



EUROPEAN COMMISSION  
EUROSTAT

Directorate D: Government Finance Statistics (GFS)

Luxembourg,

**- FINAL FINDINGS -**

**EDP dialogue visit to Ireland**

**26-27 February 2019**

## **Executive summary**

Eurostat undertook an EDP dialogue visit to Ireland on 26-27 February 2019 as part of its regular visits to Member States and with the aim to assess the existing statistical capacity, review the implementation of ESA 2010 methodology, review the recording of specific government transactions and ensure that provisions from the ESA 2010 Manual on Government deficit and debt and recent Eurostat decisions are duly implemented in the Irish EDP tables and national accounts.

First, the institutional responsibilities in the framework of the reporting of data under the EDP and the data source were reviewed. The discussion focused on the developments in data sources and processes for both central and local government including discussion on the change of the main data source for compensation of employees.

Then, outstanding issues from the October 2018 EDP notification were discussed in more detail. In particular, the treatment of short-term securities and repo transactions in quarterly financial accounts of general government and debt data, and the financial derivatives were touched upon.

Regarding the delimitation of general government, a detailed discussion took place on the sector classification of two new units, the Land Development Agency and the Home Building Finance Ireland, and the reclassification of the Eircom and Coillte pension funds in the sector of general government.

The discussion continued on the accrual taxes and social contributions, the recording of EU flows, military equipment and a data collection to make estimate for GFCF accruals. A more detailed discussion took place on the recording of interest based on a new reporting template provided by the Irish statistical authorities prior to the visit.

In the context of the public interventions during the financial crisis, discussion focused on the sector classification of NAMA-IL.

Concerning Public Private Partnerships, some new and some existing PPP contracts were discussed.

Finally, a number of other issues, such as capital injections, dividends and privatization, guarantees, energy performance contracts and emission permits were also discussed.

Eurostat appreciated the documentation provided prior to the EDP dialogue visit and the good cooperation on the EDP-related issues from the Irish statistical authorities. Eurostat also thanked the Irish statistical authorities for their co-operation during the visit and considered that the discussions were transparent and constructive.

# Final findings

## Introduction

In accordance with 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 to Ireland on 26-27 February 2019.

The delegation of Eurostat was headed by Mr Luca Ascoli, Head of Unit D-1: Excessive deficit procedure and methodology. Mr Philippe de Rougemont, Ms Simona Frank and Ms Galjinka Dominic also represented Eurostat. Representatives of the Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meeting as observers.

Ireland was represented by the Central Statistics Office, the Department of Finance, the Central Bank of Ireland, the Department of Housing Planning and Local Government, the Environmental Protection Agency, the Department of Public Expenditure and Reform, the National Treasury Management Agency, the National Development Finance Agency, Transport Infrastructure Ireland, the Irish Bank Resolution Corporation, the National Asset Management Agency and Home Building Finance Ireland.

Eurostat carried out this EDP dialogue visit in order to review the implementation of ESA 2010 methodology, ensure that the rules of the ESA 2010 Eurostat Manual on Government Deficit and Debt are complied with and that Eurostat decisions are duly implemented in the Irish EDP and Government Finance Statistics (GFS) data. A main aim of the dialogue visit were to review the implementation of ESA 2010 methodology, such as interest recording, treatment of short-term securities and the treatment of financial derivatives.

In relation to procedural arrangements, the *Main conclusions and action points* were sent to the Irish statistical authorities for their comments. Then, within weeks, the *Provisional findings* would be sent to the Irish statistical authorities in draft form for review. After possible changes (if any), the *Final Findings* would be sent to the Economic and Financial Committee (EFC) and published on the website of Eurostat.

Eurostat appreciated the documentation provided prior to the EDP dialogue visit. Eurostat also thanked the Irish statistical authorities for their co-operation during the visit and considers that the discussions were transparent and constructive.

## 1. Statistical capacity issues

### 1.1. Review of institutional responsibilities in the framework of the EDP data reporting and government finance statistics compilation

#### *Introduction*

The institutional arrangements for the compilation and transmission of EDP and GFS data in Ireland were discussed.

#### *Discussion and methodological analysis*

Memoranda of Understanding (MoUs) exist between the Central Statistics Office (CSO) and the Department of Finance (MoF) and between the CSO and the Central Bank of Ireland (CBI). These define roles and responsibilities, set out arrangements for the transmission of data and specify areas of co-operation between the bodies involved.

The CSO informed Eurostat that the MoU with the Department of Finance was updated in 2018. The CSO expects that a MoU with the CBI specifically for GFS will be signed by mid-2019. Work is continuing to finalise the MoU between the CSO and the CBI to create a combined MoU in relation to financial accounts, covering GFS/EDP and Balance of Payments. The CSO explained that they use CBI's data on the debt structure and the data by debt holder for national accounts purposes. The CSO confirmed that the update would cover cooperation and confidentiality issues. In addition, Eurostat inquired whether the MoU with the National Treasury Management Agency (NTMA) had been signed. The CSO confirmed that work is ongoing to finalise this MoU. The current strong working relationship with the NTMA will be further strengthened by the signing of the MoU.

The Irish statistical authorities cooperate through the Government Finance Statistics Liaison Committee (GFSLC) which comprises representatives of the CSO, the CBI and the MoF and is a formalised mechanism for exchange of views and information. The GFSLC structures make provision for the establishment of different expert groups on specific topics. Currently, there are four such groups in operation, a PPP and Capital Investment Expert Group, a General Government Debt Expert Group, a Taxes Expert Group, and a Local Government Expert Group.

The Eurostat welcomed the Department of Public Expenditure and Reform (DPER)'s intention to involve/include the CSO in the development of the Chart of Accounts, as this will enable the incorporation of GFS requirements.

Eurostat welcomed the on-going Department of Public Expenditure and Reform (DPER)'s work on the development of a shared Chart of Accounts as part of the Financial Management Shared Services initiative<sup>1</sup>. The CSO's on-going role in this work, including input on ESA/GFS coding requirements was noted.

The Government Accounts Division of the CSO is responsible for the compilation of non-financial accounts, financial accounts, Maastricht debt and the EDP notification. In 2018, the

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<sup>1</sup> The OECD report 'Financial Reporting in Ireland' is now published and available at link <http://www.oecd.org/gov/budgeting/Financial-reporting-in-Ireland-web.pdf>

Division was divided into two functions – the Government Accounts Compilation and Outputs (GACO) and the Government Accounts Classifications (GAC). One of the first outputs of the new GAC division has been the publication of guidelines for procedures on accessing advice on sector classification decisions. In addition, documentation on significant classification decisions is published on the CSO website. Eurostat welcomed the Irish practice of publishing documentation that explain important classification decisions. As stated in the document, provided prior to the EDP mission, the GAC division intends to establish a working arrangement with the Ireland Strategic Investment Fund (ISIF) to ensure that adequate detail on their investment activity is being captured, and in order also to ensure the correct classification of any investments and/or investment vehicles with which they engage.

### *Findings and conclusions*

Eurostat took note of the issue.

## 1.2. Data sources and revision policy, EDP Inventory

### **Data sources for the Central government**

#### *Introduction*

The developments in data sources and processes undertaken in Government Accounts were discussed as well as progress on two action points, AP 2 and 3, from the last EDP Dialogue Visit, namely data sources for the compensation of employees (COE) and the coverage of bank accounts in the Finance Accounts. In addition, data sources and calculation of B.9 for the Social Insurance Fund (SIF) were reviewed.

#### *Discussion and methodological analysis*

##### The developments in data sources

Regarding the developments in data sources and processes, the CSO reported on quality management initiatives and on the government accounts IT project.

The CSO reported that a review of data sources and data processing has been completed for GFS/EDP purpose and considers that this will facilitate the development of the new government accounts IT system. Furthermore, the CSO informed Eurostat that the aim of the IT project, which is a part of an on-going National Accounts IT development project, is to transfer the GFS data processing and analysis from the current Excel-based system to an integrated database for National Accounts production, which is already in operation for other National Accounts outputs. The CSO further explained that one significant and innovative part of this extensive project is the development of a Company Accounts Input System (CAIS). CAIS enables collection and coding of all relevant Annual Financial Statements. The CSO is of the opinion that the new system, over a two-year period, will bring benefits of efficiency and robustness of data quality and processing.

##### The coverage of bank accounts in the Financial Accounts

During the EDP Dialogue Visit in 2017, Eurostat and the Irish statistical authorities discussed the coverage of bank accounts of the central government bodies and Eurostat stressed that all

bank accounts of government bodies, in the Central Bank and commercial banks, should be reported in the financial accounts (and EDP table 3). The CSO explained that they use NTMA data source for Currency and deposits (F.2) as well as the Central Bank data, and agreed to verify that all accounts are correctly reported in F.2. The Irish statistical authorities informed Eurostat that, by comparing the aggregate from financial accounts data with the bank accounts detail from the CBI, it has been possible to perform a reasonably good reconciliation for some of the larger items. This was the case in particular, for the balance on the Exchequer Account, which is by far the largest component of AF.2 assets, comprising approximately 67% of total AF.2. In addition, it has also been possible to reconcile, to a large extent, the balances of the accounts relating to the Post Office Savings Bank Fund (POSBF). This comparison suggests that there are government bodies which hold bank accounts in banks other than the Central Bank of Ireland.

