

Luxembourg, 18 March 2011

- FINAL FINDINGS -

EDP dialogue visit to Ireland

16-17 November 2010

Executive Summary

The EDP dialogue visit to Ireland took place on 16-17 November 2010 with the aim to assess existing statistical capacity, to review the division of responsibilities concerning the compilation of EDP statistics and government accounts, to discuss the quality and exhaustiveness of primary data sources, to review the progress achieved in implementing ESA95 methodology (sectorization of units, accrual principles), to assure that provisions from the ESA95 Manual on Debt and Deficit and recent Eurostat decisions are duly implemented and that specific government transactions are properly recorded in the EDP tables, and, finally, to examine the compliance with the ESA95 transmissions programme and the consistency of these data with EDP statistics (as requested by the Regulation (EC) 479/2009, as amended).

First, Eurostat discussed with the Irish authorities the institutional arrangements and source data used for the compilation of government finance statistics. Eurostat welcomed the continuous cooperation of the three institutions. However, given the CSO's compilation of government accounts for the year $n-1$ in June of year n , invited the Irish authorities to review the reporting and publication arrangements for the EDP notification tables before the next EDP notification. As regards data sources, Eurostat encouraged ongoing improvements, especially in the compilation of the financial accounts.

As far as the analysis of the October 2010 EDP notification is concerned, Eurostat examined the tables of the EDP reporting and suggested a few changes. These were of a largely presentational nature with no impact on the government balance. Eurostat emphasized the need for improvement of local government accounts and of the consolidation between central and local government.

Regarding the government interventions in the context of the financial turmoil, Eurostat examined the existing measures and their recording in national accounts, reviewing the arrangements concerning the National Asset Management Agency, the capital injections into financial institutions and the specific guarantees provided by the Irish government. Eurostat concluded that these are in line with previously provided information and encouraged continued monitoring.

Concerning the delimitation of the general government sector, Eurostat enquired about the transportation companies, voluntary hospitals and schools, the local authority house rental account, the public television, public universities and the Irish Intervention Agency. In some cases a reclassification was agreed, in some others there is a need for further investigation.

The follow-up of Council Regulation 2516/2000 and recording of other transactions on an accrual basis were discussed. Eurostat enquired about the sources for tax adjustments and the accrual recording of capital taxes. Eurostat welcomed the efforts of the Irish authorities to comply with the decision on the recording of EU flows, which now seems to be fully implemented.

There was a detailed discussion on Public Private Partnerships. The Irish authorities are fully aware of these transactions, and the CSO – with the cooperation of the responsible bodies – is able to analyse the contracts and to assess the risks borne by the government and the private partner. Some individual projects were examined during the meeting, and the CSO will also consult Eurostat in case of significant or complicated projects.

Capital injections in Ireland are negligible, except for those in the context of the financial crisis, and there are no planned privatizations in Ireland.

Eurostat took note of the existence and recording of government swaps in Ireland. There are no off-market swaps used by the government. There were some early settlements of swaps but these were minor. Eurostat asked about the possible existence of swaps at local government level.

The transfer of pension funds from public bodies to the government was discussed, and Eurostat took note of the amounts involved and the applied recording.

Provisional findings

Introduction

In accordance with article 11 of Council Regulation (EC) No 479/2009 of 25 May 2009, as amended, on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, Eurostat carried out an EDP dialogue visit in Ireland on 16-17 November 2010.

Eurostat was represented by Mr François Lequiller, Director National and European Accounts, Mr. John Verrinder, Head of unit C.4 – Statistics for Excessive Deficit Procedure II, Mr Denis Besnard, and Ms Ágota Krénusz. Representatives of the Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank also participated in the meeting as observers.

Representatives of the Central Statistical Office (CSO), the Department of Finance, and the Central Bank of Ireland were present, together with representatives of some other Irish bodies for specific agenda points.

Eurostat carried out this EDP dialogue visit with the aim to assess the existing statistical capacity, to review the division of responsibilities concerning the compilation of EDP statistics and government accounts, to discuss the quality and exhaustiveness of primary data sources, to clarify the issues relating to EDP tables raised in the context of previous notifications, to review the progress achieved in implementing ESA95 methodology (sectorisation of units, accrual principles), to assure that the provisions from the ESA95 Manual on Debt and Deficit and recent Eurostat decisions are duly implemented, and that specific government transactions are properly recorded in the Irish EDP tables and national accounts

In relation to procedural arrangements, Eurostat explained the procedure, in accordance with article 11 of Regulation 479/2009, as amended, indicating that the *Main conclusions and action points* would be sent quickly to the Irish statistical authorities, who may provide comments. The *Provisional findings* would later be sent to the Irish statistical authorities in draft form for their review. After adjustments, *Final Findings* will be sent to the Economic and Financial Committee (EFC) and published on the website of Eurostat.

The meeting was very constructive and Eurostat appreciated the explanations provided by the Irish authorities during the dialogue visit. Eurostat also thanked the Irish authorities for the information and for the documentation provided before the dialogue visit.

1. Statistical capacity issues

1.1. Institutional responsibilities in the framework of the reporting of data under the Excessive Deficit Procedure and government finance statistics compilation

Introduction

Eurostat inquired about any changes in institutional arrangements and division of the responsibilities in the framework of the reporting of data under the Excessive Deficit Procedure and government finance statistics since the last dialogue visit.

Discussion and methodological analysis

The Irish authorities explained that there had been recent changes in the compilation of data. Notably, from 2010, in June (n) the CSO prepares preliminary accounts for the year n-1, as well as final accounts for year n-2. These accounts are reflected in the EDP statistics reported by the Ministry of Finance in October (n). These preliminary accounts are based on detailed underlying public accounts, but are preliminary because they are not taken from the final audited appropriation accounts; they nevertheless provide a very good match with the final figures.

