

## **Chapter 1**

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### **Financial Outturn for 2010**

**Central Government**



## Financial Outturn for 2010

1.1 The State deficit, representing the excess of payments over receipts, was €18.15 billion in 2010. Certain non-cash outlays arising out of the issue of Promissory Notes of €30.85 billion are not included in that figure.

1.2 The receipts and payments for each of the years 2007 to 2010 are summarised in Figure 1.

**Figure 1 Overall Receipts and Payments, 2007 to 2010<sup>a</sup>**

	2007	2008	2009	2010
	€m	€m	€m	€m
<b>Receipts</b>				
Tax revenue	47,249	40,777	33,043	31,753
Other current revenues	638	847	838	2,687
Loan repayments	747	749	750	1,043
Other capital receipts	196	161	140	138
<b>Total receipts</b>	<b>48,830</b>	<b>42,534</b>	<b>34,771</b>	<b>35,621</b>
<b>Payments</b>				
Issues for voted expenditure	44,609	49,313	47,163	46,434
Share capital acquired in banks	–	–	4,000	725
Service of National Debt	1,676	1,611	2,641	3,619
National Pensions Reserve Fund contribution	1,616	1,690	3,000	–
Contribution to EU Budget	1,572	1,587	1,486	1,352
EU Stability Support	–	–	–	346
Loans issued	740	741	790	972
Oireachtas Commission	114	123	123	103
Other payments	122	183	209	215
<b>Total payments</b>	<b>50,449</b>	<b>55,248</b>	<b>59,412</b>	<b>53,766</b>
<b>Deficit for the year</b>	<b>1,619</b>	<b>12,714</b>	<b>24,641</b>	<b>18,145</b>

Sources: Finance Accounts 2007 to 2010 and Financial Statements of the National Debt of Ireland

Notes: a The above account is a consolidation of transactions processed through the Exchequer Account and the Capital Services Redemption Account.

b Other payments include €110 million advanced as a working facility to the Social Insurance Fund.

1.3 Receipts into the Central Fund in 2010 totalled €5.6 billion. This represented an increase of €851 million relative to the 2009 receipts of €4.8 billion, but a cumulative 27% decrease from 2007 levels. Within the total income for 2010, taxation receipts fell by €1.3 billion compared with 2009. However, this was offset by an increase in other current revenues made up predominantly of premia under two bank guarantee schemes<sup>1</sup>.

<sup>1</sup> This is dealt with in Chapter 4.

1.4 Overall State expenditure in 2010 was €33.8 billion, a reduction of 9.5% on the 2009 level. The key features of the 2010 expenditure were

- Following an accelerated Exchequer contribution to the National Pension Reserve Fund (NPRF) in 2009, there were no further payments to the Fund in 2010 (a reduction of €3 billion in cash requirements by comparison with 2009 levels). Chapter 8 outlines the Fund transactions relating to the State's bank stabilisation measures.
- A further €725 million was issued in 2010 to acquire shares in banks, bringing the cumulative cash investment through the Exchequer to €4.73 billion<sup>2</sup>. However, the 2010 outlay by way of direct cash assistance represented a reduction of €3.27 billion on 2009 outgoings.
- Expenditure related to servicing the national debt increased by €79 million or 37%<sup>3</sup>. Chapter 2 outlines the national debt position in more detail.
- Net voted expenditure fell by €729 million in 2010 following a €2.1 billion reduction in 2009.
- Included in 'Other Payments' are amounts totalling €4.8 million paid to political parties under Section 17 of the Electoral Act 1997. The aggregate amount is based on a fixed sum (€3.81 million) indexed in line with pay increases under national wage agreements up to September 2008. No adjustment has been made to take account of downward adjustments in public service pay in recent years.
- Issues of €103 million were made to the Oireachtas Commission in 2010. The expenditure of the Commission is summarised in Figure 2.

1.5 €600 million was transferred to the Capital Services Redemption Account (CSRA) in 2010. This amount was unspent at 31 December 2010. The balance in the CSRA, which is maintained by the National Treasury Management Agency, is subject to guidelines issued by the Minister for Finance (the Minister). The Minister directed that the balance at the end of 2010 should not exceed €601 million. In previous years, the limit on the balance was €1 million.

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<sup>2</sup> Chapter 4 deals with the financial stabilisation measures taken by the State in the banking sector.

<sup>3</sup> This represents the service cost excluding sinking fund payments.

