

State Debt Balance Sheets

BY MICHAEL O'REILLY

(Read before the Society on November 28th, 1958)

Since the establishment of the State the annual Finance Accounts have contained statements of the liabilities and assets of the Exchequer. These statements have shown a growing but unexplained excess of liabilities over assets and they have been in some respects incomplete. It has long been felt that this annual account was not sufficiently informative or scientific and should be supplemented, if not, indeed, replaced by a statement in the form of a balance sheet which would explain fully how borrowed moneys have been applied. A beginning was made by Dr. Joseph Brennan, Chairman of the then Currency Commission who, in a paper, "The Public Debt of the Irish Free State", read before this Society in January, 1935, analysed the debt of the State and set it out in the form of a Balance Sheet. The report of the Banking Commission in 1938 contained State Debt Balance Sheets drawn up on similar lines. The reform has now been carried into the Finance Accounts themselves, which for the year ended 31 March, 1958 contain for the first time an official statement of the liabilities and assets of the State in the form of Balance Sheet. The older form of statement is also retained for the time being. The main purpose of this paper is to set out the basis adopted in the preparation of that Balance Sheet, and to give some information on the principal items which appear in it.

To facilitate the exposition, a balance sheet in a more detailed form than that published in the Finance Accounts is appended and, for the purpose of comparison, the position at the end of each of four years has been given. Some slight revisions of the figures that appeared in the Finance Accounts have also been effected. The year ended 31 March, 1939, has been selected as representing the position just before the outbreak of the last World War; the year ended 31st March, 1946, gives the position at the end of hostilities, while the year ended 31st March, 1952, is chosen as being intermediate between 1946 and 1958.

As will be observed, the liabilities have been arranged under five heads as follows:—

- (1) Debt incurred by raising cash through the issue of securities.
- (2) Debt representing the capitalised liability for certain current payments which the State has to discharge.
- (3) Sinking Funds.
- (4) Pre-1922 Advances to Local Loans Fund.
- (5) Capital Fund.

The figures included under head (1) call for little explanation. They represent the balances outstanding at the end of the relevant financial year on National Loans, Exchequer Bills, Ways and Means Advances, Telephone Capital and Other Borrowings. Ways and Means Advances to the Exchequer from the American Loan Counterpart Fund and the National Development Fund have been excluded, a corresponding reduction being made on the assets side of the Balance Sheet. This is done to avoid double reckoning. The Exchequer is liable for repayment of the loan received from the United States under the Marshall Aid Programme; it is also technically liable to the American Loan Counterpart Fund for the money drawn from that Fund as Ways and Means Advances. There is thus a double book-keeping liability on the Exchequer for the same money—one to the United States Government and one to the American Loan Counterpart Fund. A similar double reckoning of Exchequer liabilities would arise in respect of the National Development Fund, if it were not provided against.

A special procedure applies to the borrowing of monies for telephone development. The capital required is borrowed from the Post Office Savings Bank at the prevailing interest rate for medium term borrowings. An annuity sufficient to repay the borrowed capital within the estimated life of the telephone plant is included in the annual Vote for Posts and Telegraphs and is paid direct to the Savings Bank Fund. The figures for Telephone Capital liabilities—and the corresponding assets—are the balances due by the Exchequer to the Savings Bank Fund at the end of each financial year and take account of the sinking fund payments included over the years in the voted annuities. For record purposes, I might mention that the gross amounts actually raised for Telephone Capital Development stood as follows at the end of the financial years indicated:

£ million			
1938/39	1945/46	1951/52	1957/58
1·824	2·619	10·182	19·232

As the life of the assets acquired is often longer than the term of years over which the annuity is repayable it can be taken that the capital value of the telephone system is in excess of the amounts shown in the Balance Sheet.