The Irish authorities confirmed the existence of a working group between the CSO, the Department of Finance and the Central Bank of Ireland but explained that they do not have any formal agreement of cooperation between themselves yet. They cooperate on a daily basis and if the working group meets, minutes are written. An expert is seconded from the CSO to the Department of Finance. The EDP notifications are compiled in cooperation. The CSO agreed to provide Eurostat with a flow chart showing the arrangements.

Findings and conclusions

Given the CSO's compilation of government accounts for year n-1 in June of year n, the Irish authorities are invited to review the reporting and publication arrangements for the EDP notification tables before the next EDP notification (*Action point 1*).

Eurostat welcomes the establishment of the working group between the CSO, the Department of Finance and the Central Bank of Ireland, and encourages regular meetings.

1.2. Data sources, EDP inventory

Introduction

Eurostat enquired about the exhaustiveness, timeliness and consistency of data sources used in compilation of the government finance statistics, in particular relating to local government source data (FMS) and financial accounts data.

Discussion and methodological analysis

The CSO explained that data sources for central government are on a cash basis. However these data are very detailed. Eurostat enquired about the basis and use of payables and receivables data in Appropriation Accounts, and the CSO will inform Eurostat of this.

Eurostat acknowledged the work of the CSO on the recording of Non-Market Public Corporations (NMPCs). The CSO has previously identified the methodology used to calculate the impact of the non-market public corporations on EDP Tables 2A, 3A and 3B, and more generally, the way in which intra-government flows were processed by both the Department of Finance and CSO, as weaknesses and potential sources of imbalances in their systems. Therefore, in the October 2010 EDP notification the CSO presented an action plan, aimed at establishing a correct recording of transactions relating to these units in EDP tables. The action points presented in this document focused on the update of the list of these units, the correct calculation of their net lending/net borrowing (B.9) and correct recording in EDP tables 2A and 3B.

Concerning the list of units, the CSO mentioned that there are only a few borderline cases for central government (as the Office of the Comptroller and Auditor General publishes a list of these bodies, being subject to Audit), therefore the full list could be drawn up by end-2010. The CSO undertook to further investigate such entities at the local government level. Concerning the calculation of B.9 and necessary adjustments in EDP tables, the CSO and the Department of Finance will work together. The CSO undertook that it will complete all the tasks for the 15 largest entities for the April 2011 EDP notification.

The Social Security Funds sub-sector in Ireland consists solely of the Social Insurance Fund (SIF). Data for the SIF are provided by the Department of Social and Family Affairs (DSFA) in its role as manager of the Fund's current account. The SIF has no capacity to borrow; therefore the Exchequer contributes to meet its shortfall. This recommenced in 2009, and the DSFA is looking at how to reconcile its figures with the Exchequer accounts. Eurostat enquired about the existence of payables for the SIF, especially whether there are significant delays between the initial application of an individual and the payment being made. The CSO undertook to confirm this.

The CSO has accrual-based data for non-market agencies, while data for extra-budgetary funds are on cash basis (and there is no intention to change this in the near future). Balance sheet data are available for the Social Insurance Fund.

Eurostat noted that there were a few items in the EDP inventory which seemed to be outdated. The Irish authorities promised to provide an update.

Findings and conclusions

The Irish authorities will update the EDP inventory by the end of 2010 (*Action point 2*).¹

The Irish authorities will check the basis of payables and receivables data in Appropriation Accounts to ensure their completeness and inclusion in EDP statistics by the next EDP notification (*Action point 3*).

¹ The CSO sent an updated EDP inventory to Eurostat in December 2010.

Concerning the Non-Market Public Corporations, it was agreed that a complete list of these units will be drawn up by the end of the year, and that the necessary adjustments in EDP table 2A will be made for the next EDP notification for the 15 largest agencies (*Action point 6*).

The Irish authorities will confirm if the SIF has any payables by the end of 2010 (*Action point 4*).²

² The Irish authorities answered Action Point 4 on the existence of payables in the SIF in December 2010. According to this the SIF has payables, however these are not related to individual benefit claims, as the time lag between the application and the claim actually being paid is not significant.

1.2.1. Local government source data (FMS)

Introduction

Eurostat enquired about the latest experiences with the Financial Management System (FMS) introduced in 2004 for reporting of local government units, as it noted that no noticeable improvements have been made recently to source data for local government.

Discussion and methodological analysis

The Financial Management System (FMS), introduced in 2004 for reporting of local government is accrual-based. There is a detailed breakdown of revenues and expenditures. However there is some need to further improve the detail in the capital accounts. The CSO therefore continues to rely on quarterly financing data collected by the Department of Environment, Heritage and Local government, and uses this result (notably the balance, B.9f) for the compilation of EDP tables, until the results are fully reconciled between this and the FMS. During each notification the Irish authorities send a note to Eurostat on the "*Calculation of Net lending/borrowing (GGB) for Local Authorities using the Income and Expenditure totals reported in the financial management system (FMS)*", in order to show the reconciliation of B.9 and B.9f. In the October 2010 EDP notification Eurostat signalled to the CSO that it was concerned that the residual item (discrepancy between the FMS B.9 and the financial survey B.9f) was increasing.

During the visit the CSO explained that, despite a number of efforts, it has not yet been possible to fully reconcile the transactions reported in the Income & Expenditure and Capital Accounts of Local Authorities with the movements in the associated Balance Sheet. These investigations were undertaken with the assistance of the Department of Heritage, Environment and Local Government which collects and aggregates the annual accounts of the Local Authorities. Unfortunately, due to staff changes, it was not possible to make significant progress. The CSO had therefore initiated direct contacts with Dublin City Council in an effort to reconcile the information in that individual account, and this work was ongoing.

Eurostat encouraged this ongoing work in order to reduce the discrepancy between the financial and the non-financial accounts.