#### Data sources and calculation of B.9 of the Social Insurance Fund

Prior to the visit, the CSO sent a document explaining the data sources and calculation of B.9 of the Social Insurance Fund (SIF). The principal data sources for the SIF accounts are (a) the SIF's annual report; and (b) Pay Related Social Insurance (PAYE) item from the tax data coming from Revenue; and (c) quarterly returns from Department of Finance (DFIN). This data feeds the financial accounts, both sides of the balance sheet, and the non-financial sides of the accounts. In terms of the balance sheet, the corresponding transactions are calculated as the change in position and the B.9 is calculated from both the financial accounts and non-financial accounts. In the April 2018 EDP notification, the methodology for historical estimates of the SIF B.9 was revised to take account of the DFIN's quarterly returns as well as of Revenue data. The CSO further explained that, when the final SIF annual report is available, which is usually at N+9 months, final estimates of both B.9f and B.9nf are calculated and revisions are made in time for the October EDP notification, if necessary. The accrual basis of B.9 of SIF was confirmed. The difference, between B.9 of the Financial Statements and B.9 reported in the EDP table 2A, is time-adjustment for social contributions<sup>2</sup>.

Eurostat asked the Irish statistical authorities to recall the reason why the SIF is not shown as part of the S.1314. The CSO explained that the sector classification of the SIF was reviewed under ESA 2010 implementation and the CSO assessed that the SIF does not meet the criteria to be classified as an institutional unit. Consequently, the SIF was reclassified as an extra-budgetary fund within the S.1311.

Ireland is one of the two Member States with no presentation of the S.1314 subsector and Eurostat asked the Irish statistical authorities to reflect on the possibility to change the presentation in order to be harmonised with other Member States. The CSO agreed to reflect on it and confirmed that they do not see a problem with the separate presentation of the subsector.

#### *Findings and conclusions*

**Action point 1.** *The Irish statistical authorities will reflect on reporting the social insurance fund in S.1314 of government, also in order to harmonize their practices with the EU member States.<sup>3</sup> Deadline: by October 2019*

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<sup>2</sup> Time adjustment for social contributions is one month.

<sup>3</sup> The CSO have provided the note on this issue. The separate reporting of S.1314 will be completed in conjunction with the transition to the new national accounts IT compilation. Eurostat considers this action point to have been completed.

### Data sources and calculation of the compensation of employees

For the first time in June 2016, a new data source was used concerning compensation of employees (D.1), replacing the budget reporting with the tax and social security declarations, the so-called P35 data.

The administrative P35 data is collected by the Revenue Commissioners. The P35 datasets give a more census-level coverage of the labour market in Ireland and contain information (at a person-job level) on taxes paid for Social Insurance purposes and on the amount of mandatory Employer's Contribution to Social Insurance. They contain details of commencements / cessations of employment, employee personal public service (PPS) numbers, employer registration numbers (with links to employer information – e.g. NACE coding, institutional sector) and details of tax paid.

The CSO considered that the new source data is advantageous as being timely and permitting a homogeneous treatment across sectors.

During the 2017 DV, Eurostat asked whether there was a significant gap between the two data sets and if yes, where the adjustments are to be made in the EDP tables. Eurostat requested a detailed explanation on the new data sources used, showing a reconciliation table with data from the Department of Public Expenditure and Reform databank as well as the various ESA categories concerned by this adjustment. The CSO acknowledged that this action point was overdue and, while some progress has been made, it had been significantly curtailed due to other CSO priorities.

Eurostat considered that the differences in figures concerning COE for the government sector between budget reporting and tax and social security declarations should be properly monitored and justified, and that the Irish statistical authorities should provide the reconciliation tables requested in 2017. In addition, the Irish statistical authorities agreed to confirm which ESA categories are concerned by these adjustments for COE.

### *Findings and conclusions*

***Action point 2.*** Eurostat considers that the differences in figures concerning compensations of employees (COE) for the government sector between budget reporting and tax and social security declarations should be properly monitored and justified. Reconciliation tables should be provided to Eurostat in this respect in the context of the reconciliation exercise. The Irish statistical authorities will confirm the ESA categories (e.g. P.2 etc) which are concerned by these adjustments for COE.<sup>4</sup>

*Deadline: by the April 2019 EDP Notification*

### **Data sources for the Local government**

#### *Introduction*

For the first time, the CSO provided a bridge table between public accounts items, used as a basic data source for national accounts under ESA 2010, for local government.

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<sup>4</sup> The CSO have provided the note. Eurostat considers this action point to have been completed.

Two important issues concerning the data sources used for the EDP purpose were discussed: (1) coverage/consolidation issue and (2) B.9f as a definitive estimate for EDP reporting.

### *Discussion and methodological analysis*

In many cases, the revenues and expenditures of local government-controlled entities have been consolidated with the accounts of local government, with no possibility to distinguish which of the entities are market corporations. Eurostat acknowledged the progress made by the CSO in identifying the bodies controlled by the Local Government (please see 4.1.3). It was agreed that the CSO will confirm the sector classification of those entities and accordingly reclassify them.

The main data sources continue to be the Quarterly GGB return (balance sheet data) and the consolidated Annual Financial Statement of the 31 Local Authorities (LAs). This data is supplemented by Quarterly Local Government (LG) return on Revenue, capital expenditure and debtors; by Preliminary estimate of income and expenditure (bi-annual reporting of high level estimates of current and capital income and expenditure for latest and forecast years); and by Department of Finance quarterly data collection on local government income and expenditure.

The CSO and the Department of Housing, Planning and Local Government (DHPLG) have developed a template for each LA to allow the reconciliation between the B.9nf and B.9f. This has been so far completed for 22 LAs. The DHPLG is working with the remaining nine LAs to complete this template. Since the last EDP Dialogue Visit in 2017, the data from the consolidated AFS is processed in a more structured manner, to facilitate future integration into the Government Accounts Database.

Since the last Dialogue Visit, 14 Approved Housing Bodies (AHBs), and the housing relating activity of another organisation, have been classified in the local government sub-sector. Data sources used for this classification included the annual financial statements, as submitted to the Companies Registration Office, and Annual Financial Returns to the Housing Regulator. In February and August 2018, the CSO and Department of Finance issued a joint survey to AHBs on their income, expenditure and balance sheet data with respect to the most recent historic year and three forecast years.

### *Findings and conclusions*

***Action point 3.*** Eurostat considers of utmost importance the fact to implement unit by unit non-financial accounts and reporting for every single local authority in the context of the October 2019 EDP Notification. Eurostat considers the current method of using mainly consolidated financial statements as not fit for the EDP reporting. Moreover, the template of the data requested to local authorities should be sent to Eurostat.<sup>5</sup>

*Deadline: by the October 2019 EDP Notification*

***Action point 4.*** The Irish statistical authorities will look into the issue of classification of entities owned by local government in order to confirm whether these entities are actually controlled by government. They will accordingly reclassify in government those that are not-

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<sup>5</sup> The CSO have provided the note on progress made and we expect further update for the October 2020 notification.



market and include those which are market in the list of the public corporations questionnaire.<sup>6</sup>

Deadline: end-December 2019

### **Revision policy**

#### *Discussion and methodological analysis*

The CSO and Eurostat reviewed the existing revision policy.

For the March transmission (EDP), revisions to year n-2 are expected, e.g. due to availability of Local Authority data post September year n-1. Revisions to earlier years are confined as far as possible to essential /material changes, e.g. methodological issues, re-classifications.

For the June transmission of National Income and Expenditure (NIE), government data will be aligned to the April EDP transmission insofar as possible. A number of expenditure categories will be revised based on updated data sources and data produced by national accounts on an annual basis. Any material revisions will be reviewed and implemented.

For the September transmission (EDP), revisions due to material updates which are not available for the June transmission are made to year n-1. For earlier periods, revisions are again restricted to essential changes, e.g. methodological issues, re-classifications. The CSO explained that, due to on-going work with their data providers to deliver estimates in time for the NIE vintage, they have further reduced the impact on the September estimates and expect to make further improvements to timeliness in the future.

For the December transmission, no routine revisions are made to any periods except the quarters of the current year. In practice, this policy was implemented fully for the first time by the GFS division only in the Q3 2018 transmission and the associated national government statistics release. However, the CSO intend to maintain this practice in the future.

### **EDP inventory**

The CSO informed Eurostat that the ESA 2010 EDP Inventory<sup>7</sup> is ready to be published on their website. The CSO provided Eurostat with the Annexes 1, 2 and 3 along with the Inventory.

## **1.3. Compliance with Council Directive 2011/85**

### *Introduction*

The issue of country publication presentation was discussed under this point of agenda.

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<sup>6</sup> The CSO have provided the note on progress made and we expect further update for the October 2020 notification.