The second part of the liabilities statement contains four items:

- (1) *Land Bonds*: Land acquired for the purpose of the Land Act 1923 and subsequent enactments are not paid for in cash but by the creation of Land Bonds. The State assumes liability for the service charge on a proportion of these Bonds, the relevant provision for payment being included in the Vote for Lands. The greater portion of the State liability is due to the deficiency caused by the revision (“the halving”) of annuities under the Land Act, 1933.
- (2) *Subsidy under Housing (Financial and Miscellaneous Provisions Act) 1932* :—

Under various Housing Acts the State pays portion of the loan charges on money raised by local authorities for

the carrying out of their obligations in relation to slum clearance and the provision of housing for the working classes. The figures given are the estimated capitalised value of the annual contributions towards these loan charges.

- (3) *Subsidy under Sanitary Services Schemes*: This is similar in nature to the previous item, the State contributions being towards the loan charges incurred by local authorities in the provision of sanitary services.

In regard to the two preceding items it may be mentioned that as a large proportion of the monies involved has been raised by local authorities from the Local Loans Fund there is an element of double reckoning in the totals. This double reckoning is, however, of no significance in the context of the present paper.

- (4) *Annuity under Damage to Property (Compensation) (Amendment) Act, 1936*: Under this Act the Government agreed to pay over a term of 60 years an annuity at the rate of £250,000 per annum to the British Government in settlement of a claim for damage to property. The figures given represent the capitalised value of the instalments due (calculated at an interest rate of 5 per cent. per annum) at the end of each of the years.

In the case of all four items in head (2) the figures given are, as in the case of Telephone Capital, the net liability at the end of the year, account being taken of sinking fund payments. The gross figures for these services at the relevant times were as follows:—

	1939	1946	1952	1958
	£ million			
Land Bonds	15-754	16-169	16-618	17-937
Housing Subsidy	7-515	10-481	21-598	38-859
Sanitary Services Subsidy	—	—	—	3-422
Damage to Property Annuity	5-0	5-0	5-0	5-0

All the items in head (2) require contra—or, one might say, paper—entries on the Assets side of the Account.

The third head of the liabilities statement consists of amounts paid from revenue into the sinking funds of National Loans, etc. In so far as these moneys have not been applied to redeem debt, they are balanced by assets. The inclusion of this head ensures that the liabilities side shows, e.g., the full amount raised on National Loans, which is the amount to be accounted for on the Assets side. Head 1 by itself merely shows the amount currently outstanding on National Loans. The entry for Sinking Funds is a liability only in the same sense that accumulated reserves are a liability in a commercial balance sheet.

The fourth head may require some explanation. When the Local Loans Fund was established as a statutory fund on May 1st, 1935, its liability to the Exchequer was fixed at £11-912 million,

representing the local loans outstanding at that date. Actual advances from the Exchequer to the Fund between 1922 and the establishment date amounted to £5·627 million, the capital involved in the balance of loans outstanding having been provided before the setting up of the State. There was thus an Exchequer asset of £6·285 million without a corresponding liability—and so, this time, it is the liabilities side which has the fictitious balancing entry.

Head 5—the Capital Fund—is also a “liability” which entailed no Exchequer borrowing. The Fund was established under the Central Fund Act, 1956, to receive the revenue from the Special Import Levies and apply it towards capital purposes. The total receipts into the Fund (including interest earned on advances from the Fund) to March 31st, 1958, totalled £7·558 million as shown.

The Assets side of the Balance Sheet is also divided for convenience into five parts as follows:—

- (1) Liquid Assets.
- (2) Repayable Advances.
- (3) Shares in various undertakings.
- (4) Voted Capital Services.
- (5) Other Assets.

Liquid Assets comprise the balances held on the Exchequer Account and on various funds which are subsidiary accounts of the Exchequer. These balances are available either for the redemption of debt or for the making of further capital issues. As already indicated, the balances on the National Development Fund and the American Loan Counterpart Fund have been reduced by the amount of the investments of these Funds in Ways and Means Advances to the Exchequer, this being necessary to eliminate double-reckoning.

Repayable Advances include all outstanding advances made from the Exchequer under statutory authority to finance the capital projects of various semi-State bodies, and advances made to certain Government Funds for specific purposes. Reference has already been made to Telephone Capital, and comment can be confined to four of the items included in this group, i.e., Advances for the Purchase of Creameries, Advances to Mianraí Teo., Advances under the Transport Acts, 1950 and 1955, and the Advances under the Great Northern Railway Act, 1953.