Findings and conclusions

The CSO will send a progress report to Eurostat on the reconciliation of the financial survey and the FMS for local governments by the next EDP notification (*Action point 8*).

1.2.2. Financial accounts data

Introduction

The Irish authorities have made strong efforts to provide Eurostat with consistent annual and quarterly financial accounts data. Since the last EDP dialogue visit they have provided consolidated annual financial accounts and have improved the consistency between annual and quarterly accounts. While the CSO has initiated a number of improvements in this area since the last EDP dialogue visit, it is accepted that further work is required.

Discussion and methodological analysis

Eurostat acknowledged the work made in the reconciliation of financial accounts, however it mentioned that it sees a need for improvement, especially for quarterly accounts. A document previously sent by the CSO was analyzed during the meeting. It was agreed that for the next EDP notification there would be a reconciliation of short and long term loans, especially for local government. The CSO also explained that differences might also arise because of Housing Finance Agency (HFA) accounts.

It was confirmed that MUFA and QFAGG accounts are broadly in line and that the CSO and the Central Bank of Ireland are cooperating in this respect.

Eurostat encouraged the enhancement of cooperation between the CSO and the Central Bank of Ireland, notably by jointly analyzing the accounts of public bodies held at the Central Bank.

Findings and conclusions

The Irish authorities will reconcile long term loans data to ensure consistency between government debt and QFAGG figures by the next EDP notification (*Action point 9*).

The CSO and the Central Bank of Ireland will jointly analyze bank accounts held at the Central Bank by public bodies as soon as possible (*Action point 10*).

1.2.3. Quarterly data

Introduction

Eurostat enquired about the sources and compilation of quarterly data transmission.

Discussion and methodological analysis

The CSO explained that it has access to detailed monthly reports on central government: exchequer returns, government votes, on the Social Insurance Fund, and on taxes and duties. The NTMA is providing interest data on an accrual and similarly, the Department of Agriculture data on EU flows. For quarterly financial accounts the major source of data is the NTMA.

However, data for local government on a quarterly basis is very limited, especially for the non-financial accounts. Quarterly financial accounts are collected through surveys.

Findings and conclusions

Eurostat encouraged the further improvement of quarterly financial accounts. The Irish authorities will develop the quarterly reporting system for central government, with regard to detail by economic category, by April 2011 (*Action point 18*).

2. Follow-up of the October 2010 EDP reporting – analysis of EDP tables

Introduction

Several issues concerning the October 2010 EDP notification were discussed.

2.1. Coverage and timeliness

Discussion and methodological analysis

Eurostat congratulated the Irish authorities for their fast and effective work in the October 2010 EDP notification round and encouraged the continuation of this cooperation.

2.2. Examination of EDP tables

2.2.1. EDP table 1

No specific issues were identified.

2.2.2. EDP table 2A-D

Discussion and methodological analysis

Some issues were clarified concerning EDP tables 2A-D.

Concerning the adjustment for Central Bank income, the Irish authorities confirmed that there was no surplus in the Central Bank accounts, therefore no adjustments have been necessary from 2006 on, and therefore this line includes zeros.

Regarding the adjustment for Loans (F.4) in EDP table 2A, the Irish authorities explained that these mainly relate to an adjustment for agricultural grants. The amounts included for a given calendar year are the reimbursements claimed by the Department of Agriculture, Fisheries and Food from the EU in respect of expenditures actually incurred in the calendar year. These can differ significantly from the actual reimbursements by the EU in the year, which can be received up to three months after the Irish Exchequer pays the subsidies. Such advance payments by the Exchequer to recipients of EU FEOGA subsidies are treated in the National Accounts as an acquisition of a financial claim on the EU, with no impact on government net lending/net borrowing, and are classified as 'Loans granted' in Table 2A. The corresponding receipts from the EU are classified in Table 2 as 'Loans, repayments'. The remaining values are accounted for by small amounts of loan transactions between the Exchequer and various commercial semi-state companies.

The Irish authorities previously provided to Eurostat a document on the Irish Intervention Agency. According to this, in the Irish National Accounts this body's market intervention activity has been classified in the Non Financial Corporations Sector (S.11) while its subsidy and grant distribution activities have been classified within the General Government sector (S.13). The adjustments in EDP table 2A are related to subsidy and grant intervention activities. However, the Irish authorities also discovered that the Agency has an account in the Central Bank as well. The Irish authorities therefore proposed a new treatment for the adjustment for these flows in EDP table 2A. This would also eliminate the effect of movements in the bank

account and would treat the claim on the EU as other accounts receivable (F.7) as foreseen by the ESA95 Manual on Government Deficit and Debt (MGDD).

Eurostat also enquired about the recording of agricultural disallowances in EDP table 2A. The Irish authorities explained that if a grant is not reimbursed by the EU, the Department of Agriculture, Fisheries and Food would make up the shortfall, thus this would be shown in the working balance. The CSO undertook to clarify this issue.

Eurostat enquired about the calculation of the amounts appearing for UMTS licence adjustments. The Department of Finance agreed to provide more information on this to Eurostat.

Regarding military expenditure adjustments, the CSO explained that data were taken previously from the appropriation accounts, but the methodology was changed in September 2009 because the Department of Defence confirmed that this was not a reliable indicator of deliveries. This was mainly because some 'Military equipment' were not capitalised, and for items that were capitalised there may have been delays before they were actually added to the fixed assets register. Therefore the CSO sends a questionnaire to the Department of Defence for each notification to reconcile these figures. Eurostat encouraged the proper calculation of military deliveries and the necessary adjustment in EDP table 2A, already for the April EDP notification of year n+1.

Eurostat signalled to the Irish authorities that in the October notification of year n+1 there is no amount shown for the other accounts payable adjustment item "*Other voted expenditure*" of year n (in the October 2010 EDP notification for the year 2009). The CSO explained that the final Appropriation Accounts are not available for the second EDP notification. Eurostat suggested calculating this amount from the draft Appropriation Accounts. The Irish authorities promised to enquire about this.

