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Correspondence 3C.1
Meeting 76 – 07/03/2013

An Roinn Airgeadais
Department of Finance



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Mr. Ted McEnery,
Clerk to the Committee of Public Accounts,
Leinster House,
Dublin 2

4th March, 2013

Re: Update briefing material for our meeting next Thursday, 7th March

Dear Ted,

Our meeting of the above date refers. I am pleased to enclose updates in relation as follows:

Chapter 1 – Financial Outturn including two recommendations of the Comptroller and Auditor General

Chapter 2 – General Government Debt

Chapter 3 – Banking and Insurance

Chapter 5 – EU Financial transactions

Vote 6 (now Vote 7) Appropriation Accounts

My opening address is also attached herewith.

Yours sincerely,


John A. Moran
Secretary General



Chapter 1 – Financial Outturn including two recommendations of the Comptroller and Auditor General

The key points to note in relation to the 2012 Financial Outturn are as follows:

2012 Receipts

Total receipts, at €41 billion, were up €2.4 billion (6.3%) year on year.

- Tax revenues, at €36.6 billion, were up €2.6 billion (7.7%) year on year on a head line basis.
- Income tax grew by 10% (PRSI reclassification) and Corporation tax by 19.8% (delayed 2011 receipts) on a head line basis, or 7.8% and 5.1% respectively on an underlying basis.
- Non-tax revenues amounted to €4.4 billion. Main items €1 billion sale of shares in Bank of Ireland, €1.2 billion of fees under the eligible institutions guarantee.

2012 Issues

- Expenditure for 2012 is in line with target. The underlying Departmental expenditure position has been kept on target for the year as a whole: +0.4%.
- Pressures on the health and social welfare areas offset to a large extent by savings in other areas.
- Total net voted expenditure, at €44,950 million in 2012 was €521 million (1.2%) ahead of profile. In year-on-year terms, aggregate net voted expenditure was €760 million (1.7%) lower than in 2011

2012 Commentary

- Adjusting for CT receipts in Jan 2012 from 2011 and PRSI reclassification gives an underlying year on year increase in tax revenues of 5.3%.
- End December 2012 Exchequer Primary Balance TMU adjusted target was €13.1 billion – 2011 Exchequer deficit was €12.2 billion.
- For 2012, the General Government deficit limit was 8.6 per cent of GDP. Based on the end-December 2012 Exchequer Returns, the 2012 GGB is likely to be below -8% of GDP.

The updated position regarding Central Fund Receipts and Issues to end 2012 is as follows:

Figure 1.2 Central Fund Receipts and Issues 2007 to 2011^a

	2007 €m	2008 €m	2009 €m	2010 €m	2011 €m	2012 €m
Receipts						
Tax revenue	47,249	40,777	33,043	31,753	34,027	36,646
Other current revenues	638	847	838	2,687	2,520	2,819
Withdrawal from National Pension Reserve Fund	-	-	-	-	1,018	-
Loans/advances repaid:						
EAGF ^b	730	740	741	790	673	720
Social Insurance Fund ^c	-	-	-	-	254	300
National Asset Management Agency	-	-	-	250	49	-
Others	17	9	9	3	10	2
Other capital receipts	196	161	140	138	116	600
Total receipts	48,830	42,534	34,771	35,621	38,667	41,088
Issues						
Issues for voted expenditure	44,609	49,313	47,163	46,434	45,711	44,950
Service of national debt	1,676	1,611	2,641	3,619	4,736 ^d	5,822
Share capital acquired in banks	-	-	4,000	725	2,300	1,300
Bank recapitalisation payments	-	-	-	-	5,268	-
Promissory notes repayment	-	-	-	-	3,085	25
National Pensions Reserve Fund contribution	1,616	1,690	3,000	-	-	-
Contribution to EU budget	1,570	1,587	1,486	1,352	1,350	1,393
EU stability support	-	-	-	346	-	-
Loans/advances issued:						
EAGF ^b	740	741	790	673	720	730
Social Insurance Fund ^c	-	-	-	110	199	300
Insurance Compensation Fund	-	-	-	-	280	456
NAMA	-	-	-	299	-	-
Oireachtas Commission	114	119	123	103	130	105
Other payments	124	187	209	105	406	898
Total issues	50,449	55,248	59,412	53,766	64,185	55,979
Deficit for the year	1,619	12,714	24,641	18,145	25,518	14,891

Source: Finance Accounts 2007 to 2011

Notes:

^a Consolidates transactions processed through the Exchequer Account and the Capital Services Redemption Account (a facility maintained by the National Treasury Management Agency for the purpose of servicing national debt and transactions of a normal banking nature).