Advances for the Purchase of Creameries and to Mianraí Teo. were made from voted moneys and have been segregated from the figures for Budget Deficits, to which reference will be made later. Under the Transport Acts, 1950 and 1955 advances were made to Córas Iompair Éireann to meet that Company's liability for interest on Transport Stocks, and in addition (in 1957) a Government guarantee of a bank overdraft had to be fulfilled. Under the relevant legislation these advances from the Central Fund, if not repaid by the Company within a year, had to be recouped to the Central Fund out of voted moneys, although the advance still remained a liability of the Company. In fact, no part of these advances was repaid by the Company and at 31st March, 1958,

out of advances of £5·623 m. a total of £4·830 m. had been repaid from voted moneys. Only the remaining £0·793 m. is shown in the Assets at 31st March last ; the £4·830 m. has contributed to the total of Budget Deficits.

Under the Great Northern Railway Act, 1953, a sum of £2·250 m. was advanced to the Great Northern Railway Board to acquire this State's share of the Great Northern Railway undertaking, and this amount features as an Asset in the Balance Sheet at 31st March last.

It should be mentioned, however, that under legislation which has been enacted since 31st March, 1958, the advances made to C.I.E. under the 1950 and 1955 Acts, and the advance to the Great Northern Railway Board have been written off.

The third heading "Shares in Sundry Undertakings" covers the State's holdings in various undertakings. The shares of the Agricultural Credit Corporation, Cómhlucht Síúicere Éireann, Teo., and the Industrial Credit Company, Ltd., were purchased with moneys charged on the Central Fund and allowance has been made for this in arriving at the net figures for Budget Deficits.

In the Budget of 1950 provision was made for the financing by borrowing of some £12 million included in Supply Services, this borrowing to be redeemed by an annuity for 30 years charged on the Central Fund. This system of financing "Voted Capital Services" has been continued each year since then and calls for separate treatment in the State Debt Balance Sheet. It has been considered more informative to group these services according to the objects of expenditure rather than by Votes.

We come now to the fifth and last heading of the Assets side of the Balance Sheet. The items under this head have the common feature of not yielding a cash return. The entries for Land Bonds, Housing and Sanitary Services and Damage to Property, have already been explained. After these the next item is the sum of £10 million issued under the Agreement with United Kingdom (Capital Sum) Act, 1938, which ended the "Economic War".

The Insurance (Amendment) Act, 1938, provided, inter alia, for the termination of the business of a number of Insurance Companies and its transfer to a Terminating Company, and for the payment by the Minister for Finance to the latter Company of the deficiencies of the participating companies, that is, the amount by which their assets fell short of their liabilities. The amount involved was £1·034 million which is shown in the Balance Sheet.

In 1946, it was decided to make grants available for any purpose for or towards the cost of which public moneys were provided and which was conducive to the development of capital resources. The main consideration was to ensure progress with development schemes in the immediate post-war period of scarcity of materials and high prices. The Transition Development Fund was set up under the Finance Act of 1946, its funds being provided out of voted moneys. It was wound up on March 31st, 1951, up to which date some £6,635 million was expended. In the main the money was expended on housing schemes, total disbursements from its establishment having been as follows :—

	£ m.
Grants to local authorities towards costs of housing schemes	6.382
Grants to local authorities towards costs of water supply and sewerage schemes ...	0.245
Grants to Irish Sea Fisheries Association towards cost of structural work	0.006
Grant to Ceimici Teo. for Industrial Research	0.002
	<hr/>
	£6.635
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The National Development Act, 1958, provided for the establishment of the National Development Fund to finance projects of development considered to be in the national interest. The Act provided for the payment into the Fund, out of voted moneys, of sums not exceeding £20 million over a four year period. The moneys placed at the disposal of the Fund were expended, or committed, mainly to projects of a capital nature which, in the ordinary course, would not have been undertaken until later. The total net amount issued to the Fund was £7.800 million of which £5.819 million had been expended to 31st March, 1958. The balance of £1.981 was held in a Winding-Up Account, the bulk of this being relented to the Exchequer as a Ways and Means Advance, and forming part of the double-reckoning earlier referred to. Expenditure out of the Fund to March 31st, 1958 was as follows:—

	£ mill.
Agricultural Projects	1.435
Roads	2.646
Harbour Facilities	0.550
Special Employment Schemes	1.101
Others	0.087
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	£5.819 million
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The amounts issued for the redemption of loans of Dáil Éireann, raised before the establishment of the State in 1922, but subsequently honoured by the State, was £1.100 million. This amount was provided for out of revenue. Similarly compensation paid in respect of property losses amounted to £1.579 million as shown.

