been preceded by the Credit Institutions Financial Support (CIFS) Scheme. Figure 1.5 indicates the estimated total value of the liabilities covered by the guarantee schemes at the end of each year from 2008 to 2012.
- 1.41** Following from the liquidation of IBRC in February 2013, the State has to date been required to make payments totalling almost €1 billion in respect of liabilities that were covered under the ELG scheme. The Department of Finance expects that there may be further payments of about €100 million arising from the liquidation.
- 1.42** The ELG scheme was ended for new liabilities from 28 March 2013. The State will continue to guarantee liabilities existing at that date until their maturities.

Figure 1.5 Guaranteed credit liabilities at year-end, 2008 to 2012



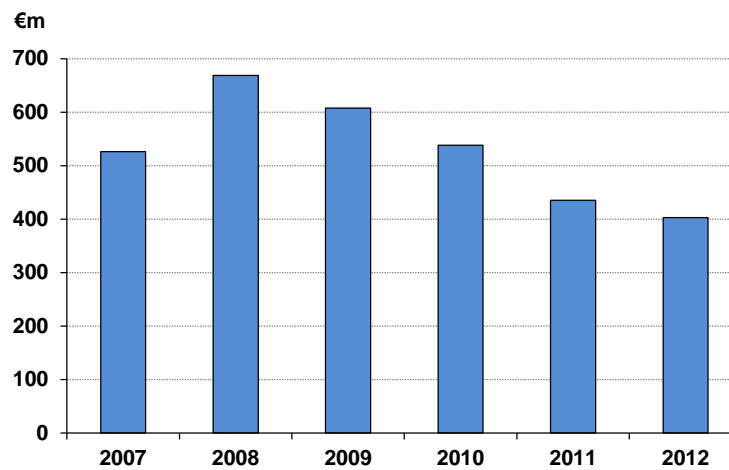
¹ This comprises
 €16.9 billion paid in exchange for shares;
 €3.8 billion contribution to recapitalisation of AIB;
 €1.1 billion dividends paid in the form of shares;
 less
 €1 billion net proceeds from the sale of shares in Bank of Ireland.

Source: Department of Finance

Deposit Guarantee Scheme

- 1.43** The State's exposure under the ELG scheme excludes the liabilities guaranteed under the Deposit Guarantee Scheme (DGS), whereby deposits up to a maximum of €100,000 per depositor per institution are guaranteed. The DGS is funded by the credit institutions which are required to deposit funds of 0.2% of the total value of all current customer deposits (whether guaranteed under DGS or not) into deposit protection accounts administered by the Central Bank.¹ At the end of December 2012, guaranteed deposits had a combined value of €64 billion and the deposit protection accounts stood at €403 million. Balances in the deposit protection accounts (at year end) from 2007 to 2012 are shown in Figure 1.6.

Figure 1.6 Deposit protection accounts balances at year-end, 2007 to 2012



Source: Financial Statements, Central Bank of Ireland, 2007 to 2012

- 1.44** In the event of liquidation of a credit institution, claims by depositors would be met in the first instance by the Central Bank, using the funds in the deposit protection accounts. Any shortfall would be met from the Central Fund of the Exchequer, which would be recouped in due course from the banking sector. Following the liquidation of IBRC, the DGS was invoked for the first time and as at 16 August 2013, a total of €12.7 million in compensation had been paid to 817 IBRC depositors by the Central Bank from the deposit protection accounts.

Ministerial Guarantees under Exceptional Liquidity Assistance

- 1.45** Advances to credit institutions were made by the Central Bank under the exceptional liquidity assistance (ELA) scheme. The total ELA advanced at the end of 2012 was just over €40 billion. The State had guaranteed €16 billion of the advances on the basis of Ministerial guarantees held by IBRC, and used as collateral. In addition, ELA of €23.6 billion was backed by promissory notes issued by the Minister. €0.8 billion was backed by other securities not covered by Ministerial guarantee.

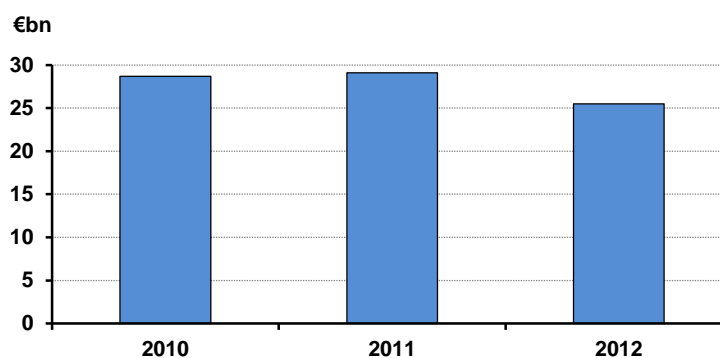
¹ Since November 2012, credit unions are required to maintain funds in deposit protection accounts.

