

17 Accounts of the National Treasury Management Agency

- 17.1** Section 12 of the National Treasury Management Agency Act 1990 (the 1990 Act) (as amended) requires the National Treasury Management Agency (the NTMA) to keep accounts of all moneys it receives or expends in the form approved by the Minister for Finance (the Minister), and to submit them for audit by the Comptroller and Auditor General. Following completion of the audit, the NTMA must submit the accounts to the Minister, who in turn must present the accounts to the Houses of the Oireachtas.
- 17.2** Separately, section 12 of the 1990 Act requires the Comptroller and Auditor General to report to Dáil Éireann with respect to the correctness of the sums brought to account by the NTMA each year. This is the report for 2015 under that section of the 1990 Act.

Accounts of the NTMA 2015

- 17.3** The accounts audited under section 12 of the 1990 Act (as amended) are as follows
- national debt of Ireland
 - NTMA administration account
 - Post Office Savings Bank Fund financial statements
 - State Claims Agency financial statements
 - Ireland Strategic Investment Fund financial statements.
- 17.4** In accordance with section 12 of the 1990 Act (as amended), the accounts of the NTMA are required to note a record of expenses incurred in relation to its activities in respect of the
- National Pensions Reserve Fund ¹
 - National Asset Management Agency.
- 17.5** The accounts of the NTMA for 2015 have been audited. My reports on the audits were issued on 26 May 2016. Copies of the accounts, together with my reports on the audits, were presented by the Minister to the Houses of the Oireachtas on 14 July 2016.
- 17.6** I am satisfied that the accounts properly present the transactions of the NTMA for 2015 and its balances at year end.
- 17.7** A new accounting standard - Financial Reporting Standard 102 (FRS 102) - was introduced for the 2015 financial year. The NTMA undertook a review of the format of all accounts and has adopted FRS 102 as the reporting base for the
- NTMA administration account
 - Ireland Strategic Investment Fund.

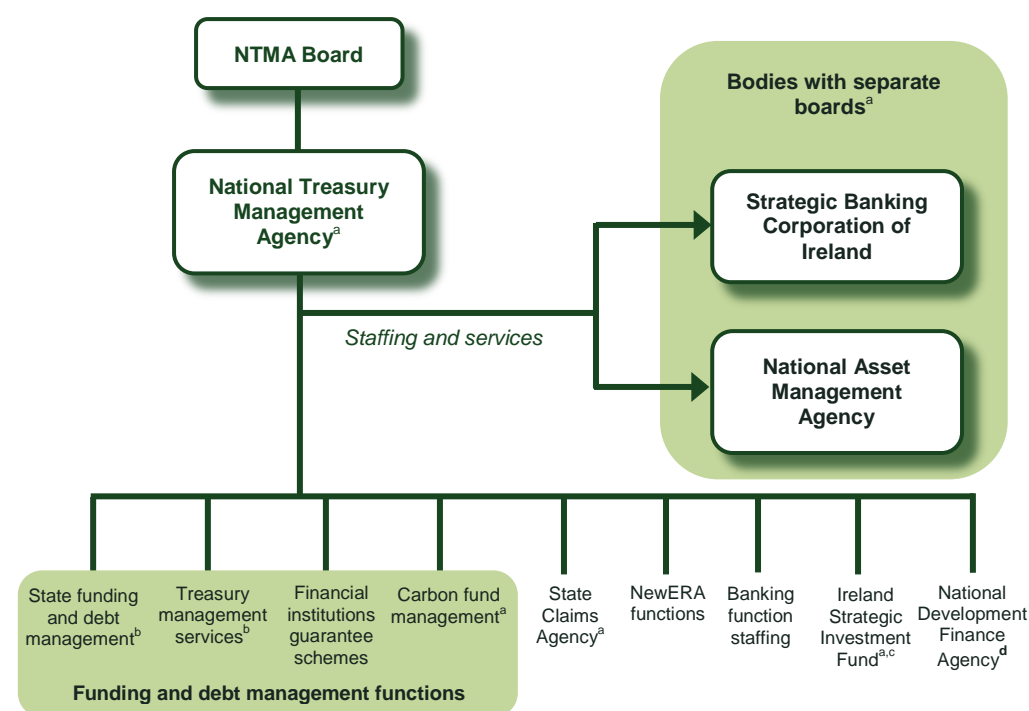
¹ The NTMA did not incur expenses in relation to its activities in respect of the National Pensions Reserve Fund in 2015.

