

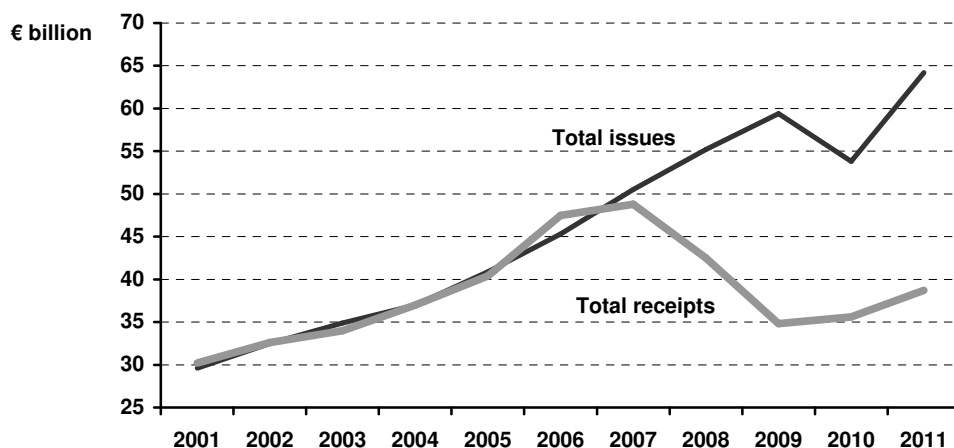
1 Financial Outturn for 2011

- 1.1 All revenues of the State, unless otherwise determined by law, are paid into one fund called the Central Fund.¹ This includes tax revenue and the proceeds of borrowing undertaken on behalf of the State by the National Treasury Management Agency (NTMA). Issues from the Fund are used to fund expenditure on State services. The transactions of the Fund are effected through the Exchequer account held at the Central Bank.
- 1.2 The annual Finance Accounts present the receipts into and issues from the Central Fund together with details relating to NTMA borrowing. This chapter has been prepared to summarise the transactions on the Central Fund and to highlight 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 2001 to 2011 is set out in Figure 1.1. The State deficit, representing the excess of issues over receipts, increased from less than €2 billion in 2007 to over €24 billion in 2009. While the deficit reduced to €18 billion in 2010, it increased again to over €25 billion in 2011.
- 1.4 A breakdown of the receipts and issues for each of the years 2007 to 2011 is presented in Figure 1.2.

Figure 1.1 State Receipts and Issues 2001 to 2011



Source: Finance Accounts 2001 to 2011

1 Examples of State revenue which is not paid into the Central Fund include PRSI 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 2007 to 2011^a

	2007	2008	2009	2010	2011
	€m	€m	€m	€m	€m
Receipts					
Tax revenue	47,249	40,777	33,043	31,753	34,027
Other current revenues	638	847	838	2,687	2,520
Withdrawal from National Pension Reserve Fund	—	—	—	—	1,018
Loans/advances repaid:					
EAGF ^b	730	740	741	790	673
Social Insurance Fund ^c	—	—	—	—	254
National Asset Management Agency	—	—	—	250	49
Others	17	9	9	3	10
Other capital receipts	196	161	140	138	116
Total receipts	48,830	42,534	34,771	35,621	38,667
Issues					
Issues for voted expenditure	44,609	49,313	47,163	46,434	45,711
Service of national debt	1,676	1,611	2,641	3,619	4,736 ^d
Share capital acquired in banks	—	—	4,000	725	2,300
Bank recapitalisation payments	—	—	—	—	5,268
Promissory notes repayment	—	—	—	—	3,085
National Pensions Reserve Fund contribution	1,616	1,690	3,000	—	—
Contribution to EU budget	1,570	1,587	1,486	1,352	1,350
EU stability support	—	—	—	346	—
Loans/advances issued:					
EAGF ^b	740	741	790	673	720
Social Insurance Fund ^c	—	—	—	110	199
Insurance Compensation Fund	—	—	—	—	280
NAMA	—	—	—	299	—
Oireachtas Commission	114	119	123	103	130
Other payments	124	187	209	105	406
Total issues	50,449	55,248	59,412	53,766	64,185
Deficit for the year	1,619	12,714	24,641	18,145	25,518

Source: Finance Accounts 2007 to 2011

Notes: a Consolidates transactions processed through the Exchequer Account and the Capital Services Redemption Account (a facility maintained by the National Treasury Management Agency for the purpose of servicing national debt and transactions of a normal banking nature).

b European Agricultural Guarantee Fund.

c Funds are advanced to the Social Insurance Fund as a working facility and subsequently repaid. €55 million remained to be repaid to the Exchequer at the end of 2011.

d Includes €600 million that was transferred to the Capital Services Redemption Account in 2010 and used for debt servicing in 2011.