- 1.46 Following the liquidation of IBRC in February 2013, the Central Bank ceased the provision of ELA and the State's contingent liability of €16 billion at end 2012 in respect of ELA-related guarantees has now been eliminated. However, a contingent liability remains for any shortfall suffered by NAMA when the IBRC assets over which NAMA has a floating charge are sold.¹

National Asset Management Agency

- 1.47 The Minister for Finance has guaranteed 95% of the debt issued by NAMA to pay for loans acquired by it from credit institutions. The outstanding amount of debt guaranteed at the end of 2012 was €25.4 billion (2011: €29.1 billion). Figure 1.7 shows the level of State guaranteed debt held by NAMA at the end of each year from 2010 to 2012.

Figure 1.7 Movement in NAMA guaranteed debt, 2010 to 2012



Source: National Asset Management Agency Annual Reports

Finance Accounts

- 1.48 In my annual report for 2011, I recommended that the Department of Finance should review the level and quality of disclosure in the Finance Accounts so as to increase the transparency of public financial information.
- 1.49 The Accounting Officer of the Department of Finance agreed with the recommendation. He stated that, in its review, the Department of Finance would consult with the Department of Public Expenditure and Reform, which has the lead role in relation to policy for accounting by government departments. The Accounting Officer stated that consideration would be given to the level of additional information to be added to the Finance Accounts, having regard to the need not to obscure the fundamental purpose of those accounts or delay their production. The extent to which additional government financial reporting statements should be developed would also be considered.

Fiscal Transparency Assessment

- 1.50 In March 2013, a team from the International Monetary Fund (IMF) visited Ireland, at the request of the Secretaries General of the Departments of Finance and Public Expenditure and Reform, to evaluate Ireland's fiscal management and reporting against the standards in the IMF's newly revised Fiscal Transparency Code.

¹ NAMA acquired certain IBRC assets for €12.9 billion. This is discussed further in Chapter 2 Government Debt.

- 1.51** The report of the IMF Review Team was published on 16 July 2013.¹ The report contains detailed recommendations in relation to a number of areas including the nature, content and timing of fiscal reporting and an action plan for implementing the recommendations over the period 2013 to 2017. The report's recommendations are set out in Annex A.
- 1.52** The Government has referred the report and action plan to a Fiscal Transparency Assessment Steering Group under the supervision of the Departments of Finance and Public Expenditure and Reform for implementation as appropriate. My Office is represented on the steering group.

Conclusions

- 1.53** The deficit in State receipts relative to issues fell substantially in 2012 from its peak level in 2011. Most of the fall is attributable to reduced expenditure for banking stabilisation measures. However, a 2012 promissory note payment of just over €3 billion was settled without recourse to Exchequer cash through the issue of bonds by the NTMA.
- 1.54** The General Government Debt increased by 14% in 2012 to €192 billion. In addition, at the end of 2012, the State had commitments of €4.2 billion in respect of public private partnership contracts and an estimated €1.1 billion in respect of claims managed by the State Claims Agency. It has a further unquantified liability in respect of occupational pensions for public sector employees.
- 1.55** There was an increase during 2012 of just over €6 billion in Exchequer cash and financial asset balances and an increase of €1.3 billion in the value of the National Pension Reserve Fund.
- 1.56** Other State exposures have fallen. Liabilities guaranteed under the Eligible Liabilities Guarantee scheme stood at €73 billion at end-2012, €29 billion lower than end-2011. In 2013, a contingent liability of €16 billion was eliminated following the liquidation of IBRC. A contingent liability remains for any shortfall suffered by NAMA when assets of IBRC, over which it has a floating charge, are sold.

¹ Fiscal Transparency Assessment - Ireland, International Monetary Fund, July 2013.