<sup>7</sup><https://ec.europa.eu/eurostat/documents/1015035/8572485/IE-EDP-Inventory-Oct18/436a0a78-55ab-46fe-a6bb-6fe222b2dd99>

### *Discussion and methodological analysis*

Data published nationally are mainly consistent with the figures provided to Eurostat in the questionnaire on 'Supplement on contingent liabilities and potential obligations'. A discrepancy, not in the total but in the structure, is observed for the liabilities of government controlled entities classified outside government - entities involved in financial activities. The CSO explained that the difference in the data published by the MoF and the CSO relates to coding. The Questionnaire on government-controlled entities automatically assigns bodies to the financial sector based on the NACE coding (column S in the questionnaire). The MoF seems to have classified the financial bodies according to the MFI listing only, though there are a few entities which are involved in financial activity but are not on the MFI list, which leads to the observed difference.

### *Findings and conclusions*

**Action point 5:** *In the context of the reporting of contingent liabilities the Department of Finance should use NACE codes in order to ensure the consistency with figures reported to Eurostat.*<sup>8</sup>

*Deadline: end-December 2019*

## **2. Follow-up of the EDP dialogue visit of 23-24 January 2017**

### *Introduction*

Eurostat and the Irish statistical authorities discussed the progress made since the previous EDP dialogue visit in January 2017.

### *Discussion and methodological analysis*

Out of 39 actions points agreed during the previous visit in January 2017, 28 were completed, two have not been due yet (AP 1 with no date and 32 in year 2020) and nine were outstanding (2, 3, 4, 5, 10, 12, 17, 23 and 27). Prior to the visit, out of the nine outstanding, eight were considered in progress.

### *Findings and conclusions*

All outstanding action points, except the action point 27<sup>9</sup>, were discussed during the visit under various points of the agenda.

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<sup>8</sup> Eurostat considers this action point completed.

<sup>9</sup> Action point 27. DV2017: The Irish statistical authorities and Eurostat will reflect on the sector classification of Employee Share Ownership Trusts (ESOTs). The CSO had the initial discussions with the Department of Finance and they gather some preliminary information on these trusts. The Department of Finance are currently reviewing relevant legislation and archived files on such trusts established for public corporations. The CSO will continue to review this item using published accounts and legislation. Additional material such as archived files may be sought from Department of Finance where necessary.

### 3. Actual data October 2018 EDP reporting - Analysis of EDP tables

#### *Introduction*

Eurostat and the Irish statistical authorities discussed the outstanding issues from the October 2018 EDP notification: the treatment of short-term securities and repo transactions in quarterly financial accounts of general government (QFAGG) and debt data, and their reporting in the EDP table 3B.

#### *Discussion and methodological analysis*

The repo activity is where bonds are issued to the market, for short-term period by NTMA and then subsequently cancelled. It is a buy-back agreement at fixed price. The period of a repo is generally between two to five days. The Irish statistical authorities explained that adjustments for the results of repo activities are made in the EDP tables 3, in both the premiums/discounts on tranching and the cancellation costs, in order to calculate the item “Issuances above/below nominal value”. The Irish statistical authorities also confirmed that an adjustment was made for the floating rate notes (FRN), issued in connection with the liquidation of IBRC to the Central bank of Ireland (CBI), which were repurchased from the CBI at their market value. Eurostat commented on the relatively high margin paid for FRN and questioned whether the FRN has the nature of a bond or more of a loan. The Irish statistical authorities confirmed the nature of a bond. Further, they expressed a view that although this affects CBI’s profit and returns to the central government, this effect is neutralised through the super-dividend test.

Eurostat enquired about some negative values of debt securities in the questionnaire on the structure of government debt for 2017 by maturity. Eurostat asked how the Irish statistical authorities categorised debt securities, and how the repurchases were treated. Eurostat also enquired about the impact of repo activities on debt securities in this table. NTMA agreed with Eurostat that the table on the structure on government debt should not contain negative values and confirmed that when securities are repurchased the initial maturity is entered in the table of the Questionnaire. NTMA considers that the main problems arise from the model established for EDP reporting.

One of the findings of the discussion on the interest recording and financial derivatives, which is presented in detail under *4.2.2 Accrued interest* and *4.3.4 Financial derivatives*, was the fact that the impact of stream of interest payments on swaps are reported in the “Difference between interest accrued and paid”. Eurostat explained that this adjustment should be reported in the line “Net settlements of swaps contracts” in the table 2A and these amounts should be reported under derivatives in the table 3B. In addition, large transactions incurred in 2015, relating to the unwinding of the hedged debt, were detected, and consequently the reporting in the table 3B for derivatives positions should be adjusted. Eurostat considered that this could lower the statistical discrepancy.

In October 2018, the CSO delivered, for the first time, a preliminary breakdown of the EDP table 3B into the Budgetary Central Government (3B1) and the other central government bodies (3B2). Eurostat thanked to CSO and took note of the problems encountered in compilation of the tables 3B1 and 3B2 as stated in the document supplied prior the mission.

The CSO decided to take a broader definition of the main central government entity, which includes along the Exchequer (Budget), also the primary bodies and agencies of Central

Government like Ireland Strategic Investment Fund (ISIF), the National Treasury Management Agency (NTMA), the Social Insurance Fund (SIF) and the Extra-Budgetary Funds (EBFs). The CSO reasoning is based on the structure of those primary agencies and their relationships with the Exchequer. For example, ISIF manage assets, NTMA manage debt, SIF is dependent for cash flow and there are flows between EBFs and the Exchequer.

The CSO faced the initial challenge of identifying those elements of the data that corresponds to transactions involving the Exchequer. In addition, some working assumptions were necessary, for example, the assumption that all F.5 asset flows derive from entities that interacted with the Exchequer and are therefore included in the Budgetary Central Government, what is a part of central government. In relation to consolidated debt, there may well be cases of intra-sectoral indebtedness.

The supplementary table on government support to financial institutions, in particularly the Part 3, was briefly discussed. It was agreed that the CSO would assure to record transactions consistently with stocks.

### *Findings and conclusions*

**Action point 6.** *The Irish statistical authorities will report to Eurostat, concerning the questionnaire on the structure of government debt (by maturity), on the treatment of securities issued by tranches, the treatment of the repurchases of securities and treatment of the repo activities in table, and will eliminate the anomaly of negative entries accordingly.<sup>10</sup>*

*Deadline: by October 2019*

**Action point 7.** *The impact of stream of interest payments on swaps should be reported in the line “Net settlement of swaps contracts” in T2A and not in the one “Difference between interest accrued and paid”.<sup>11</sup>*

*Deadline: by the April 2019 EDP Notification*

**Action point 8.** *The Irish statistical authorities will correct the recording of the figures reported in T3B concerning the stream of interest payments. As those amounts should be reported under derivatives, this may reduce the statistical discrepancy for those amounts (roughly EUR 0.9 billion in total for four years).<sup>12</sup>*

*Deadline: by the April 2019 EDP Notification*

**Action point 9.** *The Irish statistical authorities will adjust the reporting in the T3B for derivatives positions for the large transactions incurred in 2015 relating to the unwinding of the hedged debt (the reimbursement of IMF borrowing) with an impact on the statistical discrepancy for roughly EUR 1.2 billion.<sup>13</sup>*

*Deadline: by the April 2019 EDP Notification*

**Action point 10.** *The Irish statistical authorities will correct the supplementary table on government support to financial institutions, according to the elements which emerged during the discussion and notably in order to record transactions consistently with stocks.<sup>14</sup>*

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<sup>10</sup> The CSO has provided the note. Eurostat considers this action point to have been completed.

<sup>11</sup> The CSO has implemented the change as agreed during the mission. Eurostat considers this action point completed.

<sup>12</sup> The CSO has implemented the change as agreed during the mission. Eurostat considers this action point completed.

<sup>13</sup> The CSO has implemented the change as agreed during the mission. Eurostat considers this action point completed.

<sup>14</sup> Eurostat considers this action point completed.

*Deadline: by the April 2019 EDP Notification*

## **4. Methodological issues and recording of specific government transactions**

### **4.1. Delimitation of the general government sector**

#### **4.1.1. Changes in sector classification since the 2017 EDP visit**

Prior to the visit, the CSO provided the list of new General Government controlled units, and the list of units removed, by sub-sectors, since the last EDP dialogue visit. Compared to the previous list, there were 24 new units or newly listed units as a result of the CSO/DPER survey and 24 units were removed from government because they were dissolved, or were dormant or sold to a private operator.

The Irish authorities were also asked to provide a note on the recording of public units in liquidation and inactive units. The CSO informed Eurostat that, currently, they do not have a record of such public units in liquidation or inactive. They further explained that this is directly managed through their data collection process for the Register of Public Sector Bodies.

#### **Approved Housing Bodies (AHB)**

##### *Introduction*

After the issue of AHBs classification was revisited in the light of the ESA 2010, the CSO reclassified into government the largest AHBs from Tier 3 (14 AHBs) into the government sector and the activity of one AHB was re-routed through the government accounts for the April 2018 EDP Notification. During the mission, the CSO's further implementation plan as regards AHBs was discussed.

##### *Discussion and methodological analysis*

When the classification review began, there were 16 AHBs classified in Tier 3, representing the largest AHBs in existence at the time. The CSO reported that the final Tier 3 AHB, a disability service provider, could not be reviewed at that point as their accounts were structured in such a way that it was not possible to identify separately their housing activity. Meanwhile, two further AHBs had been re-categorised from Tier 2 to Tier 3. The CSO stressed that the structure between Tiers is not a static one as the classification of Tier relates to the amount of housing units owed by specific AHB. The CSO has now compiled a classification pack for these new Tier 3 bodies along the lines used in the original review and expects to have the classification review completed in first quarter of 2019. Furthermore, the CSO informed Eurostat that the Tier 3 AHBs, outstanding from the first review, has recently established a separate company to undertake its housing activity. Until the accounts of this new company are available, it will not be possible to conclude the Tier 3 classification process. Eurostat enquired about the primary activity of the re-routed AHB.