^b European Agricultural Guarantee Fund.

^c Funds are advanced to the Social Insurance Fund as a working facility and subsequently repaid. €55 million remained to be repaid to the Exchequer at the end of 2011.

^d Includes €600 million that was transferred to the Capital Services Redemption Account in 2010 and used for debt servicing in 2011.

Comptroller and Auditor General recommendations

Recommendation 1.1: Actuarial reviews and projections of public service pension outflows should be carried out on a regular basis, to ensure that the State is aware of the long term cost impact of pensions and the timing of pension outflows.

Department of Public Expenditure and Reform Accounting Officer's Response: Agreed.

The regular preparation and publication of actuarial assessment of public service pension provision is an important part of policy formation. Work should begin as soon as possible on a new actuarial assessment that takes account of the very significant savings in public service pay, pensions and numbers since 2009.

Update: My Department agrees with the recommendation that actuarial reviews of public service pensions costs should be carried out regularly. The implementation of this recommendation is a matter for the Department of Public Expenditure and Reform. I understand that officers from that Department will be in contact with the C&AG's office to consider and agree how best these exercises can be carried out. One possible approach would be to use the methodology followed by the C&AG's office in carrying out its recent actuarial reviews. It should be noted that there have been many changes in both pay and public service pension terms in recent years which will have to be taken account of in any new review, particularly as the longer-term evolution of public service pay is a major factor in determining pensions costs

Recommendation 1.2: The Department of Finance should review the level and quality of disclosure in the Finance Accounts so as to increase the transparency of public financial information.

Department of Finance Accounting Officer's Response: Agreed. The primary purpose of the Finance Accounts, as defined by statute, is to show 'payments into and out of the Central Fund'. The accounts have always contained a certain amount of discretionary information, other than Central Fund transactions, and this has increased in recent years, particularly through additional footnotes. The Department agrees with the overall objective of transparency of public financial information. In reviewing the matter, the Department of Finance will consult with the Department of Public Expenditure and Reform, which has the lead role in relation to policy for accounting by government departments. Consideration will be given to the level of additional information to be added to the Finance Accounts, having regard to the need not to obscure the fundamental purpose of those accounts or delay their production. The extent to which additional government financial reporting statements should be developed will also be considered.

Update: Following the recommendation made by the Comptroller & Auditor General in his 2011 Annual Report, the Department has given consideration to improvements in the level and quality of the information in the Finance Accounts.

That consideration took account of matters of practicality having regard to the prescribed purpose of the Finance Accounts, which is a record of the receipts and payments of the Central Fund. There is a need to ensure that any additional information is verifiable and is available on a timely basis so as not to delay the production of the Accounts.

It has been decided to include an additional statement in the 2012 Accounts to cover commitments under Public Private Partnerships and the necessary information has been requested from the Department of Public Expenditure and Reform. A review of the accounting policy statement and the content of the other notes to the Finance Accounts is currently underway as part of the process of preparing the 2012 Accounts. The Department will continue to explore possibilities for making improvements in Government financial reporting.

The Department of Finance and the Department of Public Expenditure and Reform have invited the IMF to perform a comprehensive technical review of all aspects of Irish government financial reporting, which is scheduled to occur in March. This is will also involve the CSO, C&AG, NTMA, the Central Bank, the Revenue, the Fiscal Advisory Council, and the Department of Environment, Community, and Local Government.

Chapter 2 – General Government Debt

The most recent estimates of GGB and GGDebt are in the Budget publication on 5th December 2012.

Table 1: 2012 GGB and GG Debt

2012	GGB €billion	GGB as % of GDP	GGDebt €billion	GGDebt as % of GDP
Budget Forecast	-13.4	-8.20%	192	118%
Programme target		-8.6%		

Table 2: 2013 GGB and GG Debt

2013	GGB €billion	GGB as % of G P	GGDebt €billion	GGDebt as % of GDP
Budget Forecast	-12.7	-7.5%	204	121%

Next official estimates in EDP tables 20th April 2013

- General Government Debt (GGD) has gone from €47.2 billion in 2007 to €169 billion in 2011.
- General Government Debt as a % of GDP has gone from 25% in 2007 to over 106% in 2011.
- Budget 2013 forecast GGD for 2012 at €192 billion, representing 118% of GDP – of which 30 percentage points relate directly to support to the banking sector.
- Budget 2013 forecasts that the debt to GDP ratio will peak in 2013 at around 121% and will begin to decline in the following years.