Annex A Extract from Fiscal Transparency Assessment, International Monetary Fund, July 2013 – Recommendations

Glossary

Term	Definition
C&AG	Comptroller and Auditor General
CBI	Central Bank of Ireland
COFOG	Classification of Functions of Government (United Nations)
CSO	Central Statistics Office
DECLG	Department of Environment, Community and Local Government
DoF	Department of Finance
DPER	Department of Public Expenditure and Reform
ESA 95	Harmonised EU-wide national accounts standard reporting system (Eurostat)
ESA 2010	New system of national and regional accounts to replace ESA 95 and to be implemented from September 2014 (Eurostat)
EU Six Pack	Six regulations aimed at strengthening the procedures to reduce public deficits and address macroeconomic imbalances
EU Two Pack	Specific rules in relation to Eurozone countries' budget review and monitoring, and surveillance of distressed Eurozone countries
FRL	Fiscal Responsibility Law enacting the Treaty on Stability
GDP	Gross Domestic Product
GFSM2001	Government Finance Statistics Manual 2001 (International Monetary Fund)
IFAC	Irish Fiscal Advisory Council
IPSAS	International Public Sector Accounting Standards
MTEF	Medium-term Expenditure Framework
NAMA	National Asset Management Agency
NPRF	National Pensions Reserve Fund
NTMA	National Treasury Management Agency
PPP	Public Private Partnership
SPU	Stability Program Update

Annex A Extract from Fiscal Transparency Assessment, International Monetary Fund, July 2013 – Recommendations

1. Given the already high degree of fiscal disclosure in Ireland, there is considerable scope to enhance further fiscal transparency just by bringing existing fiscal information together, including
 - the Department of Finance's monthly cash-based report on Exchequer revenues, expenditure, and financing which covers 91 percent of general government revenue
 - the CSO's consolidated general government operating statement and financial balance sheet which it submits to Eurostat on a quarterly and annual basis
 - information on fixed and financial assets reported on the balance sheets of central government departments and agencies, local governments, and public corporations
 - estimates of public service pension liabilities, PPP commitments, guarantees and derivatives, contingent liabilities, and tax expenditures from a range of sources
 - forecasts of long-term trends in health and pensions expenditure submitted to the EU for inclusion in their Fiscal Sustainability Report and
 - NTMA, NPRF and NAMA's analysis of the performance of and risk associated with their holdings of financial assets and liabilities.
2. Reforms in ten key areas could therefore bring Ireland's fiscal reporting practices into line with international standards and best practices at comparatively low cost and within a reasonable timeframe. These are to
 - expand the institutional coverage of budgets, statistics, and accounts
 - recognize a wider range of assets and liabilities in balance sheets
 - incorporate the corresponding accrued flows into fiscal reports
 - modernize the budget classification and chart of accounts
 - accelerate the timetable for the submission of the annual budget and accounts
 - provide a more detailed reconciliation of changes to fiscal forecasts
 - regularly publish long-term fiscal projections
 - produce a comprehensive statement of fiscal risks
 - publish a medium-term asset and liability management strategy and
 - harmonize financial reporting standards and practices across the public sector.
3. The actions required to implement these reforms over the next five years are summarized below. By the end of 2017, the ultimate aims of this integrated set of reforms would be to
 - bring the financial activities of all publicly controlled entities into summary fiscal reports
 - present their operations and balance sheets in a consolidated, integrated, and comprehensive set of financial statements for the public sector and its sub-sectors

- put Ireland in a position to fully comply with ESA95 and GFSM2001 for fiscal statistics, meet the additional reporting requirements the EU Six Pack and Two Pack and ESA 2010, and adopt IPSAS requirements (or their European variant) for government accounting
- enable the government to track its performance against its national and EU-wide general government fiscal rules on a monthly basis
- ensure that fiscal forecasts, budgets, statistics, and accounts are presented on a consistent and comparable basis and
- enhance public recognition of and government accountability for medium and long-term fiscal developments and risks.

1 Expand the Institutional Coverage of Fiscal Reports

Issue: 126 central government entities whose net expenditure accounts for €6.8 billion (4.3 percent of GDP) are currently excluded from the central government budget and accounts. A further 297 entities whose net expenditures accounted for at least €16.8 billion (11.7 percent of GDP) are outside the scope of the general government fiscal statistics.

Recommendation 1: *The government should expand the institutional coverage of budgets, fiscal statistics, and financial statements by*

- a Expanding the coverage of the annual budget documentation to present the gross revenues and expenditures of the consolidated central government.** This will ensure that the annual budget documentation provides the legislature and the public with a comprehensive overview of all tax-funded activities of central government regardless of whether the entity is classified as a vote, extrabudgetary fund, or non-market semi-state body.
- b Combining the Finance and Appropriation Accounts into a consolidated Central Government Financial Statement.** This reform, which may require legislative changes, would provide the Dail, C&AG and the public with a comprehensive and accessible summary of the central government's annual financial performance relative to the approved budget.
- c Providing an overview of the gross revenues and expenditures of central, local, and general government in budget documentation and in-year fiscal statistics.** This will allow for central and local governments to forecast and monitor their performance against the general government expenditure benchmark and other fiscal rules included in Ireland's new FRL and "Six Pack" of new EU regulations and directives.
- d Preparing fiscal statistics for the consolidated public sector and its subsectors.** This will provide fiscal policymakers, legislators, markets, and the public with a regular and comprehensive overview of the financial position and performance of all publicly controlled entities in the economy.