The amount shown in the Balance Sheet as Subsidy for Rural Electrification is the actual amount paid from voted moneys to recoup the Central Fund for portion of the capital expenditure on Rural Electrification. The balance of the cost is borne by the Electricity Supply Board. The subsidy was withdrawn in 1955 but, under legislation recently introduced, is to be restored from April 1st, 1958.

The next item—Discounts on National Loans—arises because the issue of loans at a discount causes a discrepancy between the liability incurred and the cash received. The effect of this may, of course, be subsequently modified by the purchase of stock for sinking fund purposes at a discount or at a premium. The figures given at each date are the cumulative net results of such operations.

The last item worthy of note is the entry for Budget Deficits. This has been arrived at by taking the accumulated net deficits “above the line” and deducting therefrom the capital items already referred to.

A few general observations on the material in the balance sheets may not be out of place. It will be observed that between 1939 and 1946 the gross indebtedness of the State increased by some £20 million, the main factor contributing to that not very large increase being Budget Deficits. The necessity of overtaking the accumulated arrears of development and proceeding with the housing programme underlies the increase of almost £110 million in gross indebtedness in the six years ending in 1952. Of this increase, Electricity Development accounted for £23 million, Turf Development for £5½ million, Housing (including expenditure through the Transition Development Fund) for £40 million, while Voted Capital Services (excluding some £1·6 million paid into the Transition Development Fund) contributed to the increase to the extent of £16 million. The same trend persisted in the following six years with Voted Capital Services, which commenced only in the year 1950/51, naturally assuming a greater importance, the figures being: Electricity Development £30·0 million; Turf Development £6 million, Housing some £60 million and Voted Capital £64 million out of a total increase of the order of £200 million.

One further matter may call for comment, viz., the extent to which what might be called the “unfunded” debt (Exchequer Bills, Ways and Means Advances, Savings Certificates etc.) has grown over the years so that at March 31st, 1956, it represents some 35 per cent. of the total debt outstanding. Provision for the due redemption of a large proportion of this temporary debt is, however, being made through the procedure adopted for the redemption of Voted Capital Services, for which in the current year Sinking Fund to the extent of £3·3 million is being issued from the Exchequer.

A last remark in regard to the Balance Sheets as presented. The figures have been prepared solely from a book-keeping point of view, and no effort has been made to divide the assets into the categories of productive or non-productive. Besides being outside the scope of this paper, such segregation is likely to give rise to great difficulties, not the least of which is to arrive at an agreed definition of what is to be regarded as productive in terms of national economics. It is hoped, however, that the Balance Sheets will have achieved their main purpose, which is to fill in a gap in the information hitherto presented in the Finance Accounts, and to promote interest in, and discussion of, this important aspect of public finance.

APPENDIX—I. STATE DEBIT BALANCE SHEET.

Liabilities	£ million				Assets	£ million			
	31st March					31st March			
	1939	1946	1952	1958		1939	1946	1952	1958
I. Money Raised by Issue of Securities (See Appendix II)	46·062	61·817	153·962	316·062	I. Liquid Assets (See Appendix IV)	0·757	3·391	2·892	7·268
II. Capitalised Liabilities (See Appendix III)	27·065	28·830	37·644	54·861	II. Repayable Advances (See Appendix V)	29·356	28·630	88·545	182·687
III. Sinking Funds and Interest thereon	8·784	14·182	22·547	46·926	III. Shares in Sundry undertakings (See Appendix VI)	1·660	2·265	4·582	12·247
IV. Pre-1922 Advances to Local Loans Fund	6·285	6·285	6·285	6·285	IV. Voted Capital Services (See Appendix VII)	—	—	16 174	81·180
V. Capital Fund	—	—	—	7·558	V. Other Assets (See Appendix VIII)	56·423	76·828	108·245	148·310
	88·196	111·114	220·438	431·692		88·196	111·114	220·438	431·692

APPENDIX II.—MONEY RAISED BY ISSUE OF SECURITIES.