The next stage in the process, as indicated by the CSO, will be the classification of the Tier 2 AHBs. The CSO is currently analysing the usefulness of the existing documentation for the

classification review and direct data collection from the AHBs might be required. The CSO will report Eurostat on the progress of this issue by the end of 2019.

The status of Tier 1 AHBs, units with no development plans or development plans that keep the total under 50 units, is yet to be fully determined. The CSO is of the opinion that a pragmatic approach will have to be worked out for the Tier 1 assessment, taking materiality issues into account. Eurostat suggested that Tier 1 could be done via a macro adjustment.

Eurostat enquired about AHBs' ability to finance themselves on the market, which was confirmed for those belonging to Tier 3 and Tier 2 while Tier 1 AHBs, according to the CSO, have a lack of capacity to this.

### *Findings and conclusions*

***Action point 11.*** *The Irish statistical authorities will complete the analysis of Approved Housing Bodies for the remaining entities in Tier 3 as well for Tier 2 and Tier 1. Perhaps via macro adjustment for Tier 1 entities.*<sup>15</sup>

*Deadline: by September 2019 for Tier 3 – remaining cases, by June 2020 for Tier 2 and end-December 2020 for Tier 1*

### **Land Development Agency**

#### *Introduction*

Eurostat and the Irish statistical authorities discussed the sector classification of the newly established Land Development Agency (LDA). The LDA is an agency established to coordinate the development of land for residential purposes.

#### *Discussion and methodological analysis*

The Irish statistical authorities explained that the object of the LDA is to develop land for housing or other purposes on relevant public lands and other lands on a commercial basis. This objective requires the establishment of a land bank<sup>16</sup> of relevant public lands, and the establishment of mechanisms and collaborative structures between public and private entities to develop land.

Eurostat enquired about the LDA's financing. The Irish statistical authorities, DHPLG, explained that the LDA is not expected to receive significant funding from the Department vote and it would operate as an Irish commercial semi-state organisation. The LDA is to be capitalised initially by a transfer of funds from the ISIF taking the form of share capital to be undertaken by the Minister. Funding of up to EUR 1.25 billion is anticipated. The LDA is also expected to raise private debt financing in the future. Eurostat enquired about the LDA's portfolio and the initial portfolio presented during the mission mainly consists of the local government land.

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<sup>15</sup> The CSO have provided the note on progress made and we expect further update for the October 2020 notification.

<sup>16</sup> A database of public land relevant to the functions of the LDA.

All current staff are former NAMA employees, seconded from the NTMA under an agreement with the DHPLG as an interim arrangement during the establishment phase. It is expected that, during 2019, the staffing would rise to around 20 personnel who are to be recruited through open competition.

As previously noted the LDA is established as a commercial semi-state corporation, as defined by the Code of Practice for State Bodies, in the form of a Designated Activity Company. The main client of the LDA is government. From a review of the establishing legislation, the CSO considers public control to be sufficiently established through the Minister's powers to appoint the Board and CEO of the LDA. The Department have stated publicly that the LDA will operate on a commercial basis. However, to date, no business plan to assess its market/non-market status has been available.

Eurostat agreed with the CSO that the prudent course is to classify the LDA to central government until a full analysis of the LDA business plan and financial model are undertaken, since there is currently no adequate information available to make a final decision on the classification of the LDA.

#### *Findings and conclusions*

**Action point 12.** *Eurostat agrees with the Irish statistical authorities on the classification of the Land Development Agency in the sector of general government (S.13).*<sup>17</sup>

*Deadline: by the April 2019 EDP Notification*

#### **Pension schemes**

##### *Introduction*

Eurostat and the Irish statistical authorities discussed the issue of two pension schemes: the Coillte No 2 Pension scheme and the Eircom No 2 Pension scheme.

##### *Discussion and methodological analysis*

The issue of the Eircom No 2 pension scheme was discussed during the EDP dialogue visit in 2014 and the classification outside the general government was not challenged at that time, as Eurostat understanding was that the fund was an autonomous funded scheme<sup>18</sup>. The reassessment was initiated by a DG ECFIN query, concerning a lump sum pension payment to Eircom No 2 Pension Fund before the October 2018 notification. After further correspondence with the CSO on the matter, Eurostat concluded that the Eircom No 2 Pension Fund should be classified in S.13, as an unfunded defined benefit pension scheme, concerning previous government employees for which government took responsibility and that it should be reclassified retroactively.

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<sup>17</sup> Eurostat considers this action point completed.

<sup>18</sup> The Final Findings EDP Dialogue Visit to Ireland, 26-28 November 2014: "The Irish authorities explained to Eurostat that the Eircom scheme is still a funded scheme and that there are 400 million euros left in the fund, which would last approximately until 2019. Pensions are paid out from that amount and the scheme is a defined benefit scheme. Eurostat expressed its view that payments should be recorded as government expenditure when the assets of fund will be exhausted."

The Irish statistical authorities raised the issue of the Coillte No 2 pension scheme prior the EDP mission. Coillte is the Irish government agency responsible for forestry. It was established under the Forestry Act in 1988, and the legislation included a provision for the transfer of former civil servants to the new agency. A Coillte No.1 Fund exists to finance superannuation benefits for those who became employees after the vesting day, 1 January 1989. The Coillte No. 2 Fund was established to assume the responsibility for pension payments in respect of pre-1989 service. Under the terms of Section 44 (9) of the Forestry Act 1988, the Minister for Finance is required to make contributions towards the cost of benefits accrued in respect of service before 1 January 1989 (vesting day). The No. 2 Fund is exclusively with respect to former civil servants, as outlined above. An actuarial review of the No. 2 Fund is required at least annually. If the review identifies that there is insufficient funds to meet the costs of benefits and expenses of the No. 2 Fund, the Minister for Finance provides payment to the No. 2 Fund, to ensure that the value of the assets does not fall below the estimated costs. Following the first payment request, the Minister for Finance shall provide such funding on a three month basis until the accrued benefits are discharged.

Eurostat agreed with the view that the Coillte No 2 pension scheme, in respect of its statistical classification, has features identical to that of the Eircom No 2 pension scheme and that it should be classified accordingly in S.13.

Since 2014, the Irish EDP data have not included a separate social security funds subsector. Previously, the only entity reported in this sub-sector was the SIF. Having assessed the SIF as not having the characteristics of an institutional unit, the CSO decided in 2014 that it was more appropriate to include it with the central government sub-sector. Therefore, at present, the CSO compilation systems are not set up for the inclusion of sector S.1314 in their outputs. The adjustments required to create an additional subsector are both labour intensive and high risk, given the amount of manual intervention required. The CSO proposed, as an interim measure, to classify both the Eircom No 2 and Coillte No 2 pensions' schemes, like the SIF, in central government for the April 2019 notification. This treatment will remain until the CSO's transition to their new database system that will be designed to accommodate all sub-sectors.

#### *Findings and conclusions*

**Action point 13.** *The Eircom and Coillte pension funds will be reclassified retroactively in the sector of general government (S.13).*<sup>19</sup>

*Deadline: by the April 2019 EDP Notification*

### **Home Building Finance Ireland**

#### *Introduction*

The sector classification of a new funding vehicle for housing development, Home Building Finance Ireland (HBFI), was discussed. The HBFI is established to provide finance to property developers as part of overall government housing policy.

#### *Discussion and methodological analysis*

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<sup>19</sup> Eurostat considers this action point completed.



HBFI's remit is in the context of public policy, specifically, housing policy. HBFI is entering into lending to promote the development of residential property as its lending policy is closely aligned with government policy on increasing supply of residential property. While it is stated that HBFI can enter into other activities, these appear to be limited in scope and related to its primary function, at least in its early stages. The Ireland Strategic Investment Fund, classified into S.1311, is to provide initial funding of EUR 750 million to HBFI.

Although the briefing document prepared by Department of Finance mentions profitability, the fact that the HBFI is to be dissolved when the Minister determines that its continuation is no longer necessary, suggests that policy rationale and not the rate of return is the primary reason for the existence of HBFI.

The CSO is of the view that HBFI should be classified as a publicly controlled captive financial institution in the central government sub-sector.

#### *Findings and conclusions*

**Action point 14.** Eurostat agrees with the Irish statistical authorities on the classification of Home Building Finance Ireland as a public captive financial institution to be classified in the sector of general government.<sup>20</sup>

*Deadline: by the April 2019 EDP Notification*

#### **Recording of export credit insurance in national accounts**

A note on the recording of export credit insurance in national accounts was required. Until 1998, an Export Credit Insurance scheme was operated by the State, which provided cover for exporting companies against the risk of non-payment by buyers abroad. All outstanding claims and recoveries under the State backed scheme have been finalised. The State ceased providing Export Credit Insurance in 1998, which is since then provided through the market.