2 Recognize a Wider Range of Assets and Liabilities

Issue: Ireland's consolidated government balance sheet data currently excludes the €116.8 billion (73.5 percent of GDP) in fixed assets of central and local governments, the €116 billion (73.0 percent of GDP) in liabilities associated with public service pensions, €4.0 billion (2.5 percent of GDP) in liabilities under PPPs, and the €324.7 billion (204.3 percent of GDP) in assets and liabilities held by public corporations.

Recommendation 2: Recognize a wider range of assets and liabilities in balance sheets by

- a Revaluing and recognizing accrued pension liabilities of public servants.** The 2009 estimate of the present value of accrued pension benefits of serving or retired public servants of €116 billion needs to be regularly updated and reflected in the central and local government balance sheets.
- b Recognizing government assets and liabilities associated with PPPs.** The inclusion of these assets and obligations in central and local government balance sheets will provide a more comprehensive overview of their financial position.
- c Revaluing and recognizing nonfinancial assets of central government departments.** Central government departments already include information on their fixed asset holdings in their annual Appropriation Accounts, albeit some at historic cost, some at replacement cost. Bringing all these valuations up-to-date in line with international standards (subject to a *de minimis* for small or heritage assets) would enable central government to include a full balance sheet in the aforementioned Central Government Financial Statements.
- d Preparing a financial and full balance sheet for the public sector and its subsectors.** Existing data on central government, local government, and public corporation financial assets and liabilities could already be incorporated into a consolidated financial balance sheet for the public sector. Once more up-to-date valuations of fixed assets, pension liabilities, and PPP assets and obligations are available, these could be incorporated into a full balance sheet showing the overall net worth of the public sector as well as general government.

3 Incorporate Associated Accrued Revenues and Expenses

Issue: Recognition of the above assets and liabilities in balance sheets allows for the incorporation of the related, fiscally significant, flows in summary fiscal reports. At present these unrecognized expenses could amount to 1 percent of GDP per year.

Recommendation 3: Incorporate the corresponding economic flows in fiscal documentation by

- a Reflecting changes in accrued public sector pension liabilities in budget documentation, statistics, and accounts.** Once an estimate of the present value of public sector pension liabilities is included in the central and local government balance sheets, changes in that valuation, which amounted to approximately €1 billion can be incorporated as a non-cash flow in central government revenues and expenditures.

- b Incorporating information on the annual flow of government investments and payments under PPPs into fiscal projections, budgets, and accounts.**¹ The inclusion of this information in annual, medium-term, and long-term fiscal projections will help to demonstrate the long-term affordability of these commitments.
- c Utilizing department-specific depreciation figures in summary statistics and accounts.** Fiscal statistics and fiscal forecasts currently use an economic measure of depreciation, based on the perpetual inventory model, which is €1.8 billion higher than the sum of depreciation figures reflected in the accounts of central and local government departments. Updating the valuation of fixed assets in central government department and local government accounts would allow the latter, more accurate, measure to be used in all three fiscal documents and
- d Recognizing valuation changes in public sector assets, liabilities, and contingent liabilities in fiscal documentation.** Once a comprehensive balance sheet for the public sector is prepared, changes in the value of the assets, liabilities, and contingent liabilities can be recognized in the relevant sub-sector accounts and as a supplementary disclosure in budgets. This will ensure consistent and integrated set of financial statements for all sub-sectors and
- e Providing a more comprehensive estimate of revenue foregone from all tax expenditures.** Annual estimates of the cost of tax expenditures should be extended beyond revenue foregone on income and corporation taxes to fully cover the estimated 6 percent of GDP in total revenue foregone from all direct and indirect tax allowances, reliefs, deductions, and rebates in a manner which does not add to the compliance burden on taxpayers.