The issue of the reconciliation of transfers between central and local government is still an outstanding issue. The CSO promised to provide an explanation on the recording of these imbalances in the usual FMS note they send with each EDP notification.

Eurostat enquired about the working balance in EDP table 2C. The Irish authorities clarified that this is taken from the Financial Management System, and as such is on an accrual basis. The CSO will correct - for the next EDP notification - the basis of the working balance from "*mixed*" to "*accrual*". As the FMS figures are only available with some delay, the working balance figures for year n-1 are assumed to be zero. This leads to a residual item (in 2009 - 39mn EUR). The forecast figures are always set at -200mn EUR as this is the borrowing limit, for which local government bodies have the central government's permission. Eurostat encouraged the Irish authorities to report a working balance for at least the October EDP notification, and to reconcile B.9 (coming from the FMS) and B.9f (coming from the financial survey), to reduce the residual amount (discrepancy) for each year.

Findings and conclusions

Eurostat encouraged the Irish authorities to continue with the good practice of timely transmission of EDP tables, as in the October 2010 EDP notification. The Irish authorities will investigate how the agricultural disallowances are recorded in the government's accounts by the end of 2010 (*Action point 11*).

The Irish authorities will provide a table detailing the calculation of the UMTS licence adjustment as soon as possible (*Action point 12*).

The Irish authorities will investigate how they could receive at least the draft of the Appropriation Accounts for the year n-1 early enough to provide the necessary adjustment in the September EDP notification of year n. They will report to Eurostat by the next EDP notification (*Action point 13*).

The Irish authorities will take steps to improve the recording of the consolidation flows within central government (including improvements to the database system) by the next EDP notification (*Action point 7*) and will examine how the reconciliation of grants between central and local government is recorded in EDP tables 2A and 2C, reporting to Eurostat by the next EDP notification (*Action point 14*).

The Irish authorities will ensure that FMS data for local government are available early enough for their inclusion in EDP table 2C in September of year n+1, by the October 2011 EDP notification (*Action point 15*).

The Irish authorities will correct the reported basis of the working balance as shown in EDP table 2C from mixed to accrual for the next EDP notification (*Action point 16*).

2.2.3. EDP table 3A-E

Discussion and methodological analysis

Eurostat enquired about the increase/decrease split of long term loans in EDP table 3, because it was not currently reported. The Irish authorities promised to investigate this. For the row "*Other volume changes in financial liabilities*" Eurostat asked the Irish authorities to consistently report zeros and not available (L). The Irish authorities informed Eurostat that the 'not available' for "Interest flows attributable to swaps and FRAs" line is incorrect and that this row will be completed for the next EDP notification.

Concerning statistical discrepancies in EDP table 3, the CSO informed Eurostat that these mainly relate to the instruments F.5, F.6 and F.7 and that the CSO and the Department of Finance will cooperate to decrease them.

Findings and conclusions

The Irish authorities will further investigate the provision of the following items in EDP table 3: (1) Split of long term loans (increase/decrease), (2) The interest flows attributable to swaps and FRAs and, (3) the Other volume changes in financial liabilities by the next EDP notification (*Action point 17*).

3. Government interventions in the context of the financial turmoil

3.1 National Asset Management Agency

Introduction

The National Asset Management Agency (NAMA) was set up in October 2009 in order to restore stability to the Irish banking system during the financial crisis, by arranging and supervising the purchase of approximately 77bn EUR worth of property related loan books from certain financial institutions.

NAMA created a Special Purpose Vehicle (SPV) to purchase certain assets from participating institutions – most of these assets being loans associated with property development. This SPV has a majority of private equity ownership. It is funded through the issuance of securities, most of which are backed by a guarantee from the Irish Government.

After considering several factors (majority of private investors, temporary duration of existence (initially 10 years), major haircuts on loans acquired, with no expected losses), Eurostat agreed with the CSO's analysis that the SPV can be classified in the financial corporations sector (NAMA itself being part of the general government sector), as provided for in its ex-ante advice in October 2009.

Discussion and methodological analysis

Eurostat enquired about progress compared to the initial plans which were presented to Eurostat when the advice had been given, on the progress of the loan transfers, the temporary duration, on the existence of the private investors and the so-called "NAMA Act Paragraph 225 surcharge" – a tax imposed on participating banks in the event that NAMA makes losses.

The information provided during the meeting was in line with the original plans. Nevertheless Eurostat asked to be informed about future progress and requested an up to date NAMA business plan.

Findings and conclusions

Eurostat reviewed the arrangements concerning NAMA, the National Asset Management Agency, and concluded that these are in line with the information provided before the provision of the ex-ante advice in October 2009. The statistical classification of NAMA and the related SPV remains appropriate.

As soon as the next NAMA business plan is available, the Irish authorities will send this to Eurostat (*Action point 28*).

3.2 Capital injections into Anglo Irish Bank and grace period on promissory notes

Introduction

Anglo Irish Bank's heavy exposure to property lending, with most of its loan book being to builders and property developers, meant that it was badly affected by the downturn in the Irish

property market in 2008. In January 2009, the Irish government announced that it would take steps that would enable the Bank to be taken into State ownership. The Anglo Irish Bank Corporation Act provided for the transfer of all the shares of the Bank to the Minister for Finance and was enacted under Irish law on 21 January 2009. In order to protect the capital position of the Bank the Minister for Finance provided two capital injections in 2009: at the end of June for 3bn EUR, and in September for 1bn EUR. In December 2009, the Minister committed to safeguard the Bank's regulatory capital position. As a result the Minister approved an injection for 8.3bn EUR on 31 March 2010, bringing the government's investment in Anglo Irish bank to 12.3bn EUR. This injection was in the form of "promissory notes". Further injections were made in 2010: at the end of May: 2bn EUR, in the form of promissory notes, at the end of August for 8.58bn EUR in the form of promissory notes, and a further 6.42bn EUR at the end of the year 2010, establishing an amount of promissory notes of 25.3bn EUR (plus the additional initial injections in cash of 4bn EUR).