- 1.5** Receipts into the Central Fund in 2011 totalled €38.7 billion. This represented an increase of €3 billion relative to the 2010 receipts of €35.6 billion, but a cumulative 21% decrease from peak 2007 levels. Taxation receipts rose by €2.3 billion compared with 2010.
- 1.6** Overall Central Fund issues in 2011 amounted to €64.2 billion, an increase of 19% on the 2010 level. The bulk of this (€45.7 billion) comprises issues from the Central Fund for voted services, which is down 7.3% from the peak 2008 level. Other key features of the 2011 issues were
- Repayment of almost €3.1 billion relating to promissory notes issued to the Irish Bank Resolution Corporation Limited and the Educational Building Society under the Credit Institutions (Financial Support) Act, 2008 was made during 2011.
 - Bank recapitalisation payments and acquisition of share capital in banks totalled over €7.5 billion in 2011. This brings the cumulative cash investment through the Exchequer to over €12 billion.² Further recapitalisation of the banks was undertaken by the National Pensions Reserve Fund.³
 - In 2011, €280 million was advanced to the Insurance Compensation Fund as it did not have sufficient funds to make a payment due to the joint administrators of Quinn Insurance Limited on foot of the High Court Order.²
 - Expenditure related to servicing of borrowing undertaken by the NTMA on behalf of the Central Fund increased by over €1.1 billion or 31%. (Chapter 2 outlines the government debt position in more detail).
 - A total of €1.35 billion was contributed to the EU budget. (EU transactions are outlined in further detail in Chapter 5).

Movement in State Balances

- 1.7** The receipts into and issues from the Central Fund give rise to a number of balances, principally the balance on the Exchequer account at the Central Bank. The movements in those balances are set out in Figure 1.3.
- 1.8** 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 subject to guidelines issued by the Minister for Finance. The Minister directed that the balance at the end of 2010 should not exceed €601 million. In all other years, the limit on the balance was set at €1 million.
- 1.9** Short-term notes are borrowing instruments issued by a State agency and held by the State. In effect, they represent lending by the Central Fund to the agency concerned. The balance at end 2011 was 'commercial paper' issued by the Housing Finance Agency and which could not be readily realised by the Central Fund. Commercial deposits are deposits placed by the NTMA with financial institutions for periods ranging from one to 365 days.
- 1.10** Receipts and payments of collateral in relation to derivative contracts entered into by the NTMA are administered through credit support accounts. The excess of payments over receipts at the end of 2011 of €715 million was funded by the Exchequer and is due to be repaid to the Exchequer. Further details regarding these transactions are outlined in Chapter 2.

² Chapter 3 deals with the financial stabilisation measures taken by the State in the banking and insurance sector.

³ The total recapitalisation of banks to end 2011 was €63.6 billion. This includes the value of promissory notes issued and the value of preference share dividends (€0.8 billion) paid to the State in the form of ordinary shares. A further €1.6 billion was invested by July 2012 (€0.3 billion of which related to preference share dividends). The total recapitalisation to July 2012 was therefore €65.2 billion.