### **4.1.2. Application of the market/non-market test**

#### *Introduction*

Prior to the visit, the Irish statistical authorities provided a document containing information for two requested units VHI<sup>21</sup> and RTE<sup>22</sup>, specifying which items from their financial report enter a specific ESA category for the purpose of 50% test. The application of the market/non-market test was discussed, based on this document.

#### *Discussion and methodological analysis*

The market/non-market 50% criterion, is applied annually, based on the published annual reports of units.

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<sup>20</sup> Eurostat considers this action point completed.

<sup>21</sup> The Voluntary Health Insurance Company

<sup>22</sup> Radio-Television of Ireland

For the purpose of the market/non-market test, consumption of fixed capital compilation uses depreciation from business accounts. In the business accounts, the historical cost method is used and no adjustment is made for the 50 % test.

The losses on trade receivables are reported under other items, usually under general and administrative expenses. Losses on trade receivables are booked in business accounts when the possibility of a loss becomes known (annually). The information on losses on trade receivables is not available to the CSO and, consequently, no adjustment is made for the 50 % test. The losses on inventories are deducted from the value added when compiling S.11.

Eurostat enquired whether the items specified under the “other operating income “for VHI could be considered as “sales” for the 50% market/non-market test. The item “Other operating income” for VHI unit contains a number of different items like Change in the provision for unearned premium, reinsurer’s shares, Other technical income - net of reinsurance, Claims paid -reinsurer’s share, Change in the provision of claims gross amount, other income. The question of the correct treatment of net interest.

#### *Findings and conclusions*

**Action point 15.** *The Irish statistical authorities will examine the amounts included among “sales” in business accounts for the items under “other operating income”, in order to assess whether such amounts can be considered as “sales” for the 50% market/non-market test. The Irish statistical authorities will also assess how and whether net interest is currently treated (for which the 50% test is currently assessed by the Irish statistical authorities).<sup>23</sup>*  
*Deadline: by March 2020*

### **4.1.3. Government controlled entities classified outside the general government**

#### *Introduction*

The CSO provided the last update of the Questionnaire on government-controlled entities in December 2018 and, compared with the December 2017 Questionnaire, the difference concerned only two units.

#### *Discussion and methodological analysis*

Annual accounts of public corporations are analysed and the market / non-market (50%) criterion is applied annually to all those units whose liabilities exceed 0.1 % of GDP. Smaller units are monitored as part of on-going data processing and if a change in trend revenues/costs are observed over a 2-3 year period, the market / non-market test is calculated. Subsidiaries belonging to a group entities are analysed separately when accounts are available - e.g. Ervia, ESB.

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<sup>23</sup> The CSO have provided the note on progress made and we expect further update for the October 2020 notification.

Once a publicly controlled institutional unit covers less than 50% of its operating costs on an ongoing basis for three consecutive years, then the unit is reclassified to the general government sector.

Eurostat invited the Irish statistical authorities to automatize the 50% test. The qualitative criteria of ESA 2010 are also applied as appropriate in classification decisions. This includes a review of the autonomy of the body under consideration, its existing or planned relationship with government including the role of government as customer and the functioning of the market in which the body operates or will operate – including the presence of competitors. Concerning the criteria used for sector classification of new units, the CSO maintains a template of relevant questions to be answered in respect of a public body, which includes information on the nature and purpose of the entity as well as its governing structures and financing sources.

The CSO provided an update on the list of entities controlled by Local Government and classified outside of the Government sector. In 2018, the revised questionnaire was sent to 31 Local Authorities, through the Department of Housing, Planning and Local Government and, to date, 28 have been returned. The preliminary overview shows that of the 182 bodies, 99 entities may be currently incorrectly classified in the local government subsector, of which 9 entities are market and consolidated with LA and 90 are non-market and not consolidated with LA. The net impact of amending the incorrect classification of the remaining bodies would be an increase in liabilities of around EUR 26 million in year 2016, which represents around 0.01% of GDP. A large proportion of the liabilities reported are trade credits or other payables. In addition, the B.9 improvement of the local government for 2016 would be of around EUR 10 million.

### *Findings and conclusions*

***Action point 16.*** Eurostat invited the Irish statistical authorities to automatize the 50% test and, accordingly, reclassify in the sector of general government all public units which have failed it for 3 years in a row.<sup>24</sup>

*Deadline: by March 2020*

## **4.2 Implementation of the accrual principle**

### **4.2.1. Accrual taxes and social contributions**

#### *Introduction*

Eurostat and the Irish statistical authorities discussed in general the recording of taxes and social contributions as described in the note on the recording of accrual taxes provided prior to the mission.

The method used for recording accrual taxes and social contributions is the time-adjusted cash amounts. Pay as you earn (PAYE) income taxes on wages, excise duties and Employee/Employer Pay-Related Social Insurance (PRSI) are time adjusted by one month,

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<sup>24</sup> The CSO have provided the note on progress made and we expect further update for the October 2020 notification.

while VAT by two months. All remaining taxes and PRSI remitted by self-employed persons are recorded on a cash basis.

#### *Discussion and methodological analysis*

According to the note, there was no change to the method for accruing taxes and social contributions since the last dialogue visit.

Eurostat enquired about the reasons why the corporate income tax is recorded on a cash basis. In addition, Eurostat asked the CSO to check the pattern of the refunds related to the corporate income tax. As described in the Questionnaire on taxes, the rationale behind the use of cash data is a methodological difficulty in identifying the appropriate time lag and obtaining the necessary data for applying the time lag. The CSO will provide further clarifications on this issue.

Concerning the VAT tax data, the shift of pattern for this tax is visible, and according to the Questionnaire on taxes, the time lag has not changed. Eurostat asked the CSO to provide monthly data on tax reimbursement for the last 4 years. During the meeting, Eurostat compared the stock of receivables to tax.

#### *Findings and conclusions*

**Action point 17.** *The Irish statistical authorities will send to Eurostat monthly data on tax reimbursement for the last 4 years. The Irish statistical authorities will also monitor the stock of receivables to tax ratio and report to Eurostat.*<sup>25</sup>

*Deadline: by the April 2019 EDP Notification*

**Action point 18.** *The Irish statistical authorities will explain to Eurostat why corporate income tax is recorded on a cash basis.*<sup>26</sup>

*Deadline: by the April 2019 EDP Notification*

#### **4.2.2. Recording of interest**

##### *Introduction*

The Irish statistical authorities provided data on interest recording in the ad hoc reporting template covering the last three notification years. Eurostat and the Irish statistical authorities discussed the correctness of the recording.

##### *Discussion and methodological analysis*

As stated in the EDP Inventory, the quarterly debt service statement as provided by the NTMA contains data on interest payable by instrument on both a cash and accruals basis. For other Central Government bodies and Local Authorities, data is provided from their annual reports on an accruals basis. The only applicable instrument that relates to Local Authorities is Loans. The discussion focused on interest recording for budgetary central government.

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<sup>25</sup> Eurostat considers this action point implemented.

<sup>26</sup> Eurostat considers this action point implemented.

The NTMA representative explained that the Eurostat data required in the table on interest recording does not flow easily from their underlying systems. NTMA considers that in order to produce the data, they would have to review the historical adjustments and supporting models in order to present the information in the required format.

Furthermore, NTMA explained that certain items, e.g. *the Stock of discounts and premiums*, cannot be easily fully reconciled due to the nature of the way this information has been prepared from single quarterly statistical adjustments and not directly from balances of an underlying accounting system.

The NTMA stressed that the impact of T-Bills have not been included in the table, as these are not material in the context of the overall movement. T-Bills are a short-term debt product with maturities usually of 3 to 6 months, so the NTMA does not amortise Irish Treasury Bills premium/discounts. The NTMA also explained that the impact of repurchased premiums/discounts is not identified, as this is not easily gathered and is not likely to significantly impact the data. Eurostat enquired about missing values for revaluation in discounts/premiums for which NTMA needs more time to investigate.

Eurostat stressed that the purpose of this new template is to check the correctness of the interest recording and their reporting in EDP tables 2 and 3. Eurostat recalled that its ad hoc table on interest is collected since 2017. Eurostat affirmed that, based on the table received, there is a lack of consistency between the table and the data reported in table 3B and encouraged the Irish statistical authorities to make a full reconciliation of table 3B.

#### *Findings and conclusions*

***Action point 19.*** Eurostat welcomes the reporting on table on interest and encourage the Irish statistical authorities to make the full reconciliation of T3B.<sup>27</sup>

*Deadline: by the October 2019 EDP Notification*

#### **4.2.3. EU flows**

##### *Introduction*

The issue of EU flows had been extensively discussed with the Irish statistical authorities in the previous EDP dialogue visit. A calculation method has been created which allows the CSO to eliminate the effects of B.9 for government, also in cases where there would be a significant time lag between the time of expenditures incurred and the corresponding claim made on the EU budget. An outstanding issue is the lack of detail on EU flows at the local government level.

Eurostat and the Irish statistical authorities discussed the results of the Questionnaire on EU flows at local government level.

##### *Discussion and methodological analysis*

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<sup>27</sup> The Irish authorities have provided the note and Eurostat took note that the table will be transmitted to the CSO during the third quarter of each year following publication of the audited accounts of the NTMA. Eurostat considers this action point implemented.