The restructuring of the bank was also announced. The CSO signaled that it will inform Eurostat on the progress of this restructuring (including the view of DG Competition).

At the end of October 2010 Eurostat had received from the CSO an official ex-ante request on the so-called "*interest holiday*" planned by the government on the promissory notes for 2011 and 2012.

Discussion and methodological analysis

The Irish authorities informed Eurostat that all injections into Anglo Irish Bank were recorded as capital transfers in national accounts. Eurostat enquired on the current state of the play on the restructuring. The Irish authorities informed Eurostat that there was no decision as yet made by the European Commission but that it was expected before the end of 2010.

Concerning the grace period on the interest payable on promissory notes, Eurostat inquired about the existence of possible penalties if there were to be early repayments during the grace period. The Irish authorities agreed to investigate this.

Findings and conclusions

The Irish authorities will inform Eurostat on the final details of the split of Anglo Irish Bank, when this is agreed (*Action point 31*).

The Irish authorities will provide to Eurostat the draft contract for the promissory note for Anglo Irish Bank by 26 November 2010, and indicate if promissory notes for Irish Nationwide and Educational Building Society have any different features (*Action point 32*).

3.3 Capital injections into other financial institutions

Introduction

Capital injections into other financial institutions (INBS, EBS, Allied Irish Banks and Bank of Ireland) were discussed.

Discussion and methodological analysis

In 2010, the government purchased "investment shares" in both the Educational Building Society (EBS) and the Irish Nationwide Building Society (INBS). This was originally classified in quarterly financial accounts as an equity injection, however in the EDP return it was recorded as capital transfer. During the meeting, the Irish authorities explained to Eurostat that this classification requires more consideration, therefore it was agreed that the CSO will gather more information on the nature of these shares and would then establish the correct recording and reconcile the quarterly financial accounts and the EDP return.

Further injections into EBS and INBS were made in promissory notes and have been classified as capital transfers in national accounts.

Preference shares of Bank of Ireland and of Allied Irish Banks were bought by the National Pensions Reserve Fund in 2009. These were recorded as Securities other than shares (F.3). In 2010 these preference shares were converted into ordinary shares for both institutions. The Irish authorities considered that the conversions were in line with State Aid rules (have been approved by the European Commission), but agreed to confirm this to Eurostat.

Findings and conclusions

Concerning the special investment shares in the Irish Nationwide Building Society and the Educational Building Society, it was agreed that the Irish authorities will gather further information in order to decide whether recording as an equity injection (F.5) or as a capital transfer is appropriate, as soon as possible (*Action point 29*).

Regarding the preference shares acquired by the Irish government in the Bank of Ireland and the Allied Irish Banks, Eurostat agreed on their classification as Securities other than shares (F.3).

The Irish authorities will clarify and report to Eurostat whether the conversion of the preference shares in the Bank of Ireland and the Allied Irish Banks have been analyzed under the European Commission State aid procedure and if the conversion was at an appropriate value, as soon as possible (*Action point 30*).

3.4 Other operations in the context of the financial turmoil

Introduction

Eurostat enquired about further operations in the context of the financial turmoil.

Discussion and methodological analysis

The Irish authorities gave an account of the special guarantee schemes introduced by the government in 2008. In 29 September 2008, the Irish government put in place a guarantee arrangement to safeguard all deposits (retail, commercial, institutional and interbank), covered bonds, senior debt and dated subordinated debt (lower tier II) of the following financial institutions: Allied Irish Bank, Bank of Ireland, Anglo Irish Bank, Irish Life and Permanent, Irish Nationwide Building Society and the EBS Building Society and certain approved

subsidiaries. In October 2008, the Minister extended the scheme to cover all financial institutions.

The interest payable relating to the bank guarantee scheme is recorded as equal to the interest receivable under the scheme, since the level of receipts was explicitly set by the Minister of Finance to be equal to the expected extra interest costs incurred by the State as an indirect result of its guarantees to the financial institutions. These amounts are reported in the Supplementary tables for the financial turmoil in the EDP notification.

Findings and conclusions

Eurostat took note of these explanations.

4. Methodological issues and recording of specific government transactions

4.1. Delimitation of general government, application of 50% rule in national accounts

Introduction

Eurostat enquired about the arrangements concerning the delimitation of the general government sector and the application of the market/non-market rule.

Discussion and methodological analysis

The Irish authorities informed Eurostat that the classification of units is checked every second year.

Concerning the local government units, the Irish authorities explained that in the Financial Management System there is a separate note devoted to the list of units controlled by local governments. Nevertheless, this part of the FMS is not completed. The CSO agreed to contact the Department of Environment, Heritage and Local Government to remind local authorities to complete this part of the survey.

Findings and conclusions

The Irish authorities will draw up a list of units controlled by the central government. Similarly, they will investigate the existence of corporations controlled by the local governments (through completion of the relevant FMS reporting) by the next EDP notification (*Action point 5*).

4.1.1. Public transport companies (railway, motorway, transportation companies, airports, ports)

Introduction

Eurostat enquired about the classification of transport companies.

Discussion and methodological analysis

During the last dialogue visit it was agreed that the "*The CSO will examine the 2008 figures of the Irish Rail and if appropriate, the CSO will reclassify Irish Rail inside government, for the April 2009 EDP notification*". As Irish Rail did not comply with the market/non-market criterion for being considered a market unit, the company was reclassified to the general government from 2006 onwards.