There was no significant impact on the results or balances as a result of the adoption of FRS 102. The NTMA did not adopt FRS 102 for the remaining accounts as these are either reported on a cash basis or the accounting framework reflects the statutory functions.

Functions, roles and staffing of the Agency

- 17.8** The NTMA was originally set up in 1990. It has since evolved into a complex organisation with multiple functions that extend beyond its original and core role in managing Ireland's national debt. Its functions were further expanded and reorganised under the National Treasury Management Agency (Amendment) Act 2014 (the 2014 Act).
- 17.9** The 2014 Act also streamlined the NTMA's governance structures to enable a more integrated approach to the performance of its functions. In December 2014, the NTMA was reconstituted as a board with a Chairperson and eight other members with overarching responsibility for all of the NTMA's functions. There was no change in the membership of the board in 2015.
- 17.10** The NTMA assigns staff to the National Asset Management Agency (NAMA) and the Strategic Banking Corporation of Ireland (SBCI) and also provides them with business and support services and systems. Both NAMA and SBCI have their own boards and are separately accountable to Dáil Éireann.
- 17.11** The structure of the NTMA, following the amendments effected by the 2014 Act is outlined in Figure 17.1.

Figure 17.1 Structure of the National Treasury Management Agency



Source: National Treasury Management Agency

- Notes:
- a Separate financial statements are prepared for the activities of each of these functions/entities.
 - b In the case of State funding, debt management and treasury management services, separate financial statements are prepared for the Dormant Accounts Fund, the Post Office Savings Bank Fund and the national debt.
 - c Financial statements for the National Pensions Reserve Fund (NPRF) will continue to be prepared until all remaining assets are legally transferred to the Ireland Strategic Investment Fund (ISIF).
 - d The National Development Finance Agency (NDFA) was dissolved with effect from 27 January 2015 as a separate statutory body. The NTMA administration account includes a disclosure note of the activities of the NDFA (previously reported separately).

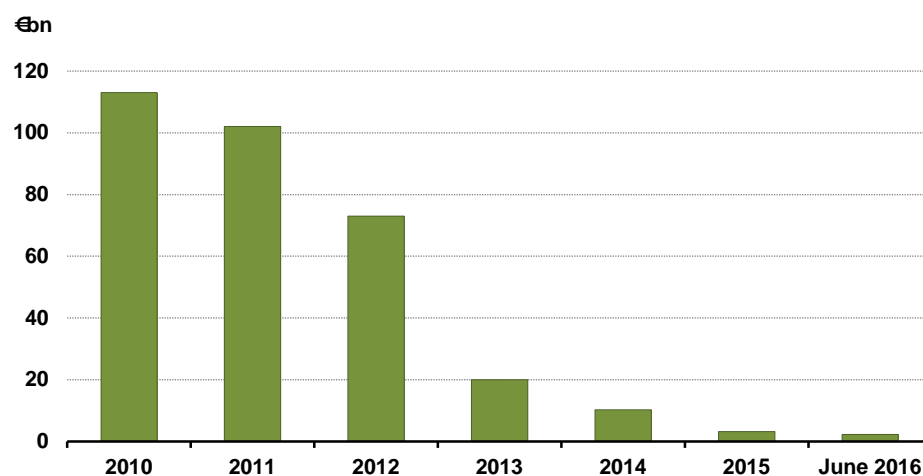
Funding, debt and treasury management

- 17.12** The NTMA borrows on behalf of the Exchequer and manages Ireland's national debt.
- 17.13** Details of the structure of the national debt and trends in Government debt are included in Chapter 2.
- 17.14** The NTMA performs a number of other debt management and treasury functions, including
- treasury operations for NAMA, ISIF, SBCI and Irish Bank Resolution Corporation Limited (in special liquidation) (IBRC)
 - providing a central treasury service for State bodies and local authorities
 - managing the assets of the Dormant Accounts Fund and the Post Office Savings Bank Fund.

Financial institutions guarantee schemes

- 17.15** Certain eligible liabilities, including deposits and debt securities of up to five years maturity in financial institutions are guaranteed by the Minister under the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (the scheme). The NTMA was appointed as scheme operator by the Minister.¹
- 17.16** Each institution with liabilities guaranteed under the scheme is required to pay a fee. The amount received in 2015 was almost €76 million (2014: €179 million).² The Accounting Officer of the Department of Finance is accountable for the fees received.
- 17.17** At end February 2013, the Minister announced the closure of the scheme to all new liabilities with effect from midnight on 28 March 2013. At end-2015, amounts covered by the scheme were around €3.2 billion. This had reduced to €2.3 billion at end-June 2016 (see Figure 18.2).