	£ million			
	31st March			
	1939	1946	1952	1958
5% Second National Loan, 1950/60	5·919	5·201	—	—
4½% Third National Loan, 1950/70	5·504	5·112	—	—
3½% Fourth National Loan, 1950/70	5·650	5·311	4·547	3·597
4% Conversion Loan, 1950/70	6·786	6·279	—	—
3¾% Financial Agreement Loan, 1953/58	9·964	9·396	8·595	1·255
4% Exchequer Bonds, 1950/70	—	6·657	—	—
3¼% National Security Loan, 1956/61	—	7·631	6·715	5·680
3% Exchequer Bonds, 1965/70	—	—	22·929	20·195
3½% Exchequer Bonds, 1965/70	—	—	31·421	26·683
5% National Loan, 1962/72	—	—	—	17·201
4½% National Loan, 1973/78	—	—	—	20·998
4¼% National Loan, 1975/80	—	—	—	18·489
5% National Savings Bonds, 1971/81	—	—	—	19·565
5½% National Loan, 1966	—	—	—	6·608
6% National Loan, 1967	—	—	—	20·422
Exchequer Bills	1·750	—	—	17·000
Ways and Means Advances	1·400	3·250	17·350	50·670
Savings Certificates	7·856	11·328	13·685	22·000
Prize Bonds	—	—	—	8·049
Dollar Borrowings under U.S. Loan Agreements	—	—	40·671	40·233
Under Telephone Capital Acts, 1924/56	1·233	1·402	8·049	14·367
Other Borrowings	—	0·250	—	3·050
	46·062	61·817	153·962	316·062

APPENDIX III.—CAPITALISED LIABILITIES.

	£ million			
	31st March			
	1939	1946	1952	1958
Land Bonds (State Liability) ..	15-345	15-226	15-058	15-534
Subsidy under Housing (Financial and Miscellaneous Provisions) Act, 1932	7-320	9-314	18-538	32-354
Subsidy under Sanitary Services Schemes	—	—	—	3-248
Annuity under Damage to Property (Compensation) (Amendment) Act, 1926	4-400	4-290	4-048	3-725
	27-065	28-830	37-644	54-861

APPENDIX IV.—LIQUID ASSETS.

	£ million			
	31st March			
	1939	1946	1952	1958
Exchequer Balance	0-638	1-405	0-531	0-421
National Loans Sinking Funds ..	0-119	1-588	0-744	2-247
Savings Certificates Reserve Fund (Principal Reserve Account) ..	—	0-398	0-638	1-623
Savings Certificates Accounts ..	—	—	—	0-090
Capital Services Redemption Account	—	—	0-277	1-676
American Loan Counterpart Fund ..	—	—	0-702	1-132
National Development Fund ..	—	—	—	0-016
Capital Fund	—	—	—	0-063
	0-757	3-391	2-892	7-268

APPENDIX V.—REPAYABLE ADVANCES.

	£ million			
	31st March			
	1939	1946	1952	1958
Electricity Supply Board	12-250	13-122	34-531	64-550
Local Loans Fund	14-455	10-549	33-914	84-614
Telephone Capital	1-233	1-402	8-049	14-367
Road Fund	0-801	—	2-213	1-710
Bórd na Móna	—	—	5-414	11-806
Bord Iascaigh Mhara	—	—	—	0-705
Bord Fáilte Éireann	—	0-130	0-180	0-146
Mianraí Teo.	—	—	0-162	—
Purchase of Creameries	0-617	0-766	0-944	1-256
Advances under Transport Acts, 1950 and 1955	—	—	0-477	0-793
Advance under Great Northern Railway Act, 1953	—	—	—	2-250
Advance under Finance Act, 1941 (Section 49)	—	2-661	2-661	0-200
Advance under Finance Acts, (1953 (S. 16) and 1954 (S. 22))	—	—	—	0-290
	29-356	28-630	88-545	182-687

APPENDIX VI.—SHARES IN SUNDRY UNDERTAKINGS.