Composition of General Government Debt

- Main components of the GGD of €169 billion were €85.3 billion (50%) in Government bonds, €35.7 billion (21%) in IMF/EU assistance, 16.7% in promissory notes.

National Debt

- Exchequer Debt/National Debt is the main component of GGD.
- Gross National Debt went from €42 billion in 2007 to €136.7 billion in 2011.
- Latest published figures for Gross National debt at end January 2013, shows a figure of almost €167 billion.

Cost of Debt

- Gross National Debt increased by 225% from 2007 to 2011, while the servicing cost increased by 231% over the same time frame. This indicates that the average interest rates applied were broadly similar in both years.
- At end of June 2012, the weight average cost of servicing the national debt was 4.1%.
- Cash basis gives a debt service cost for 2011 of €4.7 billion (excludes sinking fund)
- Accrual basis gives a debt service cost for 2011 of €5.3 billion.

Debt Maturity

88% of GGD at end 2011 was medium to long term debt, up from 74% in 2007.

Other comments

- The first outturn estimate of 2012 GGB will be compiled by CSO as part of Maastricht (EDP) returns. Based on the improved Exchequer returns we can expect a GGB well within the EU/IMF target of -8.6% and the Budget forecast of -8.2%.
- The Budget estimate of 2013 GGB of -7.5% of GDP is within the EU/IMF target and is largely unchanged by the sale of the contingent capital note in January and the promissory note deal in February; it is improved by the base-year effect of improved taxes at the end of 2012.
- In 2014 and 2015 the net benefit to GGB resulting from the promissory note deal is estimated at about €1bn per year.
- On 9 January last the State sold its Contingent Capital Notes (co-cos) holding in Bank of Ireland for €1.01 billion, realising a profit of €10 million on its investment. While the receipts from the sale improve the Exchequer balance they do not improve the General Government Balance (GGB). This is because, for General Government purposes, the sale is a 'financial transaction' involving the swapping of one type of financial asset for another (cash). Similarly when Government invested in the 'co-cos' in the first instance this did not worsen the deficit.
- On the 19th February 2013 the Minister for Finance announced that an agreement had been reached with Great-West Lifeco (Canada Life) for the sale of Irish Life for €1.3 billion with an additional dividend of €40 million being paid to the State prior to completion. While the receipts from the sale improve the Exchequer balance they do not improve the general government balance (GGB) as the sale is classified as a financial transaction. The €40m dividend is counted in Exchequer and in general government terms.

Return to Bond markets

- Ireland returned to market funding over the summer last year.
- Investors committed €4.2 billion of new money to the first long-term debt issuance since September 2010.
- The most recent auction was in January, when a total of €2.5 billion was raised in long-term borrowing.

External Programme of Support

- We have successfully concluded the ninth review mission of the Programme.
- We are again in the position of having met our commitments under the Programme for Q4 (end December 2012), both in terms of policy measures and quantitative targets.
- A substantial number of actions – over 190 (by our count) - have now been completed – with over 30 completed in Q4 alone.
- As of end-January 2013, just under €56 billion (approximately 83%) of the €67½ billion in external funding available under the EU/IMF programme had been drawn down.
- The overall EU/IMF Programme of Financial Support for Ireland has a total value of €85 billion.
- The external funding is being sourced as follows:
 - European Union:
 - European Financial Stabilisation Mechanism €22.5 billion
 - European Financial Stability Facility €17.7 billion
 - International Monetary Fund (IMF) €22.5 billion
 - Bilateral loans:
 - UK € 3.8 billion
 - Sweden € 0.6 billion
 - Denmark € 0.4 billion
 - Total External Funding €67.5 billion
- In total at 28th February 2013 we had drawn down €55.7 billion of the €67.5 billion in loans available to Ireland under the EU/IMF programme. This equates to slightly less than 83% of the available funds.
 - €12.2 billion (net) has been drawn down from the EFSF
 - €21.6 billion (net) has been drawn down from the EFSM
 - €19.0 billion (net) has been drawn down from the IMF
 - €2.5 billion (net) has been drawn down under the UK bilateral loan
 - €0.2 billion (net) has been drawn down under the Danish bilateral loan
 - €0.3 billion (net) has been drawn down under the Swedish bilateral loan.
 - A further amount in the order of €0.5 billion (£stg. 403.370 - the precise euro value depends on the exchange rate on the day) is due to be drawn down under the UK bilateral on 6th March 2013.
- Our Programme expires at the end of 2013.