Figure 17.2 Covered liabilities under the Eligible Liabilities Guarantee Scheme, 2010 to end-June 2016



Source: Department of Finance

¹ SI No. 490 of 2009.

² Fees are recognised on a cash basis and received quarterly in arrears. Fees in respect of 2015 on an accruals basis were €53 million (2014: €155 million).

17.18 Following the liquidation of IBRC in February 2013, a number of claims were made under the scheme and, in March 2013, the Minister delegated further functions to the NTMA¹

- verification of claims for payment in respect of a deed of guarantee put in place on 29 November 2010 in relation to certain derivative contracts entered into by IBRC
- payment of amounts due under the deed of guarantee.

17.19 The NTMA, as the scheme operator, continues to process payments under the scheme as claims are submitted and verified. At end 2015, the NTMA had claims on hand with a total value of €0.5 million. Payments under the scheme to end-June 2016 totalled just under €0.3 million (see Figure 17.3).

Figure 17.3 IBRC payments under financial institutions guarantee schemes, 2013 to end-June 2016

	2013	2014	2015	January to June 2016	Total
Payment type	€m	€m	€m	€m	€m
Deposits ^a	63.9	74.6	4.5	0.3	143.3
Bond holders ^a	933.8	–	–	–	933.8
Derivatives ^b	37.5	–	–	–	37.5
Total payments	1,035.2	74.6	4.5	0.3	1,114.6

Source: National Treasury Management Agency

Notes: a Payments made under the Credit Institutions (Eligible Liabilities Guarantee) Scheme.

b Payments made under the IBRC Deed of Guarantee.

17.20 As scheme operator, the NTMA has lodged three claims with the joint special liquidators of IBRC for the repayment of amounts paid out under the scheme, estimated accrued interest and other associated costs.² The amounts claimed³ were

- €933.8 million in respect of payments to bond holders
- €142.5 million in respect of payments to depositors, including expenses and outstanding scheme fees up to 30 March 2015
- €2.7 million in respect of payments to depositors, including expenses up to 30 September 2015.

¹ SI No. 85 of 2013.

² Interest is payable on amounts claimed from the date of each claim to the date of payment by the joint special liquidators.

³ The amounts claimed from the joint special liquidators may differ from amounts paid under the schemes due to timing.

17.21 On 30 September 2013, the Department of Finance lodged a claim with the joint special liquidators of IBRC under the IBRC deed of guarantee totalling €37.8 million, which includes accrued interest of €0.3 million up to that date.

17.22 Additional claims will be lodged with the joint special liquidators for payments not yet reclaimed and any future payments.

