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Correspondence 3.15
Meeting – 12/01/2012

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Department of Finance

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Ms Eimear Lavelle,
Committee Secretariat,
Committee of Public Accounts,
Leinster House,
Dublin 2.

Dear Ms Lavelle,

I refer to your letter of 4th January and previous correspondence in relation to my commitment to supply the Committee with further information on a number of issues raised during the Committee's examination of the error discovered in the compilation of the 2010 General Government Debt.

In relation to the four issues that the Committee sought further information, I would like to bring the following to the attention of the Committee.

1. Internal Report

An internal review has been carried out by management with the professional support of the Department's Internal Audit Unit. A draft report was completed by end-November. Further refinements and clarifications have since been made and a draft report submitted to me and the Minister. The final Report is being reviewed by management outside the Division and will then be submitted to the Minister. I anticipate that this process should be completed within a week or so. I would propose that the Report be made available to the Committee, subject to legal advice on due process and the rights of individuals concerned. In this regard, I am advised that it would be important that individuals concerned are given an opportunity to see the final report before any steps are taken to issue it more widely.

2. External Review

The Minister for Finance has signed off on the attached Terms of Reference. The Department has been in discussion with potential reviewers with a view to having this process carried out professionally but inexpensively and I am hopeful that a review team can be commissioned very shortly.

3. Interest Paid

As you know, some of the Committee Members sought clarification on the potential benefit to the budget deficit in 2011 from the overstatement of the General Government Debt level for 2010. While this is a complex issue, I can confirm that the 2011 budgetary deficit is not changed on this account as was stated to the Committee on the 3rd of November. Please see the attached note on the statistical treatment of debt interest.

4. Policy Note
Your earlier letter sought:

"A copy of the policy note drawn up by the Department of Finance in respect of the Housing Finance Agency funding requirement for 2010 and whether the note outlined the implications for accounting purposes of the changed practice."

The records relating to the above query come within the scope of the internal review and, as such, I would intend that they be released to the Committee in tandem with the Report.

If you have any further queries or require clarification in relation to the information in this letter, please contact my office.

Yours sincerely,

Kevin Cardiff
Secretary General

Terms of Reference for External Review

- review the respective roles of the Department of Finance, the CSO and the NTMA in the compilation of the General Government Debt figures;

- review the inter-action between all three organisations, including communications;

- drawing on the findings of the Internal Review, this process should summarise the reasons for the error with regard to processes, systems, staffing, and control issues; (Individual personal performance is excluded from scope),

- making recommendations, if any, to (*for example*):
    - improve the inter-action between the three organisations, including the development of a communications protocol for all three organisations;
    - clarify and, if appropriate, reallocate the responsibilities for the compilation and reporting of the General Government Debt;
    - restructure the systems and work flows/responsibilities within the relevant areas of each of the three organisations;
    - identify system wide issues in this regard for more general applicability; and
    - recommend appropriate checks and balances to enable mistakes to be picked up in the system.

- the review is to be completed by the 16th of March 2012.

Note on Debt Interest

This note has been prepared on the basis of the questions raised by Deputy Sean Fleming as repeated below.

Deputy Sean Fleming: 'I want one of the witnesses to explain the position to me. I presume the interest Ireland had budgeted to pay on our national debt this year was calculated on an assumption that we owed €148 billion at, say, 5% interest and we are now told it is €3.6 billion less. It appears we over-projected the interest we would have to pay this year based on the higher level of debt. There would be a saving on that projected figure - it is not that we were going to pay it but we had over-projected. Is it right to say that the finances for the end of this year should show a figure of approximately €180 million less to be paid out of the current account on the national debt because presumably that figure was calculated on the higher opening figure, which we now know is not the case?'

Response:

Projections of debt interest for 2011 and beyond

The projection of debt interest costs is not based directly on the value of the General Government Debt which is a statistical measure. A "bottom-up" approach is used to compile the forecast and the steps below outline the methodology used by the Department of Finance:

1. In the first instance, the National Treasury Management Agency (NTMA) provides the Department with a forecast of net debt interest servicing costs on the National Debt for 2011. The NTMA calculates this value based on the profile of estimated interest payable less any interest receivable on loans and deposits. The latter receipts include interest paid by the Housing Finance Agency (HFA) to the NTMA.
2. In compiling the General Government interest projections the Department takes the National Debt interest along with a number of adjustments (for accruals, derivative transactions, etc.) supplied by the NTMA and consolidates the interest payments of all other general government bodies which are supplied by the CSO on the basis of survey data it collects. This includes interest paid by the HFA to the NTMA.
3. The Department has verified with these two agencies that the same interest bill is paid by the HFA and received by the NTMA.
4. Thus the effect is that the interest paid by the HFA was only counted once because the NTMA had already deducted it from the interest projection it supplied to the Department of Finance.

As national debt interest projections for 2011 provided by NTMA netted out interest received from HFA, the deficit for 2011 is neither improved nor worsened by the HFA double count on the stock of debt at the end of 2010.

Reporting of historical debt interest in Maastricht tables

The Maastricht or Excessive Deficit Procedure report published in April and October 2011 include a line for interest in Table 1. Interest in this context means *gross* interest and is arrived at by the CSO making adjustments to the historical data relating to the general government interest payments. Following a review by the CSO of their process in terms of the calculation of the historical data, the CSO has identified a double count of €12 million in the gross interest reported in relation to the Housing Finance Agency in 2010.

Only the reporting of *gross* interest in the historical tables has changed. This does not affect the deficit position which is stated on a net basis. The issue has been discussed with Eurostat. The Department of Finance and CSO have sent a revised EDP table to Eurostat on 24th November, with both the debt and gross interest corrected.

Finally, it should be borne in mind that the headline Deficit figure has the same result, whether calculated using gross interest or using net interest. This is because Deficit can be understood as the total receipts less total expenditures of general government.