£ million

	31st March			
	1939	1946	1952	1958
Agricultural Credit Corporation, Ltd.	0.292	0.292	0.300	0.300
Comhlucht Siuicre Eireann Teo.	0.500	0.500	0.500	0.500
Industrial Credit Co. Ltd.	0.805	0.805	0.992	1.991
Aer Rianta Teo.	0.063	0.172	2.000	2.000
Ceimici Teo.	—	0.276	0.276	0.496
Irish Shipping Ltd.	—	0.200	0.200	4.395
Irish Assurance Co. Ltd.	—	0.020	0.130	0.090
Comhlucht Groighe Naisiunta na hEireann Teo.	—	—	0.179	0.396
Algate Industries (Ireland) Ltd.	—	—	0.005	0.029
World Bank and International Monetary Fund	—	—	—	2.050
	1.660	2.265	4.582	12.247

APPENDIX VII.—VOTED CAPITAL SERVICES.

£ million

	31st March			
	1939	1946	1952	1958
Agriculture			6.523	31.527
Forestry			1.185	6.018
Housing			5.510	19.253
Public Works and Buildings			1.928	10.343
Aviation Transport and Marine Services			0.654	6.464
Hospitals			—	6.780
Others			0.374	0.795
			16.174	81.180

APPENDIX VIII.—OTHER ASSETS.

£ million

	31st March			
	1939	1946	1952	1958
Land Bonds	15-345	15-226	15-058	15-534
Subsidy under Housing (Financial and Miscellaneous Provisions) Act, 1952	7-320	9-314	18-538	32-354
Subsidy under Sanitary Services Schemes	—	—	—	3-248
Annuity under Damage to Property (Compensation) Amendment Act, 1926	4-400	4-290	4-048	3-725
Payment under United Kingdom (Capital Sum) Act, 1938 ..	10-000	10-000	10-000	10-000
Payments under Insurance (Amendment) 1938	—	1-034	1-034	1-034
Transition Development Fund ..	—	—	6-635	6-635
National Development Fund ..	—	—	—	5-819
Dáil Eireann Loan (Internal and External)	1-025	1-025	1-025	1-025
Property Losses Compensation ..	1-579	1-579	1-579	1-579
Subsidy for Rural Electrification ..	—	—	1-900	1-900
Discounts on National Loans ..	1-351	1-537	1-598	2-080
Budget Deficits	15-315	32-735	46-704	63-191
Miscellaneous	0-088	0-088	0-126	0-186
	56-423	76-828	108-245	148-310

DISCUSSION

Mr. J. C. Eason said: Because of the interest I have always had in statistics relating to our Finance Accounts, I wish to join in the vote of thanks to Mr. O'Reilly for providing a full analysis of our State indebtedness.

The tables show how it has grown, and my regret tonight arises from the fact that I only returned from abroad this morning and find myself unable to refer to a number of supplementary details which would be relevant.

The classification provided is helpful and particularly the segregation of Repayable Advances, Table V., and Voted Capital Services, Table VII.

It is significant to learn from Mr. O'Reilly that the Transport Advances are to be written off: in my view they should never have been treated except as a charge upon revenue. Local Authorities may repay a great part of their Loan but, meantime, the Service Votes include a large subsidy to enable them to meet the Loan Interest.

Regarding Table VII., I cannot approve a policy which continues to treat as Capital items for Replacement of Buildings and Schools; they are recurrent yearly and could not be treated as a cumulative asset by any commercial practice: there is no obsolescence provided in our expenses. Housing, likewise, has been too loosely regarded—I am reminded how, even in 1938, a Minority Report on this matter appeared in the Banking Commission; it is important to note that there is no physical asset since this property belongs to the Local Authorities.

I demur to the suggestion of Mr. Bourke that a balance can be drawn up for the State, and believe it is a mistake to use the words as applying to the figures presented here.