Carbon Fund management

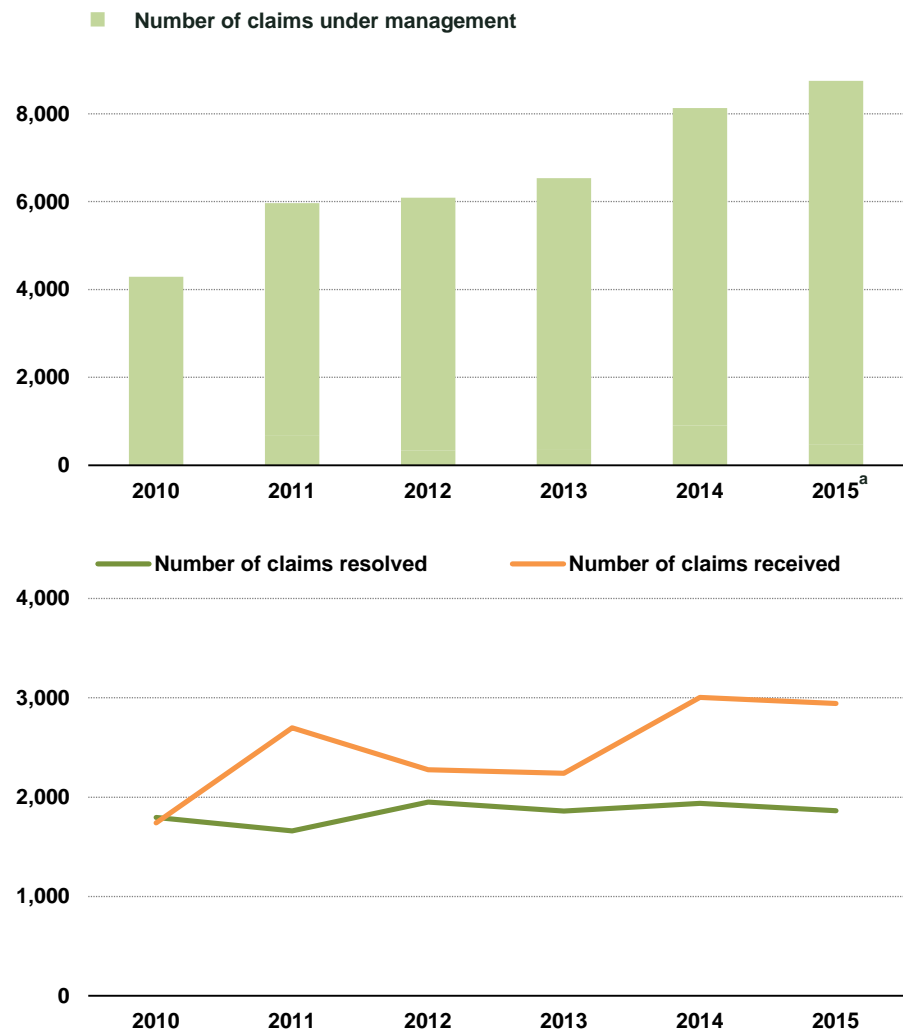
- 17.23** The Carbon Fund was established by the Carbon Fund Act 2007. The NTMA administers the purchase of carbon credits required to meet Ireland's climate change obligations through the Carbon Fund. The purchase of carbon credits has been suspended since February 2009. At end-2015, the Carbon Fund held assets with an acquisition value of €90 million (2014: €99 million).
- 17.24** The Carbon Fund is accounted for separately and does not form part of the NTMA's accounts for the purposes of section 12 of the 1990 Act (as amended). The financial statements of the Carbon Fund are audited under the Carbon Fund Act 2007.¹

State Claims Agency

- 17.25** The NTMA manages personal injury, property damage and clinical negligence compensation claims on behalf of certain delegated State authorities. In addition, it has a risk management role, advising and assisting those State authorities in minimising their claim exposures. It also considers and manages third party cost claims arising from certain tribunals of inquiry. When performing these functions, the NTMA is known as the State Claims Agency (SCA). At 31 December 2015, the SCA's remit covered 129 State authorities.
- 17.26** Awards and associated claim costs of the SCA in 2015 amounted to a total of €219.3 million (2014: €141.4 million). These costs are recoupable from the relevant State authorities availing of the SCA services. In addition, the NTMA incurred €15.7 million (2014: €13.5 million) in administrative costs in the performance of its SCA functions. These administrative costs are included in the administration expenses of the NTMA and are charged on the Central Fund.
- 17.27** The number of claims under management has increased significantly since 2010, together with an increasing volume of claims received. However, the number of claims resolved has remained fairly static (see Figure 17.4).

¹ The report on the audit of the Carbon Fund was issued on 26 May 2016.

Figure 17.4 Claims received, resolved and under management, at year end 2010 to 2015



Source: National Treasury Management Agency

Note: a Claims under management in 2015 include 1,809 mass actions.

17.28 The SCA has advised that the rate at which claims are resolved is influenced by several factors, including the nature and complexity of the claims. One such factor is resourcing but the relationship between claims management resourcing and claims settlement is not linear. At end-2015, the SCA was managing 1,809 mass actions (non-clinical and clinical). It said that many of these actions involve important legal issues of liability and causation and require a particular legal strategy to be put in place to ensure that the State’s liability is maintained at the lowest achievable level. The SCA expressed the view that if the State is successful in precedent test cases (and subject to the outcome of any appeal) that many of the mass action cases would fall away and be discontinued.