**Figure 2 Houses of the Oireachtas Commission Expenditure<sup>a</sup>, 2009 and 2010**

	<b>2009</b>		<b>2010</b>
	<b>€000</b>		<b>€000</b>
<b>Members of the Houses of the Oireachtas<sup>b</sup></b>			
Salaries <sup>c</sup>	23,782		20,980
Travel expenses	5,174		5,962
Other allowances and expenses	7,236		7,929
Secretarial assistance for non-office holders	19,524		20,493
<b>Grant-in-Aid in respect of Ciste Pinsean Thithe an Oireachtas</b>	<b>10,340</b>		<b>10,000</b>
<b>Administration Expenses</b>			
Salaries, wages and allowances in respect of staff members	26,076		23,545
Other administrative expenses	<u>24,253</u>	50,329	<u>14,032</u>
Other Services <sup>d</sup>	6,821		4,256
<b>Total Expenditure</b>	<b>123,206</b>		<b>107,197</b>

Source: Accounts of the Houses of the Oireachtas Commission

- Notes:
- a The issues from the Central Fund differ from the expenditure since funds are advanced on a cash needs basis.
  - b This includes one MEP. All other MEPs opted to be paid directly by the European Commission.
  - c Expenditure comprises the salary payment due to the TDs and Senators as elected Members of the Oireachtas. Any additional salary payments for the Taoiseach or ministerial positions are paid directly by the relevant departments.
  - d 'Other Services' include payments in respect of catering and bar staff, televising of Oireachtas proceedings, expenses relating to Oireachtas Committees and a pension scheme for secretarial assistants.

## Audit of State Accounts

The summary in Figure 1 is drawn from an account of the Exchequer – the Finance Accounts – that, *inter alia*, show the payments into and out of the Central Fund. The summary also takes account of transactions processed through the CSRA which has been audited and reported upon in the course of the audit of the accounts of the National Treasury Management Agency. The 2010 Finance Accounts have been audited and are due to be presented to Dáil Éireann by 30 September 2011.

## State Financial Outturn and GNP

1.6 Gross National Product (GNP)<sup>4</sup> represents the amount of output of the economy attributable to citizens of Ireland regardless of their geographical location. Figure 3 sets out the relationship between the income and expenditure of the State and GNP over the years 2007 to 2010, both in absolute and percentage terms.

**Figure 3 Government Funding and GNP**

	2007		2008		2009		2010	
	€bn	%	€bn	%	€bn	%	€bn	%
Taxation receipts	47.3	29	40.8	26	33.0	25	31.8	25
Government payments	50.4	31	55.2	36	59.4	45	53.8	42
<b>Gross National Product<sup>a</sup></b>	<b>163.4</b>		<b>154.7</b>		<b>132.2</b>		<b>128.2</b>	

Source: Central Statistics Office

Note: a GNP is stated at current prices i.e. the prices that prevailed in the year.

1.7 The years 2007 to 2010 have seen a decline of 21.5% in Irish GNP. The proportion of this reduced amount that is accounted for by taxation has diminished, with tax receipts declining from a level of 29% of GNP in 2007 to 25% in 2010. State expenditure, as a proportion of GNP, has increased from 31% in 2007 to 42% in 2010. 3.7% of the 2010 expenditure (in terms of GNP) was attributable to the cost of debt servicing, EU stability support and share capital injections into banks.

## Voted Expenditure

1.8 Chapter 18 sets out the outturn of vote management by Accounting Officers in 2010. The net voted expenditure for each year comprises expenditure that is classified as current or capital. Figure 4 shows the composition of net voted expenditure over the past four years. Overall, the proportion devoted to capital has declined by 4% over that timeframe with current expenditure increasing to the same extent.

**Figure 4 Composition of Net Voted Expenditure, 2007 to 2010**

	2007		2008		2009		2010	
	€bn	%	€bn	%	€bn	%	€bn	%
Current	37.0	83	40.7	83	40.3	85	40.6	87
Capital	7.6	17	8.6	17	6.9	15	5.9	13
<b>Total</b>	<b>44.6</b>		<b>49.3</b>		<b>47.2</b>		<b>46.5</b>	

Source: Department of Finance, Revised Estimates for Public Services

<sup>4</sup> This differs from Gross Domestic Product (GDP), which is a measure of output produced in Ireland. GNP differs from GDP by the net amount of incomes sent to or received from abroad. Historically GDP in Ireland exceeds GNP due to movements associated with foreign investment in Ireland. In 2010, GNP was 18% less than GDP.

### **Current Expenditure**

1.9 The cost of administering central government services was estimated at €2.6 billion in 2010. This represents approximately 4.2% of the total programme expenditure<sup>5</sup>. Around 71% of the administrative costs is made up of the salaries of administrative staff.

1.10 Further salary costs are included in the cost of State services and programmes. In fact, the bulk of public services including teaching, healthcare and security is delivered through staff resources. The overall cost of human resources deployed in central government services in 2010 was of the order of €15.9 billion.

### **Capital Expenditure**

1.11 Gross voted capital expenditure, before taking account of capital receipts, was approximately €6.3 billion in 2010. Most of this gross outlay was incurred on the following

- roads and public transport - €2 billion
- water services investment - €495 million
- social housing and estate regeneration - €746 million
- grants or assistance to private enterprise in the areas of agriculture and industry - €589 million
- building and equipping of education facilities - €16 million.

### **Movement in State Balances**

1.12 The movements in balances associated with the financial outturn are set out in Figure 5.

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<sup>5</sup> Programme expenditure includes voted expenditure and expenditure from the National Training Fund and from the Social Insurance Fund.