The CSO informed that, across the two years surveyed, 11 Local Authorities (LAs) reported receiving funding directly from the EU, nine in 2016 and nine in 2017. This funding amounted to just over EUR 3 million in 2016 and it is estimated to be just over EUR 4 million in 2017. The CSO further explained that these flows are not separately identified in the LAs annual financial statements. They are included in a variety of headings (e.g. miscellaneous income, capital accounts, other balances) depending on the nature and duration of the funding. The funding is received under a number of EU programmes such as Horizon 2020, InterReg and COSME.

The CSO, based on the information received to date, considers the amounts identified as not material. As part of the CSO's on-going work on improving local government data, reporting options for the future capture of this data will be explored with the DHPLG and the LAs.

Eurostat recalled that a survey on the use of so called EU 'financial instruments' was launched by Eurostat, in 2018, and invited the Irish statistical authorities to provide their answers.

Financial instruments (FI) are one of the forms of support, other than subsidies/grants, given from the EU budget to the Member States. FI may take the form of equity or quasi-equity investments, loans or guarantees, or other risk-sharing instruments, and may be combined with grants. FI should be used in supporting activities that would be able to repay the investment, therefore they are expected to generate income or revenue, or result in saving on future expenditure. The CSO will examine the issue and provide their answer on the Questionnaire.

#### *Findings and conclusions*

Eurostat took note of the issue.

#### **4.2.4. Military equipment**

##### *Introduction*

Eurostat and the Irish statistical authorities discussed the outstanding issue of the recording of military equipment. The Irish statistical authorities remain unable to reconcile fully the difference between the cash payments figure and the corresponding figures for deliveries and changes in other receivables.

##### *Discussion and methodological analysis*

The main source of information is a questionnaire that is filled bi-annually by the Ministry of Defence. Most contracts for large equipment include prepayments. At delivery, some payments may be withheld pending confirmation that the equipment functions correctly. As explained in the EDP Inventory, the figures in relation to deliveries from the Ministry of Defence and cash payments made from the accounts, audited by the Comptroller and Auditor General's Office, are used to make an adjustment in the Table 2A under item "*Other accounts receivable*".

Eurostat asked the CSO to show explicitly the military expenditures receivable in the EDP Questionnaire table 4.2 and complete table 7 in a way to eliminate the discrepancy or to introduce a comment.

#### *Findings and conclusions*

**Action point 20.** *The Irish statistical authorities will show explicitly in the EDP Questionnaire table 4.2, the military expenditures receivable and complete table 7 (elimination of the discrepancy or introduction of comments).*<sup>28</sup>

*Deadline: by the April 2019 EDP Notification*

#### **4.2.5. Court decisions with impact on government accounts**

##### *Introduction*

Eurostat required a note on current open court cases with impact on government accounts.

##### *Discussion and methodological analysis*

The Irish statistical authorities informed Eurostat that following the State Aid decision SA.38373, which was issued on 30 August 2016, both the Irish government and the private corporation who was the subject of the ruling have undertaken separate legal challenges to the decision. In the meanwhile, the proceeds related to the decision were placed into an escrow account. The CSO is currently reviewing the legal agreement governing this arrangement to determine the impact, if any, on the government accounts for the interim period. Documentation will be submitted to Eurostat for bilateral discussion in the near future.

##### *Findings and conclusions*

Eurostat took note of the current situation on the State Aid decision SA.38373.

#### **4.2.6. Gross fixed capital formation**

##### *Introduction*

The CSO has been developing a data collection format to enable it to make an estimate for accruals in GFCF for year n-1, in time for the April EDP notification. Eurostat and the Irish statistical authorities briefly discussed the template of the draft questionnaire on Gross fixed capital formation (GFCF).

##### *Discussion and methodological analysis*

The CSO explained that the data collection would be carried out with the five Voted Expenditure of Government Departments that comprise the largest component of voted capital expenditure, as well as with the Office for Public Works who has responsibility for public buildings and heritage assets.

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<sup>28</sup> Eurostat considers this action point implemented.

The draft questionnaire on GFCF contains the eight following items: (1) Cash payments made for Capital items during year n; (2) Value of Capital items actually delivered during year n; (3) Amount of prepayments outstanding on Capital items not yet delivered; (4) Amount owed for capital items already delivered; (5) Amount of prepayments outstanding on Capital items not yet delivered, (6) Amount owed for Capital items already delivered; (7) Amount of prepayments outstanding Capital items not yet delivered and (8) Amount owed for capital items already delivered.

### *Findings and conclusions*

**Action point 21.** *The Irish statistical authorities will adapt the draft questionnaire on GFCF to introduce V check (item 1-7+8-2=0).*<sup>29</sup>

*Deadline: by the October 2019 EDP Notification*

## **4.3. Recording of specific government transactions**

### ***4.3.1. Government operations relating to the financial turmoil***

#### *Introduction*

Eurostat and the Irish statistical authorities discussed the present situation concerning the public interventions relating to the financial turmoil and the particular recording in the supplementary table.

#### **Update on National Asset Management Agency Investment Limited**

##### *Discussion and methodological analysis*

The National Asset Management Agency Investment Limited (NAMA-IL) is a special purpose company through which the National Asset Management Agency (NAMA) acquired problematic assets from Irish banks. The NAMA, which is classified in the general government sector, holds 49% of NAMA-IL shares while 51% of NAMA-IL shares are held by private investors. A majority of private ownership is a necessary condition for such a special purpose entity to be classified outside general government, pursuant to Eurostat's decision of 15 July 2009 on public interventions during the financial crisis.

The Irish statistical authorities updated Eurostat on the key financial performance of NAMA-IL and confirmed that the senior debt of EUR 30.2 billion was fully redeemed by October 2017 and the remaining subordinated debt of EUR 1.06 billion will be redeemed by 2020. The final surplus, currently projected to be EUR 3.5 billion, will be all transferred to the Exchequer in 2020 and 2021.

During the last dialogue visit in 2017, Eurostat had concluded that NAMA-IL would have to be reclassified in the sector of general government when the private shareholders are redeemed. The Irish statistical authorities informed that the Department of Finance will decide whether and how NAMA-IL will continue.

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<sup>29</sup> Eurostat considers this action point implemented.



Eurostat asked about the availability of a separate financial report for NAMA-IL. The Irish statistical authorities confirmed that there are two financial reports, one consolidated for the entire NAMA group and an individual one, according to IFRS. Eurostat was informed that the consolidated NAMA statements consolidates NAMA-IL. The Irish authorities noted that NAMA-IL had no staff and that cost of operations were assumed by NAMA. Furthermore, Eurostat enquired about any change in the ownership structure of NAMA-IL. The Irish statistical authorities explained that the shareholders have changed over time, though 51% shares remain in private sector hands and those investors are mainly pension's funds. The private investors will receive at the end of the process, in addition to amount invested (EUR 51 million), a coupon of about 10%. They will get back therefore about EUR 56 million. Eurostat considered that the stake of the private sector investors of NAMA-IL seemed to have more the characteristic of other financial instruments (i.e. bonds) and not of shares.

### *Findings and conclusions*

**Action point 22.** *The Irish statistical authorities will reflect whether NAMA-IL can be classified outside government, taking into account the discussion held during the meeting, including the fact that its accounts are consolidated with those of NAMA under IFRS reporting and the fact that the stake of the private sector investors of NAMA seem to have more the characteristic of other financial instruments and not of shares.*<sup>30</sup>

*Deadline: by December 2019*

### **Update on Irish Bank Resolution Corporation liquidation**

#### *Discussion and methodological analysis*

The Irish Bank Resolution Corporation (IBRC), a financial defeasance structure, was reclassified within the boundary of the General Government sector under ESA 2010 in September 2014 with retrospective effect to its establishment date in mid-2011.

The Irish statistical authorities provided Eurostat with the IBRC Progress update report.

As of 31st December 2018, the Special Liquidators had a net cash balance of EUR 1.26 billion that will be available for distribution to creditors.

In December 2018, the Special Liquidators commenced payments of the final dividend of 50% to all admitted unsecured creditors of IBRC. This payment represents the final instalment of the principal owed to this class of creditors, which includes the State, as of the date of the liquidation of IBRC in February 2013.

It is expected, there will be further funds recoverable for the State following repayment of other creditors, including subordinated bondholders. The remaining loan book equals more or less EUR 3.4 billion. All big cases should be resolved by 2023.

Eurostat enquired about IBRC reporting in the supplementary table for reporting government interventions to support financial institutions, and namely whether the correct consolidation of debt securities was done for the purpose of the table. The part 3 of this table on *Transactions*

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<sup>30</sup> Eurostat considers this action point implemented.

does not seem to be fully consistent with the explanation provided by the Irish statistical authorities that the consolidation in respect the Exchequer is done. Also taking into account that this part of the table is on a voluntary basis, Eurostat asked the CSO to investigate the issue and report to Eurostat.

#### *Findings and conclusions*

Eurostat took note of the current situation of the IBRC.