- The remaining borrowing available to us under the Programme at today's date (7th March 2013) and assuming the UK drawdown on March 6th has completed, is €11.3 billion.
- The NTMA has already commenced market operations this year, with a €2½ billion bond sale in early-January. This represents one quarter of the original total market based funding planned for 2013.
- Ireland's strong programme implementation has been recognised by our European Partners, by the IMF and by the financial markets.
- The Programme remains well financed and we have already started to regain market access as envisaged with a number of successful initiatives this year.
- As we enter this final year of our Programme, we are now focusing on our exit path. Initial discussions on an exit strategy took place during the ninth review mission. We are further developing this work with the Commission, the IMF and the ECB.
- The recent positive developments in relation to our promissory note is of critical importance to the continued success of Ireland's programme.
- However, it is just part of the overall picture and other measures such as the direct banking recapitalisation instrument and the extension of maturities currently under consideration will also be important to our successful exit.
- At the meetings of Eurogroup and ECOFIN Finance Ministers on 21/22 January 2013, it was agreed that the requests by Portugal and Ireland for an extension of maturities would be considered by senior officials before further consideration by Finance Ministers.
- Key actions completed in Q4 2012 were:
 - The enactment of the Personal Insolvency Act 2012
 - The enactment of the Credit Union Credit Union And Co-Operation With Overseas Regulators Act 2012
 - The enactment of the Fiscal Responsibility Act 2012
 - The publication of the Water Services Bill 2013

Interest Costs

- The 2012 Exchequer cash debt service¹ outturn was €6.47 billion, of which approximately 21% (€1.4bn) was related to EU-IMF Programme interest costs.
- Budget 2013 provided for some €8.0 billion* in respect of Exchequer cash debt service¹ costs this year, of which approximately 27% (€2.2bn) is related to the interest costs from EU-IMF Programme borrowing.
- The large year-on-year increase in interest costs reflects the additional burden of servicing an increasing debt – the national debt increased by €18.6 billion in 2012 and is forecast to increase by €15.6 billion** in 2013. The interest costs related to the EU-IMF Programme have increased as the majority of EU loans drawn down in 2012 will have initial interest payments in 2013

* This is the position before the recent replacement of the IBRC Promissory Notes with the floating rate Government bonds. When the promissory notes are factored in Exchequer cash debt service costs will rise by c.€300m (c.€800m cash interest payments on the new Government bonds in 2013 vis-à-vis c.€500m cash interest payments on the Promissory Notes in 2013). However, no principal repayments are required to be made on the new Government bonds while principal repayments of c.€2.6 billion were required to be made on the Promissory Notes in 2013. Any transaction costs (e.g., payments under ELG) would reduce the cashflow benefit.

** The Budget 2013 EBR is reflected in this movement. It does not take into account any recent EBR developments and the recent €25bn issuance of the IBRC related floating rate bonds.

¹. The debt service costs referred to above relate to the National Debt only and are on a cash basis, i.e. they do not include any accrued interest.

Chapter 3 – Banking and Insurance

Please find attached herewith our most recent “Report Card”, which summarises key developments in both the Economic and Banking areas.

Chapter 5 – EU Financial transactions

Key points

- Ireland continues to be a net beneficiary of EU funding.
- In 2011, Ireland benefited from EU budget expenditure of €1.93 billion. Apart from these Public Sector receipts routed through the Exchequer Irish beneficiaries also receive receipts in areas such as Research which are not included in these figures.
- The main sources of EU funding for Ireland are agriculture and rural development funds and structural funds.
- Agricultural funding amounted to €1.46 billion in 2011.
- Structural funding amounted to €171 million in 2011.
- In 2011, Ireland contributed €1.35 billion to the EU budget.
- The component elements of Ireland’s contribution consist of Traditional Own Resources - principally customs duties collected on behalf of the EU (€200m), VAT based resource (€194m) and GNI based resource (€956m).