The holding corporation CIÉ (which includes the three principal operating subsidiaries Irish Rail, Dublin Bus and Bus Éireann) itself stayed classified in the non-financial corporation sector, as it is not simply a mother company, but has other activities as well. It was concluded that CIÉ holding, Bus Éireann, and Dublin Bus were market units.

The Irish authorities informed Eurostat that the Rail Procurement Agency (RPA), currently classified in general government, is the developer of the LUAS infrastructure but the service operator is a private partner. Therefore it is not clear how the fare revenues are distributed between the two companies. Consequently, the Irish authorities are not certain about the figures

used for checking the market/non-market rule. The CSO will investigate this and review the classification of RPA for the next EDP notification.

Findings and conclusions

The Irish authorities will clarify how the fare revenues of LUAS are distributed between the Rail Procurement Agency and the private partner by the next EDP notification (*Action point 20*).

4.1.2. Classification of voluntary hospitals and schools

Introduction

Voluntary secondary schools are privately owned and managed, but obtain state funding provided they comply with certain regulations. More recently, due to the decline in religious vocations, the ownership of these schools is being transferred over to trusts. These trusts are non-trading, non-profit limited companies with charitable status. Each school within the trust would be managed by a Board of Management with a principal in general control of everyday management. The Boards of Management generally comprise representatives of the Trust / Religious Order / Patron, the school principal and parents. The remaining schools are managed by boards of governors or by individuals. Voluntary schools are funded to a large extent by the state, on a per capita basis, with the local community / parents often topping up funding. Approximately 90% of teachers' salaries are met by the state. Voluntary secondary schools are attended by about 60% of secondary education students and still form the largest part of the secondary school system. Currently these schools are classified as non-profit making institutions serving households (S.15).

Discussion and methodological analysis

During the previous dialogue visit it was explained that Exchequer grants to secondary schools are considered as Government transfer payments and included in the National Accounts as Final Consumption Expenditure of Non-Profit Institutions Serving Households (NPISH). The Government expenditure on these schools is therefore already captured in National Accounts calculations, and as these schools do not run a deficit, their inclusion or exclusion in Government would not make an impact on Government deficit/surplus. It was concluded that the CSO would further investigate the question of government control

To address the issues of control, the CSO used the Eurostat questionnaire on public universities, and compiled a detailed analysis which they sent to Eurostat before the visit.

The Irish authorities explained that classification on the basis of control is not straightforward, as from a legal point of view these schools are independent (for instance, they can be closed at their own initiative). However, the Department of Education classifies them as public unit. It was also explained that these schools do not prepare financial statements, so if they were classified inside the general government, the impact would have to be estimated on the basis of the current and capital grants from the government. Eurostat encouraged the CSO to consult the Department of Education and send its proposal (taking into account also practical aspects) to Eurostat by the April 2011 EDP notification.

As regards *voluntary hospitals*, the Irish authorities explained that these are 95% government funded and that these are mainly controlled by the government. Therefore, it was agreed that the

CSO would reclassify them to the general government sector in time for the next EDP notification. It was also concluded that these institutions should be reclassified at the time of the creation of the HSE (Health Service Executive) in 2005, which extended effective government control over these hospitals.

The Irish Authorities explained that they have limited access to the data (accounts) of these hospitals, therefore they use capital grants data. The CSO also explained that it is considering the introduction of a customised questionnaire for data collection. Eurostat encouraged this, notably to develop source data for the October EDP notification of year n+1.

Findings and conclusions

The Irish authorities will consider the classification of voluntary schools and report to Eurostat before the April 2011 EDP notification (*Action point 22*).

The Irish authorities will further investigate how they can have access to voluntary hospitals data in time for the October EDP notification in year n+1, by the October 2011 EDP notification (*Action point 21*).

4.1.3. Follow-up issues from the previous dialogue visit and other issues

Introduction

Classification issues from the previous dialogue visit were discussed: classification of RTE, Public universities, Local Authority House Rental Account and the Irish Intervention Agency. During the meeting, the Irish authorities raised the issue of the classification of the Dublin Docklands Development Authority.

Discussion and methodological analysis

The classification of television and radio companies was discussed during the previous visit. The CSO confirmed at that time that more than 50% of the revenue of RTE comes from commercial activities. Thus even if television licence fees were not considered as sales, RTE should be considered as a market body as it complies with the 50% rule. During the current meeting the CSO informed Eurostat that the commercial income of RTE had fallen in recent years. Eurostat recommended the analysis of a longer time horizon (3 years) in order to consider if reclassification is necessary.

The classification of the *Public universities* was raised by the Irish statistical authorities during the Dialogue Visit of 2006. There was extensive discussion about possible government control. The Irish authorities, in their answer to the questionnaire sent out on the universities by Eurostat in October 2008 explained, that "*the universities continue to enjoy a substantial degree of statutory and practical autonomy and are therefore classified to the NPISH sector*". It was agreed during the previous dialogue visit that, although the universities are not controlled by the government, their financing also has to be scrutinized, especially the financing arrangements and in particular research grants and government payments in lieu of student fees.

The Irish authorities examined the income of the public universities and came to the conclusion that if the "free fees"³ payments are recorded as transfers in kind benefiting students then the universities are covering an average of two thirds of their costs.

Moreover, the CSO also mentioned that due to strong financial pressures on both government and universities, the trend towards lower Government financial support (and hence higher own-resource income) is likely to accelerate. The Government had already announced that universities may from the 2011/2012 academic year double the 'registration fee' payable by all undergraduate students, even those availing of the 'free fees' scheme, from €1,500 to €3,000.

Due to their demonstrated autonomy of decision and the fact that the majority of their financing comes from outside government, Eurostat agreed with the continued classification of the public universities outside the general government sector.