Figure 1.3 Movements in State Balances 2007 to 2011

	2007	2008	2009	2010	2011
	€m	€m	€m	€m	€m
State balance at 1 January					
Central Bank Exchequer account	3,587	3,995	21,269	21,026	11,399
Commercial deposits	—	490	790	790	580
Capital Services Redemption Account	— ^a	1	— ^a	— ^a	600
Short-term notes	—	—	—	—	3,585
	3,587	4,486	22,059	21,816	16,164
Movement in year					
Net Exchequer borrowing in year	2,518	30,287	24,397	12,493	27,046
Surplus/(deficit) of receipts over issues	(1,619)	(12,714)	(24,641)	(18,145)	(25,518)
	899	17,573	(244)	(5,652)	1,528
State balance at 31 December					
Central Bank Exchequer account	3,995	21,269	21,026	11,399	13,099
Commercial deposits	490	790	790	580	30
Capital Services Redemption Account	1	— ^a	— ^a	600	— ^a
Short-term notes	—	—	—	3,585	3,848
Collateral funding ^b	—	—	—	—	715
	4,486	22,059	21,816	16,164	17,692

Source: Finance Accounts 2007 to 2011

Notes: a Balance in the account at year end was less than €500,000.

b Collateral deposited with derivative counterparties under credit support agreements (see Chapter 2).

Major Exchequer Liabilities and Assets

- 1.11** The State had certain long-term financial liabilities and assets at 31 December 2011, many of which are reported upon in other chapters in this report. The summary position in relation to key liabilities and assets is outlined below.

Government Debt

- 1.12** The general government debt (GGDebt) measures indebtedness taking account of all liabilities of the State. At 31 December 2011, the GGDebt stood at €169 billion.
- 1.13** The main component of the GGDebt was cumulative borrowing undertaken by the NTMA on behalf of the State. At end December 2011, this amounted to €137 billion (nominal or redeemable par values). This compared to €110 billion at the end of 2010.

- 1.14** During 2010, the Minister for Finance issued promissory notes to the value of €31 billion to two Irish financial institutions.⁴ Interest accrues on the amounts outstanding. Under the terms of the promissory notes, the State is required to pay the amounts due by way of annual instalments. The first instalments, totalling €3.1 billion, were paid during 2011. The balance of the liability at end 2011 was €28.3 billion.
- 1.15** Other liabilities of the State include Post Office Bank Fund deposits, borrowing of local authorities and other State bodies as well as a residual amount of debt of the Housing Finance Agency.

Financial Commitments Under PPP Contracts

- 1.16** 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.
- 1.17** The total value of the future commitments to be met in respect of contracts in place at the end of 2011 is estimated at just over €4 billion (see Chapter 6). 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.
- 1.18** 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.

Public Service Pension Costs and Liabilities

- 1.19** Accrued pension entitlements of public servants are a significant liability of the State. At end December 2009, a total of €116 billion had accrued in respect of occupational pensions payable to public servants. Those liabilities represent the estimated present value of the cash payments that fall to be met over the next 60 years in respect of pensions earned at 31 December 2009.⁵ Later assessments of the liability have not been made.
- 1.20** The Commission on Public Service Pensions recommended in 2000 that actuarial reviews of public service pension schemes and projections of public service pension outflows should be carried out on a three-year cyclical basis. Regular reviews have not been undertaken.

Pension Reserves

- 1.21** The National Pension Reserve Fund (the Pension Fund) was valued at €13.4 billion on 31 December 2011.
- 1.22** The discretionary investment of the Pension Fund stood at €5.4 billion at 31 December 2011. These investments are valued at market prices.

⁴ The promissory notes were originally issued to three institutions – Anglo Irish Bank, Irish Nationwide Building Society (IBNS) and the Educational Building Society. However, Anglo Irish Bank and IBNS were subsequently merged to form one institution - Irish Bank Resolution Corporation Limited.

⁵ See Chapter 3 of the *Report of the Comptroller and Auditor General on the Accounts of the Public Services 2009*.

- 1.23** The remaining assets of the Pension Fund are investments made under direction of the Minister for Finance. €21 billion of the Pension Fund's assets (including re-investment of dividends received from Allied Irish Banks plc and Bank of Ireland) had been devoted to bank capitalisation by the end of 2011. The value of the Pension Fund's investments in the banks was €8 billion at 31 December 2011.⁶

Loans and Advances

- 1.24** Loans and advances provided from the Central Fund totalling €1.4 billion were outstanding at the end of 2011. These include
- €720 million outstanding in respect of cyclical advances to fund costs associated with the operation of EAGF schemes (to be reimbursed by the EU)
 - €346 million in relation to Ireland's contribution in 2010 to EU stability support for Greece
 - €280 million advanced in 2011 to the Insurance Compensation Fund.