Current estimated receipts and payments to the EU Budget?

Up to 2011 Ireland’s EU receipts and payments since joining the Community in 1973 amounts to over €67 billion in receipts and over €25 billion in payments so Ireland was a net beneficiary from the EU of over €42 billion since 1973.

In 2012, Ireland received approx €1.8 billion and contributed close to €1.4 billion to the EU Budget. In 2013, it is estimated that Ireland will receive approx €1.7 billion and contribute over €1.4 billion.

The decrease between 2012 and 2013 is partly due to the accounting and budgetary cycle associated with current rural development programme which ends in 2013.

Multiannual Financial Framework (MFF)

- The European Council reached agreement on a new Multiannual Financial Framework (MFF) on 8th February. This establishes the budgetary priorities for the European Union over the 2014 – 2020 period.
- This final agreement provides for an envelope of c. €960 billion, which represents 1 per cent of EU GNI. This implies a 3.5 per cent (€35 bn) real terms reduction from the present MFF.
- Based on current assessments of future Irish and EU economic prospects, Ireland is likely to remain a net recipient from the EU budget over the 2014- 2020 period.
- Our receipts are projected to be of the order of up to €12 billion comprising monies from CAP, cohesion, research and an additional €100m for both the BMW region and rural development. Our contribution is estimated to be in the region of €10 billion over the corresponding period.
- The special €100 million allocation to the BMW region is to mitigate the effects of its change in status from a transition region to a more developed region and to reflect the impact of the economic downturn.
- It is also anticipated that Ireland will access funding from the new Youth Employment Initiative for regions with youth unemployment above 25%. However, we await final details before we can make a full assessment of the impact upon our expected receipts. We will be actively engaging with this process to maximise the return for Ireland.
- Changes to the Own Resource financing system are relatively limited and are broadly neutral in their impact upon Ireland.
- The next step for the Irish Presidency involves steering the MFF legislation through the European Parliament.

Vote 6 (now Vote 7) Appropriation Accounts of the Department of Finance

2012 Outturn

The voted estimate for the Department for 2012 was €32.082m. The provisional outturn figure is €24.7m (as compared to €25.857m in 2011), leaving an amount to be surrendered of some €7m. These figures are subject to audit.

The surplus to be surrendered in 2012 arose largely on three subheads:

- Administrative Budget pay (€2.7m)
- EU Presidency (€1.1m)
- Consultancies (€2.7m)

The savings on Paybill arose for a number of reasons:

- we ran a very successful recruitment campaign during which we recruited Administrative Officers across a variety of skills areas but at a substantially reduced entry salary level;
- we recruited at a slower pace than anticipated in the Estimate in order to ensure that we sourced staff with appropriate skills and experience; and
- we successfully sourced the services of a number of pro-bono staff.

The variance on EU Presidency is very much a timing issue. These savings have been ring-fenced and redistributed to 2013.

Costs in the banking will vary depending on matters arising in the sector. Accordingly, the Estimate must be set at a reasonable level in order to ensure that the Department is positioned to be able to seek the necessary advice and obtain the best result for the State.

The Department has a culture and history of central provision of services – we always provided payroll and accounting services to other Departments and offices and a central pension payment service. The Accounts/PMGs area has a record of innovation and leading change, with the aim of driving down unit costs and improving management information and services to clients.

The Department continues to explore cost saving initiatives. Projects commenced during 2012, which will start to show savings in 2013 include:

- the reorganisation of accommodation arrangements to facilitate efficiencies in our accommodation footprint which will generate full-year savings for the Exchequer of some €0.450m;
- the elimination of payable orders and the introduction of online payslips and P60 documents, together with a reduction in the frequency of issuing payslips to pensioners, which will generate savings of some €0.250m per annum.

Restructuring of the Department

In addition to increasing and supplementing the skills and qualifications of our people, as mentioned above, one of our early initiatives was to revise our strategic objectives for the period 2011-2014. The revised Statement of Strategy was issued in May 2012. In order to better deliver our strategic objectives we restructured the Department into four key policy divisions - EU & International, Financial Services, Fiscal and Economic. The restructuring of the Department also included the creation of two support divisions, the Finance Office and the Operations Office. These two offices, combined with the PMG Banking and Shared Services operation in Tullamore, are captured under our fifth programme – Provision of Shared Services. The format of the Estimate in 2013 will be realigned to reflect these five programmes.