4 Modernize the Budget and Accounting Classification

Issue: The charts of accounts for central government departments, extrabudgetary funds and other non-market agencies, local governments, and public corporations are not able to automatically generate summary fiscal data in line with international reporting standards. This poses a significant obstacle to the preparation of more comprehensive, detailed, and comparable fiscal reports. It also inhibits real-time monitoring of Ireland's fiscal performance against its national and EU-wide fiscal rules which are defined in general government terms.

Recommendation 4: Bring the classification of fiscal documentation into line with international standards by

- a Reorganizing the monthly Exchequer Statement to present gross revenues and expenditures and distinguish non-financial and financial transactions.** This would supplement the current Exchequer Statement and bring its classification closer to the ESA 95 and GFSM 2001 presentation.
- b Develop an exhaustive program classification which can be mapped to both individual output/impact indicators and COFOG sectors.** This would enhance departmental accountability to parliament for the use of public resources and automate the presentation of international comparable statistics on the functional allocation of government expenditure and

¹ This would mean producing a measure of public spending that recorded privately financed investment in PPPs as public investment at the time the investment occurred and also recording the investment and a corresponding liability on the government's balance sheet. Investment in PPPs and investment in traditional publicly financed investments would thus have similar effects on the government's accounts.

- c **Develop a harmonized chart of accounts for all general government and, eventually, public sector entities.** This would facilitate the automated collection and consolidation of detailed fiscal data for the central government, general government, and public sector. Such a standardized chart of accounts should produce summary fiscal data in line with international standards while also allowing entities the flexibility to generate fiscal data for internal management reporting. The planned shared services project, which has a financial management component, presents an opportunity to rollout such a harmonized chart of accounts across central and local governments.

5 Bring Forward the Timetable for Budgeting, Accounting, and Audit

Issue: The government's audited accounts are currently published too late to inform the preparation of the annual budget. The annual budget estimates are submitted too late for parliament to debate and approve them before the start of the year to which they refer.

Recommendation 5: Accelerate the production, presentation, and approval of the annual budget and accounts in line with current plans by

- a **Requiring the government to submit the annual budget to parliament in October.** This would bring Ireland's budget timetable into line with the Common Budgetary Timeline set out in EU Two Pack Regulation concerning the monitoring of draft budgetary plans which requires member states to publish their draft central and local government budgets by October 15.
- b **Requiring parliament to approve the annual budget in December.** This would give parliament at least two months to scrutinize the draft budget while ensuring that all public entities have an approved basis on which to execute their financial operations from January 1. It would also meet the EU Two Pack requirement that central and local government budgets be adopted by December 31.
- c **Requiring the government to submit its annual accounts to the C&AG by March or an agreed earlier date.** This would allow outturn data from the previous year's accounts to inform the preparation of the Stability Programme Update which needs to be submitted to the EU by end-April and provides the framework for the preparation of next year's budget and
- d **Requiring the C&AG to submit the audited accounts to parliament by June.** This would ensure that the annual budget for the next year is prepared on the basis of audited outturn figures for the previous year.

6 Prepare Long-term Fiscal Projections

Issue: Reducing Ireland's general government gross debt from 121 percent of GDP to the targeted 60 percent of GDP will require a long period of tight fiscal policy. In addition, Ireland faces growing demographic pressures, with the harmonized European estimate suggesting that age-related expenditure will increase by 7.4 percent of GDP by 2050. However, Ireland's fiscal projections only extend to 2015—not far enough to demonstrate either (i) how and when Ireland expects to meet its debt target or (ii) the impact of demographic and other long-term trends on the main fiscal aggregates.

Recommendation 6: Regularly publish long-term fiscal projections as part of the annual budget documentation

- a Publish the government’s own version of a debt-sustainability analysis, demonstrating the interaction of the new fiscal rules, extending out 10-20 years.** This will demonstrate what the new rules mean for government expenditures and revenue trends, as well as how alternative macroeconomic scenarios influence both fiscal aggregates and the interaction of the rules.
- b Augment the internal long-term fiscal projection model and publish its projections at least every two-to-three years.** This model will demonstrate the impact of ageing and health related expenditure pressures, and by including detailed entitlement data, will allow the impact of alternative expenditure policy changes on the long-term fiscal gap to be assessed.

7 Reconcile Fiscal Forecast Changes

Issue: Ireland’s medium-term fiscal forecasts contain large revisions from one budget to the next. On a no-policy-change basis, between the SPU and 2013 Budget, tax revenues were revised down €800 million, and net expenditures were revised up by €2.2 billion. This required significant policy changes to remain within the program targets. While the 2013 Expenditure Report provides a detailed breakdown of changes to departmental expenditure ceilings since the last budget, it is difficult to understand the net impact of (i) changes in macroeconomic environment, (ii) changes to revenue and expenditure policies, and (iii) other technical or accounting changes on the fiscal forecast.