State Commitments and Contingencies

- 1.25** As outlined in Chapter 3, the State has guaranteed the liabilities of certain Irish credit institutions. The value of the bank liabilities guaranteed at the end of December 2011 was of the order of €102 billion. Deposits (up to a maximum of €100,000 per depositor per institution) are covered separately by a Deposit Guarantee Scheme. At the end of December 2011, such deposits with those credit institutions covered by bank liability guarantees had a combined value of €82 billion.
- 1.26** The State has a further commitment to meet any shortfall in the value of collateral provided to the Central Bank of Ireland under exceptional liquidity assistance (ELA) arrangements. ELA of €42 billion had been advanced by the Central Bank at the end of 2011. Collateral eligible for the purpose of ELA includes: the promissory notes issued by the Minister for Finance; loans including residential mortgages and investment or development loans; and guarantees of the Minister. The Central Bank has received letters of comfort from the Minister. These confirm that any shortfall on the liquidation of collateral can be made good by the State. The State's liability in respect of the promissory notes is included in GGDebt (see above). Therefore, to the extent that the promissory notes have been pledged as collateral for ELA, no additional State commitment arises in the event of any shortfall in collateral.
- 1.27** The Minister for Finance has guaranteed 95% of the debt issued by NAMA to pay for loans acquired by it from credit institutions (see Chapter 3). The value of debt guaranteed at the end of 2011 was €29 billion.

⁶ The valuation of assets of the NPRF that have been devoted to bank stabilisation payments is dealt with in Chapter 4.

Conclusions and Recommendations

- 1.28** The deficit in State receipts relative to issues in 2011 was over €25 billion. At the end of 2011, the general government debt stood at €169 billion. In addition, the State had commitments of over €4 billion in respect of public private partnership contracts. Assets held by the State at the end of 2011 included €17.7 billion held as State balances and €13 billion in the National Pension Reserve Fund, of which €8 billion is invested in Allied Irish Banks plc and Bank of Ireland. The amount outstanding at the end of 2011 in respect of loans and advances issued from the Central Fund was €1.4 billion.
- 1.29** The State also had contingent liabilities arising out of its guarantee of the liabilities of certain Irish credit institutions and in respect of guarantees and letters of comfort issued to the Central Bank of Ireland for exceptional liquidity assistance to banks.
- 1.30** The latest estimates of long-term liability for occupational pensions for public sector employees was €116 billion at the end of 2009. Since 2009, very significant changes have been made in relation to public sector pensions, and substantial numbers of public sector workers have retired earlier than expected. These developments may have significantly altered the value of accrued pension entitlements.

Recommendation 1.1: Actuarial reviews and projections of public service pension outflows should be carried out on a regular basis, to ensure that the State is aware of the long term cost impact of pensions and the timing of pension outflows.

Department of Public Expenditure and Reform Accounting Officer's Response: Agreed. The regular preparation and publication of actuarial assessment of public service pension provision is an important part of policy formation. Work should begin as soon as possible on a new actuarial assessment that takes account of the very significant savings in public service pay, pensions and numbers since 2009.

- 1.31** The Finance Accounts are, in the main, a cash-based record of the receipts and issues of the Central Fund during the year and details at the end of the year of borrowing undertaken by the NTMA on behalf of the State. Certain additional supplementary information is also provided in relation to share capital, loan transactions and guarantees. However, the accounts do not purport to be whole of government accounts or to reflect the totality of Government assets, liabilities or contingencies. While the Finance Accounts comply with the form specified by the Minister for Finance, there is scope for additional disclosure, which would present a more complete and transparent account of the financial transactions of central government in the year and of the State's financial position at year end.

Recommendation 1.2: 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.

Department of Finance Accounting Officer's Response: Agreed. The primary purpose of the Finance Accounts, as defined by statute, is to show 'payments into and out of the Central Fund'. The accounts have always contained a certain amount of discretionary information, other than Central Fund transactions, and this has increased in recent years, particularly through additional footnotes. The Department agrees with the overall objective of transparency of public financial information. In reviewing the matter, the Department of Finance will consult with the Department of Public Expenditure and Reform, which has the lead role in relation to policy for accounting by government departments. Consideration will 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 will also be considered.