Statement by Aidan Punch – Assistant Director General of the Central Statistics Office to Committee of Public Accounts – 3rd November 2011

I think it might be helpful if I were to set out for the Committee the steps followed in the compilation of Ireland's Government debt statistics.

Each year, at end-March and end-September, the Department of Finance compiles estimates of the level of Gross Government Debt (GGDebt) outstanding at the end of each of the previous four years for the twice yearly Excessive Deficit Procedure (EDP) returns submitted to the European Commission (Eurostat).

Separately, under the terms of EU Regulation 1222/2004, the Central Statistics Office provides details of the stock of GGDebt outstanding at the end of each quarter to both Eurostat and the European Central Bank within 90 days of the end of each quarter. The end-year figures compiled by the Department of Finance for EDP purposes are compared with the quarterly figures compiled by the CSO for the same period and are reconciled and balanced. For example, at the time of the September 2011 EDP return, the annual figures for the end of years 2007 to 2010 inclusive were balanced by the CSO and the Department of Finance.

The tables compiled by the Department of Finance and CSO provide information on the level of Gross Government Debt (otherwise known as Maastricht Debt). This is defined by EU Regulations as the total gross debt owed by all Government bodies to third parties outside of Government. If one Government body owes money to another, this does not count towards the GGDebt. The specific debt liability instruments included in the GGDebt are Currency and Deposits (F2), Securities other than Shares (F33) and Loans (F4).

The main data used in the calculation of the GGDebt are the National Debt figures compiled and published by the National Treasury Management Agency (NTMA). A number of adjustments are needed because of differences between the definitions of the National Debt and of the GGDebt. One difference is that the National Debt is measured net of the liquid assets held by the NTMA, whereas the GGDebt is a

gross concept and includes all borrowings, including any that are unused and are on deposit or invested at the end of the year.

Another adjustment excludes NTMA borrowings from other bodies classified within Government. These borrowings are included in the National Debt but must be excluded from the GGDebt since this includes only liabilities to external bodies. Some additional adjustments are made for other differences, such as in the valuation of certain debt instruments, but these are generally small. From 2010 onwards, the outstanding balance of the Promissory Notes assigned to Anglo-Irish Bank, Irish Nationwide Building Society and the Educational Building Society must also be added to GGDebt.

In addition to debt associated with the Exchequer, GGDebt includes the borrowings of all entities classified within Government. Since the National Debt covers Exchequer liabilities only it must be supplemented by information on the borrowings of other bodies classified within Government such as non-commercial semi-states, Local Authorities, the Housing Finance Agency (HFA), etc. Information on Local Authority Debt is provided by the Department of Environment, Community and Local Government and the CSO and the Department of Finance share the collection of information from the other bodies.

Finally, the adjusted national debt is combined with the debts of the other bodies to provide the estimate of overall GGDebt.

As we made clear in the Press Statement we issued on our website on 1st November, during 2010 the Housing Finance Agency for the first time borrowed €3.6bn from another government body – namely the National Treasury Management Agency. In previous years HFA borrowings had been sourced on the open market. When compiling the end-2010 GGDebt figures, this €3.6bn was mistakenly treated as external borrowings and was wrongly added to the GGDebt. On the General Government balance sheet the end-2010 financial assets were also overstated by €3.6bn as the loan from the NTMA to the HFA was incorrectly recorded as an open market bank deposit.

As soon as the error was discovered last week we informed Eurostat as quickly as possible. They have reassured us that the corrected figures will be incorporated in future releases relating to Government debt.

It is important to stress that the General Government Deficit figure for 2010 is not affected by the revision and neither is Ireland's net debt position (GGDebt less liquid assets). No money was lost or misappropriated and overall the State is no better or worse off as a result of the correction.

As professional statisticians working within the CSO we are disappointed that such an error took place and will take all the necessary steps to ensure that such an error does not re-occur. Our policy is, and has always been, that where errors occur they are corrected as soon as possible and steps are taken to minimize the risk of reoccurrence.

Our preliminary analysis of the recent situation would suggest that the information to correctly classify the €3.6bn was available within the system but the forms or templates that were used to collect the information on intra-Government borrowings from the NTMA were not fit for purpose. The reports from the HFA showing the stock of their debt outstanding at the end of each quarter also did not show the source of that borrowing. There also appeared to be a lack of a formalized communication system between the three organizations involved i.e. NTMA, the Department of Finance and CSO.

Clearly, we in CSO will fully cooperate in compiling a comprehensive report on how the error occurred. Meanwhile my colleague Mick Lucey, who is the Senior Statistician in charge of Government Accounts in CSO, and myself are available to answer any questions which members of the Committee may have.