PAC-R-126

Correspondence 3.1
Meeting – 03/11/2011

RECEIVED
- 3 NOV 2011
Ack. Mtg.
PAC

Public Accounts Committee, 3 November 2011-11-02

Errors in accounting for the General Government Debt

Chairman,

You have asked me here to discuss errors which have arisen in the calculation of the amount of the General Government Debt. I regard this as a most serious matter and I am having a report compiled internally on how this matter arose. I will give the Committee as good an account of the matter as I can as of now. The fact that these errors arose also gives rise to questions about the systems used for these calculations, and I will be arranging for a detailed external review of the processes concerned from a systems point of view.

Before getting into the detail of the error that arose, let me explain briefly that there are two separate measures of Ireland's State debt which ought to concern us.

The first measure is the Exchequer or "National Debt". This amount represents the money owed by the Government, net of cash holdings, and does not include the separate debt of most state bodies, local authorities and so forth.

Separately, there is the concept of the General Government Debt, and it is this measure on which the error occurred. The General Government Debt includes substantially the national debt, but is gross of cash holdings, and it also includes the debt of other state bodies within the General Government sector. The 'General Government' is a technical concept, which includes most public service bodies but does not generally include commercially operated state companies.

I would like to explain by way of example. In the past if, say, the Government borrowed €1 billion and the HFA borrowed €1 billion, both transactions would be handled by the NTMA – they would arrange the first billion under the delegated authority of the Minister for Finance, and that would impact on the Exchequer's debt. The NTMA would arrange the second billion as agents of the HFA, and that would increase the HFA's debt. The General Government Debt would go up by €2 billion.

Reflecting a change in market conditions, the situation then changed – rather than borrowing as agent of the HFA, the NTMA borrowed – in this example – 1 billion for the Government, and a further billion on the Government's account, which it immediately passed on to the HFA as a type of loan.

So in this example the HFA had a billion of borrowings, and the Exchequer had 2 billion, but because the HFA's borrowing was from another part of the Government sector, it did not add to the overall General Government borrowings. Borrowings and loans from one part of the General Government Sector to another are 'consolidated out', and it is the increase in the total position of the Government Sector vis a vis the non-Government that should be reflected in the General Government Debt.

The error which actually arose did so because when the HFA started to be funded indirectly via the Exchequer, instead of directly from the market (with the NTMA in the role of agent), the HFA borrowings continued to be reflected as if they had been from the market, and at the same time the Exchequer's borrowings to fund the HFA were being reflected separately – there was a double counting.

To get more specific, the general government debt figures reported to Eurostat – most recently at end September last (in respect of the period up to the end of 2010) overstated the actual debt figure as a result of the double counting. The reported figure for end-2010 was €148 billion, which overstated the amount by €3.6 billion. Some element of double counting has been going on since the CSO reported to Eurostat in mid-2010, in respect of Q1, 2010.

This double count ought not to have happened. The potential for the change in the way the HFA was funded to have an implication for the preparation of the General Government Debt figures, was, it seems, signalled at a technical level to the Department by the NTMA last year. It would seem that the significance of the matter was not appreciated at that time, or when quarterly figures and accompanying documentation was received from the NTMA in the meanwhile. The matter arose again in the context of the work currently under way for the publication of the medium term fiscal statement later this week. It was raised by the NTMA in a further discussion with the Department. Following examination of the issue by the Department, NTMA and CSO, it was established that a double count had occurred. Naturally, the CSO has already informed Eurostat about the double count and the information has also been communicated to the EU and the IMF.

As a result, our debt to GDP ratio for the end of 2010 is now 92.6% of GDP, not the 94.9% previously published. The reduction to the end-2010 base due to this correction has been improved by 2.3% of GDP. This means that our projected peak level of general government debt will be lower than previously forecast. The details will be made clear in the Medium Term Fiscal Statement that will be published this Friday. However, this revision did not change the net debt position for 2010 (that is the general government debt less liquid assets and cash) and it does not have any effect on the General Government Deficit for 2010 or for this year. In overall terms, Ireland is no better or worse off.

The questions to be addressed now are how did these errors occur, could the mistake happen again in some other guise, and how do we ensure that such errors do not happen in the future. As I have said, the systems concerned will be closely examined and made right as a matter of urgency.