- 17.29** Over the last number of years, the estimated cost of settling claims has been steadily increasing. The cost of settling the claims that were outstanding at 31 December 2015 has been estimated by the SCA at €1.79 billion (2014: €1.47 billion). This estimated cost is based on actuarial assumptions including a real rate of return of 3%. A High Court ruling (upheld by the Court of Appeal) has ruled that a real rate of return of 1% should apply to certain court awards. The Court of Appeal ruled that in cases involving catastrophic injuries, claims for the cost of future care should be calculated at a real rate of return of 1% and claims for future pecuniary loss should be calculated at a real rate of return of 1.5%. The SCA has estimated that the cost of claims under management at 2015 would, on that basis, increase by around €300 million. The SCA has appealed this judgement to the Supreme Court.
- 17.30** In February 2013, a State legal cost unit was set up within the SCA to deal with third-party costs arising from the Mahon, Moriarty and Smithwick Tribunals of Inquiry. The 2014 Act put the SCA legal costs function on a statutory basis. In 2015, the Government extended the responsibilities of this unit to management of all third party legal costs claims against specified State entities.¹

NewERA

- 17.31** The New Economy and Recovery Authority (NewERA) functions of the NTMA were established on a statutory basis in December 2014 on commencement of the relevant sections of the 2014 Act.²
- 17.32** The NewERA functions include the provision of financial and commercial advisory services on a range of issues to a relevant Minister of the Government in respect of a designated body under his/her remit.³ Also, where any Minister holds shares or assets in a body that is not designated for NewERA purposes, or has general responsibility for, or has any function in relation to a body, NewERA may also provide similar services in relation to such bodies.
- 17.33** Expenditure incurred by the NTMA on NewERA activities in 2015 was around €6.2 million and is separately disclosed in the NTMA's administration account. This expenditure was mainly in relation to the provision and/or procurement of

- financial and commercial advice to relevant Ministers, on a total of 72 submissions made by commercial State bodies including
 - the reorganisation of Ervia with the establishment of Gas Networks Ireland
 - the first joint venture between Bord na Móna and Coillte in relation to a wind farm
- financial and commercial advice to relevant Ministers on the sale of the State's shareholding in Aer Lingus to International Consolidated Airlines Group⁴
- advice in relation to ownership and financing options for the National Broadband Plan.

Banking system functions staffing

- 17.34** The NTMA's Banking Unit has been seconded to the Department of Finance since August 2011.⁵ At the direction of the Minister, costs of the Banking Unit, comprising staff costs and certain professional advisor costs, continue to be met by the NTMA. Costs incurred by the NTMA in 2015 in relation to the Banking Unit totalled €2.4 million of which €78,000 related to professional advisor costs. These costs are separately disclosed in the NTMA's administration account in 2015.

1 SI No. 505 of 2015 NTMA (Delegation of Claims for Costs Management Functions) Order 2015.

2 The New Economy and Recovery Authority (NewERA) was initially set up on a non-statutory basis following a Government announcement in September 2011.

3 Currently the designated bodies are the Electricity Supply Board, Ervia, Bord na Móna plc, Coillte Teoranta, Eirgrid plc, Irish Water and any subsidiaries or any company in which such designated body has an interest.