Recommendation 7: Provide a more comprehensive reconciliation of changes to key fiscal aggregates between successive fiscal forecasts.

This can be done by comparing successive vintages of revenue and expenditure forecasts, and breaking down the variations in those forecasts between macroeconomic, policy, and technical changes. This will provide greater transparency about the factors that are driving changes to the forecast and how government policy is responding to them. It will also help to reinforce the credibility of the multi-year expenditure ceilings laid out in the MTEF by demonstrating that any new expenditure pressures or policies are being accommodated within those ceilings.

8 and 9 Enhance Fiscal Risk Analysis

Issue: The government publishes information on a wide range of fiscal risks, but the value of the information is diminished by being scattered among many documents published by many agencies. Moreover, much of the information is reported not by the ministries responsible for fiscal management—the Department of Finance and the Department of Public Expenditure and Reform—but by “outsiders” such as the Comptroller and Auditor-General, the Irish Fiscal Advisory Council, and the Central Bank.

The improvements in fiscal reporting discussed above would bring together much information relevant to an assessment of risk in two reports. Fiscal statistics for the public sector would allow a bird's-eye view of risks related to public corporations. Publication of financial statements and notes for consolidated central government would, among other things, generate integrated information on the government's assets and liabilities and notes on the risks around them.

However, those improvements will take time and will not be enough to bring together all the relevant information on fiscal risks into one place. Two new reports could help fill the gap: a comprehensive statement of fiscal risks and a report on the management of the government's portfolio of assets and liabilities.

Recommendation 8: The Department of Finance should publish as part of budget documentation a comprehensive annual statement of fiscal risks that include sections on

- a** **Macroeconomic analysis of risk** (drawing on existing analysis published in the Medium-Term Fiscal Statement, the Stability Programme Update, and IFAC's Fiscal Assessment Report).
- b** **Specific revenue risks not reflected in macroeconomic analysis** (Medium-Term Fiscal Statement).
- c** **Contingent liabilities, including guarantees, insurance, callable capital, indemnities, litigation, etc** (Finance Accounts, C&AG report, Appropriation Accounts).
- d** **Risks related to the financial sector in addition to those related to explicit guarantees** (CBI Macro-Financial Review).
- e** **Risks related to values of assets and liabilities and associated cash flows, including debt, derivatives, financial assets, pensions, provisions, and PPPs** (annual reports of NTMA, NPRF, State Claims, C&AG report).

Recommendation 9: The Department of Finance or NTMA should publish an annual report on the government's strategy for the management of its portfolio of assets and liabilities, including debt, the NPRF fund, and shares in financial and nonfinancial corporations.

10 Harmonize Financial Reporting Standards and Practices

Issue: There is no permanent official or unit in the Irish administration responsible for setting and enforcing financial reporting standards across the public sector.¹ As a result, there is no uniform set of accounting rule and procedures applying to government departments, extrabudgetary funds, semi-state bodies, local governments, and public corporations. This makes consolidating government-wide financial information and promoting system-wide improvements in financial reporting practices very costly and time-consuming.

¹ However, the Government Accounting Section in the Department of Public Expenditure and Reform is responsible for prescribing accounting procedures for preparing the Voted accounts subject to the overarching provisions of the Exchequer and Audit Departments Act, 1866.

Recommendation 10: Establish a permanent government financial reporting unit in the DoF or DPER headed by a Chief Financial Officer (CFO) or Director of Government Accounting (DGA).

This may also require legislative changes to give the required authority to the CFO/DGA. The CFO/DGA should be appropriately qualified with considerable accounting, financial reporting and other relevant experience. He should be supported by a small group of finance professionals and be responsible for

- a Setting financial reporting standards for all public sector entities, based on international and European accounting and statistical standards**
- b Enforcement of those standards in the preparation of in-year and year-end financial reports by public sector bodies**
- c Preparation and transmission of the proposed consolidated Central Government Financial Statements to the C&AG for audit**
- d Cooperation with the CSO, DECLG, CBI, and other public entities on the preparation of fiscal statistics for the general government and public sector and**
- e establishing and maintaining professional standards for the government accounting profession.**

The Fiscal Transparency Action Plan appended to the report breaks each of these recommendations down into the sequence of specific actions that could be taken over the next five years to implement these recommendations and identifies the agencies responsible for each.