**Figure 5 Movements in State Balances, 2007 to 2010<sup>a</sup>**

	2007	2008	2009	2010
	€m	€m	€m	€m
<b>State balance at 1 January</b>				
Central Bank Exchequer Account	3,587	3,996	21,269	21,026
Commercial Deposits	–	490	790	790
	3,587	4,486	22,059	21,816
<b>Movement in year</b>				
Net Exchequer borrowing in year	2,518	30,287	24,397	12,493
Surplus/(deficit) of receipts over expenditure	(1,619)	(12,714)	(24,641)	(18,145)
	899	17,573	(244)	(5,652)
<b>State balance at 31 December</b>				
Central Bank Exchequer Account	3,996	21,269	21,026	11,399
Capital Services Redemption Account	–	–	–	600
Short Term Notes	–	–	–	3,585
Commercial Deposits	490	790	790	580
	<b>4,486</b>	<b>22,059</b>	<b>21,816</b>	<b>16,164</b>

Source: Finance Accounts 2007 to 2010

Note: a Excludes small balances in the CSRA: €842,000 (end 2007); €434,000 (end 2008) and €452,000 (end 2009).

## Major Exchequer Liabilities and Assets

1.13 The State had certain long-term financial liabilities and assets at 31 December 2010 that are reported upon in other chapters in this report. The summary position in relation to key liabilities and assets is outlined below.

### *National Debt*

1.14 The cumulative borrowing by the State at end December 2010 was €109.6 billion (at nominal or redeemable par values). Taking account of related assets of €16.2 billion, including a balance of €600.5 million on the CSRA, the net national debt at that date was €93.4 billion (2009: €75.2 billion).

1.15 During 2010, the Minister issued Promissory Notes to the value of €30.85 billion to three Irish financial institutions. 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.

1.16 The General Government Debt (GGD) measures indebtedness taking account of all liabilities included in the national debt without offsetting of liquid assets together with other liabilities of the State including those relating to Promissory Notes, non-commercial State agencies and local authorities. At 31 December 2010, the GGD stood at €148 billion.

### *Financial Commitments Under PPP Contracts*

1.17 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.

1.18 The total value of the future commitments to be met in respect of contracts in place at the end of 2010 is estimated at €4.3 billion (€4.1 billion at the end of 2009). 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. Part of this commitment represents the rolled up cost of future operation and maintenance, which in projects or services that are conventionally procured, are met on a 'pay as you go' basis.

### *Public Service Pension Costs and Liabilities*

1.19 At end December 2009, a total of €16 billion had accrued in respect of occupational pensions payable to public servants. This is the latest assessment made. 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<sup>6</sup>.

### *Pension Reserves*

1.20 The NPRF has been valued at €2.7 billion on 31 December 2010.

1.21 The discretionary investment of the NPRF stood at €5 billion at 31 December 2010. These investments are valued at market prices. An additional €1.3 billion of the 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 2010. The market value of the investments in the banks was €7.6 billion at 31 December 2010. Additional NPRF funds totalling €10 billion have since been committed towards bank stabilisation.

1.22 The valuation of assets of the NPRF that have been devoted to bank stabilisation payments is dealt with in Chapter 8.

## **State Commitments and Contingencies**

1.23 As outlined in Chapter 4, the State has guaranteed the liabilities of certain Irish credit institutions. The value of the bank liabilities guaranteed at the end of December 2010 was of the order of €13 billion<sup>7</sup>.

<sup>6</sup> See Chapter 3 of the Annual Report of the Comptroller and Auditor General on the Accounts of the Public Service 2009.

<sup>7</sup> 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 2010, such deposits with the credit institutions had a combined value of €72 billion.

1.24 The State has a further commitment to meet any shortfall in the value of collateral under the Exceptional Liquidity Assistance (ELA) scheme. ELA of €9.5 billion advanced by the Central Bank of Ireland (CBI) at the end of 2010 was backed by collateral provided by the credit institutions availing of ELA. Collateral eligible for the purpose of ELA includes Promissory Notes issued by the Minister, loans including residential mortgages and investment or development loans as well as guarantees of the Minister. In addition, the CBI 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.

## Conclusion

The State deficit for 2010 was €8.15 billion. The period 2007 to 2010 has seen a decline in taxation receipts of around 4% when expressed as a percentage of Gross National Product (GNP). Over the same period, payments, increased from 31% to 42% of GNP.

At the end of 2010, the General Government Debt stood at €148 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 2010 included €6.2 billion held as Exchequer assets and €2.7 billion in the National Pension Reserve Fund including €7.6 billion invested in Allied Irish Banks Plc and Bank of Ireland.

The latest estimates of long-term liability for occupational pensions for public sector employees was €16 billion at the end of 2009.

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.

The following chapters in the report deal with some of those issues in more detail

Chapter 2, National Debt

Chapter 3, State Funding Developments 2011

Chapter 4, Banking Stabilisation Measures

Chapter 6, Financial Commitments under Public Private Partnerships

Chapter 8, National Pensions Reserve Fund

Chapter 18, Vote Management.