4 The sale of the shareholding generated proceeds for the State of €335 million.

5 SI No. 395 of 2011.

Ireland Strategic Investment Fund

- 17.35** The Ireland Strategic Investment Fund (ISIF) was established in December 2014 pursuant to the 2014 Act. On its establishment, the assets and the liabilities of the National Pensions Reserve Fund (NPRF) became the assets and liabilities of the ISIF with the exception of certain foreign assets and liabilities which legally remain assets and liabilities of the NPRF until their transfer to the ISIF in due course. At end 2015, a small number of foreign assets (valued at €1 million) had not transferred to the ISIF. The statutory mandate of the ISIF is to invest on a commercial basis in a manner designed to support economic activity and employment in the State.
- 17.36** At 31 December 2015, the ISIF held net assets of €21.9 billion (2014: €22.2 billion). The net assets comprised €7.9 billion (2014: €7.2 billion) in a discretionary portfolio and €14 billion (2014 €15 billion) in the directed investment portfolio.
- The **discretionary portfolio** consists of investments made in accordance with the relevant sections of the 2014 Act, where the NTMA holds or invests the assets of the ISIF on a commercial basis in a manner designed to support economic activity and employment in the State.
 - The **directed investment portfolio** is subject to directions given by the Minister for Finance.¹ Any interest or other income received in respect of deposits and/or securities held in the directed portfolio are transferred to the discretionary portfolio and are held or invested by the NTMA.
- 17.37** A resolution was passed by both Houses of the Oireachtas on 20 October 2015 to transfer the proceeds from the sale of the State's shareholding in Aer Lingus to the ISIF.² As a result, €335 million was transferred from the Exchequer to the ISIF for the purpose of a new Connectivity Fund within the discretionary portfolio. The Connectivity Fund is restricted to investment in projects that enhance Ireland's physical, virtual or energy connectivity.
- 17.38** The Minister issued the following directions in 2015
- €1.6 billion was transferred to the Exchequer (on 19 March 2015) from cash held in ISIF's directed investment portfolio at the direction of the Minister. These funds had been held since the disposal of Bank of Ireland preference shares in 2013.
 - The Minister directed the NTMA (on 20 November 2015) to enter into certain agreements, and to take certain actions, to facilitate the conversion and redemption of ISIF's shares in AIB. The Minister also directed the NTMA to take certain actions regarding the proceeds of such conversion and redemption (including the cancellation of the outstanding EBS promissory note). The ISIF received proceeds of €1.7 billion, dividends of €166 million and 155 billion ordinary shares as part of this redemption and conversion.
 - €1.9 billion was transferred to the Exchequer (on 18 December 2015) from the directed portfolio at the direction of the Minister. This amount related to the proceeds from the AIB preference shares redemption and associated dividends. Under the direction, the Minister's outstanding EBS promissory note was redeemed from the EBS³ at its carrying value of €225 million (and subsequently cancelled) and the remainder was remitted to the Exchequer.
- 17.39** The NTMA incurred costs of €8.7 million (2014: €0.18 million) in its role as controller and manager of the ISIF in 2015. This excludes fund operating costs discharged directly by the ISIF.

¹ Section 43 of the 2014 Act provides that the Minister may give a direction to the NTMA in relation to the holding and management of a directed investment, the exercise of any voting or other rights attaching to a directed investment, and the disposal of a directed investment.

² Section 46 of the 2014 Act provides that a resolution must be passed by both Houses of the Oireachtas before the Minister can make payments into ISIF from the Central Fund.

³ EBS merged with AIB in July 2011.

National Pensions Reserve Fund

- 17.40** The NTMA is Manager of the National Pensions Reserve Fund (NPRF). On commencement of the relevant sections of the 2014 Act in December 2014, all remaining assets and liabilities of the NPRF were derecognised by the NPRF Commission for accounting purposes and presented instead in the ISIF financial statements.
- 17.41** From 22 December 2014, the NPRF Commission consists of a single commissioner - the Chief Executive of the NTMA – who is required by the 2014 Act to do everything that is reasonably practicable to give effect to the legal transfer of any remaining NPRF assets governed by foreign law. The legal transfer of foreign assets must be done in conjunction with the relevant counterparty. At 31 December 2015, foreign assets valued at €1 million (2014: €1.8 billion) remained in the NPRF.
- 17.42** The NPRF is accounted for separately and does not form part of the NTMA's accounts for the purposes of section 12 of the 1990 Act (as amended). The financial statements of the NPRF are audited under the National Pensions Reserve Fund Act 2000.¹

National Development Finance Agency

- 17.43** Prior to 27 January 2015, the National Development Finance Agency (NDFA) was a separate statutory body that acted as the statutory financial advisor to State authorities for all public investment projects with a capital value over €20 million. It also had responsibility for the procurement and delivery of public private partnership (PPP) projects in sectors other than transport and the local authorities, the direct procurement of certain education projects, and the provision of contract management for the operation and maintenance of certain PPP schools.
- 17.44** The NDFA was dissolved with effect from 27 January 2015 pursuant to the 2014 Act and the related NDFA legislation was repealed.² Simultaneously, the relevant statutory functions were given to the NTMA and all property, rights and liabilities of the NDFA transferred to the NTMA. When performing these functions, the NTMA may describe itself as the NDFA. The NTMA Administration Account includes a disclosure of the activities of the NDFA (previously reported separately).
- 17.45** In September 2015, it was announced as part of the Government's Public Capital Programme 2016-2021 that the NDFA's PPP procurement and project management functions would be transferred to the newly established Transport Infrastructure Ireland (TII).³ The NTMA is engaging with the relevant Government departments and TII to progress the transfer.

¹ The report on the audit of the NPRF was issued on 26 May 2016.

² The report on the audit of the final financial statements of the NDFA issued on 16 June 2015.

³ In 2015, the National Roads Authority and the Railway Procurement Agency merged to form Transport Infrastructure Ireland.