The Local Authority Housing Rental Account is treated as a quasi corporation (outside the general government sector). Local Authorities rent out their accommodation at subsidised prices to low-income families. In National Accounts, these rents are valued at their full economic value and the difference between these economic rents and the rents actually paid by tenants is considered to be a social benefit in kind provided by the Local Authorities to households.

During the last dialogue visit it was concluded that "The Irish authorities will reclassify the House Rental Accounts of Local Authorities for the April 2009 EDP notification and will provide Eurostat with an explanatory note on the recording of transactions involving affordable housing, with examples". The Irish authorities provided accounting examples in the October 2009 EDP notification, however they mentioned that they intended to defer making the necessary changes, pending the resolution of a number of other classification issues.

Eurostat acknowledged the work undertaken by the Irish authorities and asked that the necessary adjustments are made by June 2011.

Concerning the Irish Intervention Agency, the CSO intends to correct the recording issue mentioned under EDP table 2A (point 2.2.2).

The Irish authorities raised the issue of the classification of the Dublin Docklands Development Authority. They mentioned that they have a concern about the correct classification, as this entity has incurred significant losses from investments in property. They will clarify this and report to Eurostat.

³ Under the 'free fees' initiative, set up in 1995, the Department of Education and Science meets the tuition fees of eligible students who are attending full-time undergraduate courses, where 'eligible students' are those who: (a) are first-time undergraduates, and (b) hold E.U. Nationality or Official Refugee Status, and are ordinarily resident in an E.U. Member State. Payments are not made to students who are repeating a year at the same level. The 'free fees' payments are not treated as a separate revenue stream in the accounts of the universities, but rather recorded as part of tuition fee income. Given that the 'free fees' payments are tightly linked to individual students on individual courses, that historically they are direct replacements for equivalent fees previously paid by students, and that it is students rather than the universities who lose out when repeating a year of a course (where the 'free fees' payment is replaced by a cash fee paid by the student), it seems that the most appropriate treatment of these payments in the national accounts is to record them as transfers in kind to students, rather than a subvention to the universities."

Findings and conclusions

Concerning public universities, it was agreed that these would continue to be classified in the non-profit institutions serving households sector.

The Irish authorities will record the house rental account on a gross basis by June 2011 (*Action point 23*).

The Irish authorities will further examine the classification of the Dublin Docklands Development Authority and report to Eurostat by the next EDP notification (*Action point 19*).

4.2. Implementation of accrual principle

4.2.1. Accrued taxes and social contributions

Introduction

Eurostat enquired about changes in the recording of taxes and social contributions.

Discussion and methodological analysis

Eurostat thanked the Irish authorities for providing a new questionnaire on taxes and social contributions, and enquired about progress concerning the recording of capital taxes, which were recorded on a cash basis, due to methodological difficulty in identifying the appropriate time lag and obtaining necessary data. The Irish authorities explained that there is currently no information available for the adjustments but they agreed to investigate this issue.

Eurostat asked why cash figures from the Exchequer account are used for the April n+1 EDP notification when data for the subsequent notification are taken from the Revenue Commissioners (Net receipts). The Irish authorities explained that the Revenue Commissioners data are more detailed and are closer to an accrual basis. The CSO agreed to make a comparison of the two sources and provide more information on this to Eurostat.

Findings and conclusions

The Irish authorities will compare taxation figures from the Exchequer account and the Revenue Commission "net receipts" and report to Eurostat. Further, the Irish authorities will check that there are no non-cash elements such as write offs in the net receipt figures, by the April 2011 EDP notification (*Action point 24*).

The Irish authorities will confirm if the recording system allows for time adjustment of capital taxes, by the end of 2010 (*Action point 25*).

4.2.2. Calculation of accrued interest

Introduction

Eurostat enquired about the recording of accrued interest.

Discussion and methodological analysis

Concerning accrued interest, it was confirmed that the National Treasury Management Agency (NTMA) calculates the accrued interest for central government and the social security sub-sector, while the CSO makes the calculations for local government. Data for savings accounts held at An Post are available on an accruals basis. There are no interest consolidation problems between sub-sectors.

Eurostat enquired about the recording of coupons sold. The Irish authorities explained that these arrangements exist in Ireland and that the issue proceeds, which represent payment for the embedded interest, are retained by the NTMA and deposited in a separate account to be used for the future repayment of the "coupons sold". In national accounts, these have been recorded so far under accrued interest. The CSO agreed to take into account the result of the forthcoming Financial Account Working Group meeting, and record the coupon sold accordingly.

The CSO explained the recording of interest of the Small Savings Reserve Fund (SSRF), a saving scheme where interest is not paid until encashment. They explained that the accrued interest calculation at the end of the period is made on the basis of the interest due to be paid if the schemes were cashed in on that date. This means that the accrued interest amount at the end of two years will therefore only include the interest payable at that time if the certificate was encashed. The bonus interest payable for keeping the certificate for the full three year period is therefore attributed in its entirety to year 3. Eurostat agreed with this recording.

Findings and conclusions

With regard to the recording of coupons sold, the Irish authorities will take account of the result of the forthcoming discussion in the December 2010 Financial Account Working Group (*Action point 26*).

Eurostat agreed with the Irish statistical authorities on the treatment of Small Saving Scheme as regards the recording of interest, that is to record the actual interest rate earned at the end of each year, the final bonus being attributed to the third year.

4.3. Recording of specific government transactions

4.3.1. Public Private Partnerships

Introduction

Eurostat enquired about the institutional arrangements concerning public private partnerships, the recording in national accounts and current PPP projects.

Discussion and methodological analysis

The Irish authorities explained that PPPs in Ireland are supervised by the National Development Finance Agency (NDFA), which must be consulted in all cases of investments of project value of 30mn EUR or more, except for transport projects, which are supervised by the National Roads Authority, the National Transport Authority and the Railway Procurement Agency. The NDFA assesses risks according to the guidelines set by the PPP unit of the Department of Finance and the methods used are consistent with the current MGDD chapter on PPPs of Eurostat. Other PPPs would probably be identified by the Irish statistical authorities through the press and other sources.