#### **Update on Strategic Banking Corporation of Ireland**

##### *Discussion and methodological analysis*

The Strategic Banking Corporation Ireland (SBCI) was established as Ireland's National Promotional Institution for Small and Medium Enterprises (SMEs), with a goal to increase and facilitate the availability of appropriately priced and flexible funding to SMEs. The SBCI has been determined as a government controlled entity with the characteristics of a captive financial institution and consequently has been classified to the general government sector since its inception, in line with the Eurostat's letter of advice of March 2015<sup>31</sup>.

The Irish statistical authorities provided Eurostat with an update on this issue.

At present, the SBCI has committed EUR 741 million to its six current on-lending partners. In February 2017, the SBCI received Ministerial approval to convert EUR 25 million drawn under this loan facility into equity shares, increasing the paid-up capital to EUR 35 million.

Debt finance / funding facilities have been provided to the SBCI by the European Investment Bank (EIB) (EUR 400 million) the NTMA (EUR 250 million) and the Council of Europe Development Bank (CEB) (EUR 200 million). The Minister of Finance has provided a State guarantee to the EIB, the NTMA and the CEB over the finance facilities in place, but not directly to the SBCI itself.

#### *Findings and conclusions*

Eurostat took note of the current situation on SBCI.

### ***4.3.2. Public Private Partnership, concessions and energy performance contracts***

#### **Public Private Partnerships**

##### *Introduction*

The Irish statistical authorities provided a note on existing Public Private Partnerships (PPP) contracts under review and on new PPP contracts under review.

##### *Discussion and methodological analysis*

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<sup>31</sup> <https://ec.europa.eu/eurostat/documents/1015035/6761701/Advice-2015-IE-Classification-of-Strategic-Banking-Corporation-of-Ireland.pdf>

#### *Existing PPP contracts under review*

The CSO is reviewing an amended contract for Schools Bundle 5 that is currently classified as off balance sheet of government. Eurostat enquired about the elements under this review. It seems that there are changes in ownership structure and an extension of contract period. The CSO informed Eurostat that a further update and documentation will be sent to Eurostat as soon as their review is complete. The total cost of this project is around EUR 102 million.

The assessment of the N11 Arklow-Rathnew PPP contract was done in 2016 and the project was classified as off government balance sheet. The project comprises four separate construction elements (A-D), among which is the design and construction of a motorway services area at Gorey. The entire project was assessed as being of the Design, Build, Finance, Maintain, Operate (DBFMO) type of contract. The CSO, since then, identified that this description cannot be applied to the Gorey services area (Section C works) given that the operation of this asset was transferred as main object to the Motorway Services Tranche 2 concession contract. The CSO intends to correct the treatment by recording government GFCF and a commensurate increase in government debt over the period of construction of the services area, from May 2013 to October 2014, for approximately EUR 11.2 million.

#### *New PPP contracts under review*

A PPP contract for Dublin Institute of Technology Campus at their Grangegorman site was signed in March 2018. The CSO is currently reviewing this contract and their assessment will be supplied to Eurostat when completed. The contract was discussed with the CSO during the last DV and an off balance status is sought by government for this project.

A draft PPP contract for the construction of social housing is currently being reviewed by the CSO. The final version of the contract is not yet available. The local authorities provided land for the construction of social housing and, they will receive differential rent payments from tenants. The central government is managing the project and the private partner is responsible for the construction and maintenance work.

A concession project, to construct a student accommodation facility on the campus of the Dublin Institute of Technology, is still under discussion. No finalised contract has been provided to the statistical authorities to date.

#### *Findings and conclusions*

***Action point 23.*** *The Irish statistical authorities will reclassify as government investment the part of GFCF included in the PPP contract of N11 which will be the object of a concession with another private concessionaire.*<sup>32</sup>

*Deadline: by the April 2019 EDP Notification*

***Action point 24.*** *The Irish statistical authorities will check whether the PPP contract on social housing and the concession contract concerning Motorway Services Tranche 2 contract services, covers meaningful part of the economic life of the assets built in the context of the contract.*<sup>33</sup>

*Deadline: by the April 2019 EDP Notification*

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<sup>32</sup> The CSO has provided the note. Eurostat considers this action point implemented.

<sup>33</sup> The CSO has provided the note. Eurostat considers this action point implemented.

**Action point 25.** *The Irish statistical authorities will check whether the revenue, which local authorities will receive from tenants, will be higher than the availability payments of government in the context of the PPP on social housing.<sup>34</sup>*  
*Deadline: by the April 2019 EDP Notification*

### **Concessions**

#### *Introduction*

The Irish statistical authorities provided an update on concessions contracts undertaken by government in the period 2014-2017, including concessions with ongoing construction.

#### *Discussion and methodological analysis*

The Dublin Waste to Energy Project is the only concession project included in the period 2014 - 2017. The contract was discussed on a bilateral basis with the CSO and it is classified off the balance sheet of government. The Dublin Waste to Energy was established to construct a waste incinerator for the generation of electricity. The construction took place over the period 2014-2017, after which the operation of the incinerator commenced.

The Motorway Services Tranche 2 concession contract is a contract to construct and operate motorway services, and it was signed in May 2018. The CSO is currently reviewing this contract and will provide the assessment to Eurostat when completed. This contract was discussed during the mission in connection to the review of the N11 Arklow-Rathnew PPP contract.

#### *Findings and conclusions*

Eurostat took note on this issue.

### **National Broadband Plan - update**

#### *Introduction*

The CSO submitted the assessment of the draft National Broadband Plan (NBP) contract to Eurostat in June 2018. Eurostat replied in July 2018. Since then, no further documentation was received in relation to the NBP.

#### *Discussion and methodological analysis*

The CSO provided an update on this issue. The contract is largely finalised as of January 2019. The current version is substantially unchanged in comparison to the previous version, in particular the main features of the statistical assessment of June 2018. The Department is working on the assumption that the project will be classified on balance sheet of the government sector, and it has prepared estimates for the deficit impact of the project. The contract award is expected in Q2 2019.

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<sup>34</sup> The CSO has provided the note. Eurostat considers this action point implemented.

### *Findings and conclusions*

Eurostat took note on this issue.

### **Energy Performance Contracts**

#### *Introduction*

Eurostat and the Irish statistical authorities discussed the recording of Energy Performance Contracts (EPCs) in government accounts.

#### *Discussion and methodological analysis*

The CSO reported that some government entities in Ireland, e.g. local government and hospitals, were engaging in EPC type contracts. The CSO is in the process of assessing two existing contract models in use and will inform Eurostat about the result. Until an assessment of any EPC contract is completed, the payments associated with these contracts would be treated, in principle, as government capital expenditure but only when it is possible to separately identify the expenditure. Otherwise, the expenditure will be part of a larger expenditure item and the GFCF element will be lost.

Eurostat stressed the importance to understand what is recorded in local authorities' accounts and asked the CSO to pay attention to possible factoring operations in connection with EPCs.

The CSO stated that the amounts concerned in the existing contracts would be in the order of magnitude of tens of millions of euro.

### *Findings and conclusions*

**Action point 26.** *The Irish statistical authorities will check whether investment incurred in the context of EPC is recorded cash by government bodies engaged in EPCs or as GFCF.*<sup>35</sup>

*Deadline: by the October 2019 EDP Notification*

### **4.3.3. Capital injections in public corporations, dividends, privatization**

#### *Introduction*

Eurostat and the Irish statistical authorities discussed the recording of dividends in government accounts, capital injections and privatization proceeds.

#### *Discussion and methodological analysis*

### **Capital injections**

As stated in the EDP Inventory, in the uncommon occasions where significant capital injections are under consideration, the CSO is pre-alerted by the Department, either through

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<sup>35</sup> Eurostat considers this action point implemented.

the formal GFSLC forum, or on an ad hoc basis. Less significant capital injections are generally noticed on a quarterly basis, by the CSO, through the Exchequer Statement. On an annual basis, capital injections are identified through the processing of company accounts for the Questionnaire on government-controlled entities.

The Irish statistical authorities informed that there are two large operations recorded for the years 2014 to 2017. They involve a EUR 30 million to An Post, the state postal service in 2017, and EUR 2,111 million to Allied Irish Bank.

Local government data sources do not currently provide a sufficient level of detail on transactions between local authorities and public corporations to allow for a comprehensive analysis. Furthermore, the Irish statistical authorities have not identified any capital injections in kind.

### **Dividends**

The CSO has provided a note on dividends paid to the government over the period of 2012 - 2015 together with the super dividend test. The Central Bank paid a dividend higher than recorded profits for each of the years 2014-2017, and the difference between the dividend and profit was recorded as a withdrawal of equity or Super Dividend. In the case of the Central Bank, the “profit before unrealised gains and appropriation of profit” less the gain from the sale of holdings of financial assets, as detailed in a note to the accounts, was used.

Generally, Local Government does not record property income other than D41. According to the draft EDP Inventory, very small amounts of other investment income (D.44) have been recorded, mainly due to the reclassification of the AHBs.

### **Privatisation**

Whenever privatisations have occurred in recent years, the proceeds have entered the working balance and have been adjusted for in the line “Equities, sales (-)” of Table 2a. The most significant privatisations in recent years have been the sale of the State’s shareholding in Aer Lingus and PTSB, in year 2015, and AIB shares, in year 2017.

### *Findings and conclusions*

Eurostat took note on these issues.