National Asset Management Agency

17.46 Similar to previous years, the NTMA assigned staff and provided services to the National Asset Management Agency (NAMA) during 2015. The NTMA incurred costs of €53.5 million (2014: €53.9 million) in that regard, which was recharged to NAMA.¹

- €46.8 million (2014: €44.7 million) was incurred in respect of staff costs. This comprised €43.1 million for staff directly employed by the NTMA and assigned to NAMA (341 staff at 31 December 2015), and €3.7 million in respect of the apportioned remuneration cost of NTMA employees operating shared services including IT, human resources and finance.
- €6.7 million (2014: €9.2 million) in respect of other costs was incurred by the NTMA, including rent, office services and consultancy costs.²

Strategic Banking Corporation of Ireland

17.47 The Strategic Banking Corporation of Ireland (SBCI) was established in September 2014 as a company under the Strategic Banking Corporation of Ireland Act 2014, to make low cost credit available to Irish small and medium enterprises (SMEs)³ by sourcing funds from national and international entities.

17.48 The NTMA provides the SBCI with business and support services and systems, staff and treasury services and advice in connection with debt securities and borrowings. The NTMA incurred costs of €3.6 million for the provision of these services in 2015 (2014: €0.7 million) which were recharged to the SBCI.⁴

17.49 The SBCI is accounted for separately and does not form part of the NTMA's accounts for the purposes of section 12 of the 1990 Act (as amended). The first set of audited financial statements for SBCI cover the period from its formation on 12 September 2014 to 31 December 2015.⁵

1 The total administrative costs of NAMA were €112 million in 2015 (€135 million in 2014).

2 See NAMA financial statements 2015. The report on the audit of NAMA issued on 29 April 2016.

3 SMEs are defined in accordance with Article 2 of EC Recommendation 2003/361/EC (6 May 2003).

4 Section 10 of the Strategic Banking Corporation of Ireland Act 2014.

5 The report on the audit of the SBCI issued on 27 May 2016.

Staff distribution

17.50 Staff numbers in the NTMA increased further in 2015. At end-2015, staff numbers totalled 781 (2014: 759). The assignment of staff to the various functions and activities of the NTMA at year end for 2011 to 2015 is set out in Figure 17.5.

Figure 17.5 NTMA staffing distribution at year end, 2011 to 2015

	2011	2012	2013	2014	2015
NTMA business units					
Funding and debt management	12	14	15	19	21
Ireland Strategic Investment Fund/National Pensions Reserve Fund	10	13	15	33	36
State Claims Agency	63	69	77	91	109
NewERA	6	12	13	14	19
Banking Unit ^a	9	12	14	13	12
National Development Finance Agency	34	44	52	63	60
Supported bodies					
National Asset Management Agency	193	224	331	369	341
Strategic Banking Corporation of Ireland	–	–	–	3	9
Corporate functions					
Finance, technology and operations	71	73	95	112	121
Legal, compliance, HR and internal audit	21	21	24	22	33 ^b
Risk	9	12	15	14	18
Other	5	6	6	6	2 ^c
Total	433	500	657	759	781

Source: National Treasury Management Agency

Notes: a On secondment to the Department of Finance.

b The 2015 figure for this functional area includes a headcount of seven in respect of the following functions: the Freedom of Information (Fol) Unit (set up as part of the compliance function to cater for the application of the Fol Act 2014 to the NTMA with effect from 14 April 2015), Corporate Communications and Secretariat (which prior to 2015 were categorised under the "Other" heading).

c Four staff members previously assigned to this heading are now captured under another functional area. See footnote b above.

Conclusions

- 17.51** The 2014 Act streamlined the governance arrangements for the NTMA, and brought about significant changes to its statutory remit. The 2014 Act also resulted in a substantial reorganisation and re-orientation of functions, and presented an opportunity for the NTMA to eliminate anomalies and to streamline its financial reporting. Following the 2014 Act, the NDFA activity is now disclosed as part of the NTMA's administration account.
- 17.52** I previously recommended that the NTMA take a consistent approach to the disclosure of the overall costs associated with each of the key services and functions that it undertakes. The 2015 financial statements for the administration account include an enhanced disclosure of overall costs associated with each of the key services and functions undertaken by the NTMA.
- 17.53** The NTMA reviewed the financial reporting of all accounts and adopted FRS102 where appropriate.