The CSO is not aware of the government providing guarantees on PPP projects.

The Irish authorities raised three questions during the meeting regarding special arrangements of PPP projects:

1) Does the involvement of the European Investment Bank in the financing of projects influence the classification of assets of PPPs?

Eurostat explained that in this case it has to be examined whether the government is providing any guarantee on the project (as the EIB usually requires government guarantee on its loans). If this is the case, the rules set down in the MGDD must be applied on the proportion of the guarantee (MGDD chapter VI.5, part VI.5.3.5).

2) How should the involvement of Allied Irish Banks (AIB) in PPP projects be recorded, as the equity of AIB is 50% owned by government?

Eurostat thought that in this case the PPP projects have to be analyzed in more detail, especially whether the financing provided to the private partner is an independent profit seeking activity of the bank, without any pressure from the government, and whether the financing is provided on market terms.

3) How do the enabling (preparatory) works for a certain project influence the recording in national accounts?

The Irish authorities explained that preparatory works for the Metro project are undertaken by the government. Eurostat explained this may affect the statistical classification of the project, if these add considerably to the value of the underlying asset.

The Irish authorities provided a list of the existing PPP projects. Transport (road) projects, except for the M50 upgrade, are concessions, however newly planned PPP projects are designed

differently; Eurostat asked for more information. Environmental projects are recorded on the balance sheet of government. The new Schools Bundle has been designed on the basis of the former schools projects, which had already been examined by Eurostat.

Findings and conclusions

The CSO will contact the NRA to examine recent PPP road projects and will report to Eurostat by the next EDP notification (*Action point 27*).

4.3.2. Capital injections in public corporations, dividends (interim dividends), privatization

Introduction

Eurostat enquired about recent capital injections in Ireland.

Discussion and methodological analysis

Equity injections in Ireland are normally reported as negligible, however due to the financial crisis, several injections were made in financial institutions in the recent years (see under point 3). From the document presented by the CSO, it was confirmed that CIÉ receives repeated capital injections. These are treated as capital transfers impacting the deficit.

Eurostat noted that there were increased dividend payments for public corporations in 2009/2010. The CSO will investigate whether there is a superdividend element in these payments.

The CSO is not aware of any firm commitment to undertake privatisations.

Findings and conclusions

The CSO will analyze the increase dividends in 2009/2010, to determine whether there is any superdividend element by the April 2011 EDP notification.

4.3.3. EU flows

Introduction

Concerning EU transfers, Eurostat thanked the CSO for the update on its comprehensive note on the current arrangements.

Discussion and methodological analysis

Eurostat confirmed that the Irish authorities are applying the adjustment for all structural funds. Eurostat thanked the Irish authorities for their detailed note on the adjustments.

Findings and conclusions

It was concluded that Ireland fully complies with the Eurostat decision on EU grants.

4.3.4. Guarantees

See under part 3.4.

4.3.5. Swaps

Introduction

Eurostat enquired about the existence and the recording of swaps in Ireland.

Discussion and methodological analysis

The National Treasury Management Agency use interest rate swaps, currency swaps and foreign exchange contracts, but do not rely on FRAs for debt management purposes. These are used for hedging purposes, but the overall adjustment for swaps in national accounts is minor.

The NTMA was involved in a number of early settlements of interest swap agreements over the period 2000 to 2009. These were short-term agreements and the amounts of money involved were small. In aggregate, over the period, the net amount received by the NTMA was about 0.7mn EUR. In the EDP notifications, interest paid is reported inclusive of swap agreements and has been reduced by these lump sum receipts.

There are no off-market swaps used in Ireland.

Eurostat enquired about the possible use of swaps at the local government level. The Irish authorities mentioned that the Housing Finance Agency (HFA) might have used swaps. They promised to provide more information on this to Eurostat.

Findings and conclusions

Eurostat took note of these arrangements. The CSO will investigate the possible use of swaps by the Housing Finance Agency and inform Eurostat, including any swaps in EDP data by the next EDP notification date (*Action point 33*).

4.3.6. Transfer of pension funds from public bodies to government

Introduction

During the last dialogue visit the Irish authorities brought Eurostat's attention to the possible transfer of pension funds of non-commercial state sponsored bodies.

Discussion and methodological analysis

The Minister of Finance formally announced in the 7 April 2009 Supplementary Budget that the Irish government would in 2009 and 2010 assume the assets and liabilities of the funded pension schemes of the five older Universities, and of certain non-market public corporations. At the end of 2008, these schemes were estimated to have total liabilities of 3bn EUR and total assets of 1.7bn EUR.

The assets were transferred from the pension funds directly to the National Pensions Reserve Fund (NPRF), and the pension payment obligations of the funds will be assumed by the Exchequer on a pay-as-you-go basis.

In total, the CSO estimated that this has resulted in an improvement to the general government balance of 629mn EUR in 2009 and 1.07bnEUR in 2010. This has been recorded as a capital transfer to the NPRF.

Findings and conclusions

Eurostat took note of this transaction and agreed on its classification.

5. Other issues

5.1. ESA95 Transmission Programme (tables 2, 6, 7, 9, 11, 25, 27 and 28)

Eurostat and the CSO reviewed the transmission of data in the relevant tables.

Annex: List of participants

	Name	Institution	
1.	Francois Lequiller	Eurostat	Director – National and European Accounts
2.	John Verrinder	Eurostat	Head of Unit C.4 - Statistics for Excessive Deficit Procedure II
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7.	Mick Lucey	CSO	
8.	Ciaran Judge	CSO	
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10.	Rod O'Mahony	CSO	
11.	Ciara O'Shea	CSO	
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