#### **4.3.4. Financial derivatives**

##### *Introduction*

Eurostat and the Irish statistical authorities discussed the financial derivatives altogether with the outstanding issues from the October 2018 EDP Notification.

##### *Discussion and methodological analysis*

Eurostat recalled that the data of the table on derivative should be consistent with the data on derivatives reported in Table 3B (or Table 3B1), which was not the case in the table submitted by the NTMA. Eurostat also wondered whether the sign convention of the table was

respected. Eurostat encouraged the NTMA to separate transactions and stocks in derivatives between assets and liabilities, according to whether each derivative in question is an asset or a liability, and report the data accordingly.

The Irish statistical authorities sent to Eurostat the ad hoc derivatives tables that contain the details on the market and the notional value of financial derivatives (Bloc 1 and Bloc 2), collaterals on derivatives (Bloc 3) and hedging of debt (Bloc 5). The missing part was Bloc 4, which should show the flows of derivatives, if any, entering the working balance of table 2A.

As reported by the Irish statistical authorities, the main use of derivatives over the notification period, 2014 -2017, was to hedge the EM/IMF Programme loans aside from some currency hedging in respect of short-term commercial paper issuance. Foreign currency forwards and cross currency swaps have been used to hedge the currency risk back into Euros. In addition, the NTMA hedged a portion of its floating rate debt, in particular the FRNs, using interest rates swaps. The Irish statistical authorities further explained that, during the period, because of the repayment of the IMF loans and bilateral loans, the level of currency hedging has reduced significantly. The IMF was fully repaid by the end of 2017. As a result, the main hedging in place is in respect of a bilateral loan with the UK and of short-term paper issuance, principally in US dollars.

The Irish statistical authorities reported a significant amount under the item of *Unwinding of hedge* in Bloc 5 for 2015, which cannot be seen in the item of financial derivatives (F.71) of table 3B. In addition, the amount of *Appreciation/depreciation of foreign-currency debt* does not match the reported data under F.71. Eurostat explained that this adjustment should be reported in the line “Net settlements of swaps contracts” in the table 2A and these amounts should be reported under derivatives in the table 3B. The Irish statistical authorities will adapt the financial derivatives reporting and adjust the ESA T27 as well as the EDP T3B, which would reduce the statistical discrepancy for roughly EUR 1.2 billion.

#### *Findings and conclusions*

**Action point 27.** *Eurostat welcomes the effort made by the Irish statistical authorities for reporting on a best effort basis the detailed table on the financial derivatives, which effectively assisted the discussion.*

**Action point 28.** *The Irish statistical authorities will adapt the financial derivatives reporting and adjust ESA T27 as well as EDP T3B on this basis and notably will report correctly the amount of debt hedged (Bloc 5 dedicated to the hedging of debt).<sup>36</sup>*

*Deadline: by the April 2019 EDP Notification*

#### **4.3.5. Emission permits**

##### *Introduction*

Eurostat and the Irish statistical authorities discussed the treatment implemented in government accounts on emission trading permits.

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<sup>36</sup> The Irish authorities have provided the note and updated on financial derivatives for the October 2019 EDP notification. Eurostat considers this action point implemented.

### *Discussion and methodological analysis*

As agreed in the methodological Task Force in March 2018, Eurostat sent the pre-filled Questionnaire on ETC from the EU (ETS) Transaction Log (EUTL) database and the Irish statistical authorities returned this table with data on Tax revenue from emission permits D.29 and Cash received from sales (F.2).

As described in the note, in Ireland the Environmental Protection Authority (EPA) is appointed as auctioneer responsible for offering the allowances to be auctioned to the common auction platform under the European Communities (Greenhouse Gas Emissions Trading) (Amendment) Regulations 2011. Cash proceeds of auctions are remitted to the Exchequer and are recorded as miscellaneous receipts of Departments. In order to apply the correct national accounting treatment, an adjustment for the difference between the sale proceeds and the value of the allowances surrendered in a given year is made in EDP Table 2A under the heading “carbon credits”. The CSO received figures of free allocations and purchased allocations from the EPA. These figures were used to calculate a stock of free and purchased allocations. The cash was received from purchased allocations from the Department of Communications, Climate Change and Environment (DCCAE).

The value of allowances surrendered is recorded as a D.29 tax and the difference between the auction proceeds received and the D.29 taxes is recorded as F.89 payable.

According to data presented in the table, Eurostat concluded that Ireland is a net importer of the emission permits and amounts reported under D.29 should have been close to the cash amounts (F.2), which was not the case here. Eurostat considers that the Irish statistical authorities should revise their method in order to include more tax revenue. A possible acceptable proxy could be an average of two to three years, as used in other Member States.

### *Findings and conclusions*

**Action point 29.** *The Irish statistical authorities will revise and explain the calculation of figures concerning the Emission Trade Permits in EDP T2A. Eurostat encourages the Irish statistical authorities to revise their method to include more tax revenue, for instance using an average of two to three years as a proxy, as done in other Member States.<sup>37</sup>*  
*Deadline: by the October 2019 EDP Notification*

#### **4.3.6. Others**

##### **UMTS**

###### *Introduction*

The most recent UMTS/LTE licence sale was the 3.6GHz Spectrum award that was detailed in the 2017 EDP Dialogue Visit. This sale was erroneously omitted from the EDP notification in 2018 and it will be included in the March 2019 EDP notification. The Irish statistical authorities explained the new treatment of UMTS contracts in government accounts.

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<sup>37</sup> Eurostat considers this action point implemented.



### *Discussion and methodological analysis*

The CSO confirmed the 2017 *Guidance Note*<sup>38</sup> has been implemented in respect of all contracts in question. According to the CSO note, the lump-sum up-front payment is treated as a series of D.45 revenue throughout the lifetime of the licence. The future value of this revenue is calculated using the same interest rates as in the original treatment. Using the approach set out in Option 3 of the paper for *Item 16 Interest on long-term payable* of the May 2017 Task Force on methodological issues, the cumulative B.9 impact is then kept at the level of the original payment by means of an imputed D.41 payable accruing in the AF.8 payable. The on-going payments are recorded as D.45 in the year in which they take place. The revised treatment in EDP Table 2A is to adjust the cash received in the year to the total rent revenue due in the year under these calculations and to include the D.41 payable as part of interest (payable) accrued in the year.

### *Findings and conclusions*

**Action point 30.** *The amounts received for the UMTS licence in 2017 will be spread during the lifetime of the contract.*<sup>39</sup>

*Deadline: by the April 2019 EDP Notification*

### **Guarantees**

#### *Introduction*

The Irish authorities provided Eurostat with a list of companies which benefitted from Government guarantees, out of which some are classified in the General Government sector itself.

### *Discussion and methodological analysis*

Guarantees are provided mainly to financial institutions, e.g. guarantees for deposit holders. In a limited number of cases, guarantees are provided on borrowing by public corporations. All guarantees provided by government are reported annually in the audited Finance Accounts. To date, the only guarantee call recorded was under ESA 1995 at the time of the liquidation of IBRC, but, since its reclassification into government under ESA 2010, there are no instances of guarantee calls for government in Ireland.

### *Findings and conclusions*

Eurostat took note on this issue.

## **5. Other issues**

### 5.1. ESA 2010 Transmission Programme

Most of the open issues connected with GFS were discussed under other relevant points.

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<sup>38</sup><https://ec.europa.eu/eurostat/documents/1015035/7959867/Mobile-phone-licences-exploration-rights-and-other-licences.pdf>

<sup>39</sup> Eurostat considers this action point implemented.

## **EDP dialogue visit to Ireland, 26-27 February 2019**

### **Agenda**

#### **1. Statistical organisational issues**

- 1.1. Review of institutional responsibilities in the framework of the EDP data reporting and government finance statistics compilation
- 1.2. Data sources and revision policy, EDP inventory

#### **2. Follow-up of the EDP dialogue visit of 23-24 January 2017**

#### **3. Actual data October 2018 EDP reporting - Analysis of EDP tables**

#### **4. Methodological issues and recording of specific government transactions**

##### **4.1. Delimitation of general government, application of market / non-market rule in NA**

- 4.1.1. Changes in sector classification since the 2017 EDP visit
- 4.1.2. Application of the market/non-market test
- 4.1.3. Government controlled entities classified outside the general government

##### **4.2. Implementation of accrual principle**

- 4.2.1. Accrual taxes and social contributions
- 4.2.2. Accrued interest
- 4.2.3. EU flows
- 4.2.4. Military expenditure
- 4.2.5. Court decisions with impact on government accounts
- 4.2.6. Gross fixed capital formation

##### **4.3. Recording of specific government transactions**

- 4.3.1. Government operations relating to the financial turmoil
- 4.3.2. Public Private Partnership, concessions and energy performance contracts
- 4.3.3. Capital injections in public corporations, dividends, privatization
- 4.3.4. Financial derivatives
- 4.3.5. Emission permits
- 4.3.6. Others: Guarantees, Government claims; debt assumptions, debt cancellations and debt write-offs, Financial derivatives, Sale and leaseback operations, UMTS

#### **5. Other issues**

- 5.1.1. ESA 2010 Transmission Programme
- 5.1.2. Any other business

## EDP dialogue visit to Ireland, 26-27 February 2019

### List of participants

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