Carbon Fund
Annual Report 2018

Gníomhaireacht Bainistíochta an Chisteáin Náisiúnta
National Treasury Management Agency

Gníomhaireacht Bainistíochta an Chisteáin Náisiúnta
National Treasury Management Agency

28th May 2019

Mr. Richard Bruton TD,
Minister's Office,
Department of Communications, Climate Action and Environment,
29-31 Adelaide Road,
Dublin 2,
D02 X285.

Dear Minister,

Please find enclosed the Report and Accounts of the Carbon Fund for the year ended 31 December 2018.

Yours sincerely

Maeve Carton
Chairperson

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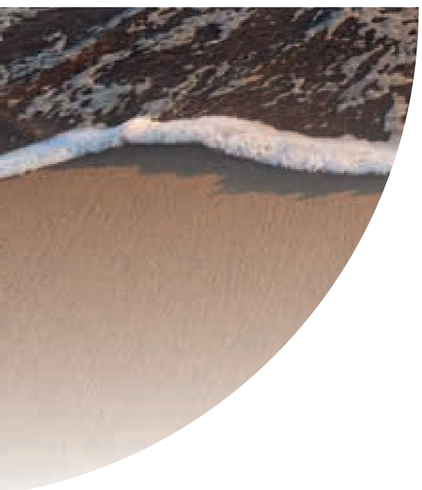


Report of the Carbon Fund 2018

Summary

The Carbon Fund was created for the acquisition of carbon credits and any other assets to meet Ireland's international climate change obligations. The number of carbon credits held in the fund as at the end of 2018 was 5,506,472 compared with 5,329,964 at the end of 2017. The increase relates to temporary Certified Emission Reduction units (tCERs) received from Ireland's investment in the BioCarbon Fund.

Since the 2015 final settlement of obligations under the Kyoto Protocol compliance period 2008-2012, no units were surrendered or bought. The remaining units in the Fund have been carried forward towards meeting Ireland's 2020 commitments under the European Union's 2020 Climate and Energy Package.

The NTMA continues to process payments for the State's existing carbon investments. During 2018, there was a call on payments under the BioCarbon Fund of €606,564. In addition the Carbon Fund for Europe was formally closed in April 2018 and the DCCAE received a refund of €98,026 which accounted for their percentage of the remaining cash in the fund.

Section 6 of the Carbon Fund Act 2007 states: *"As soon as may be, but not later than 6 months after the end of each financial year of the Agency, the Agency shall make a report to the Minister of its activities in relation to the performance during the year concerned of the functions delegated to it under this Act, and the Minister shall cause copies of the report to be laid before each House of the Oireachtas."*

This report is the twelfth report to the Minister for Communications, Climate Action and the Environment under the Carbon Fund Act, and covers the year ended 31 December 2018.

Background

The Carbon Fund was established in 2007 for the purchase of carbon units on behalf of the State. This was in order to meet Ireland's commitments under the Kyoto Protocol – an international climate change agreement. It was established under the Carbon Fund Act 2007, and the units purchased were intended to supplement domestic mitigation action.

Management of the Fund was delegated to the National Treasury Management Agency. The NTMA was also designated as the purchasing agent for the acquisition of the necessary credits. Carbon credits are referred to in the legislation as Kyoto Units.

The final accounting transactions for the first commitment period (2008-2012) were carried out in 2015. The unused credits were carried over with the intention to use them towards Ireland's commitments in the current period (2013-2020).

Statement of Agency's Responsibilities

The National Treasury Management Agency (the "Agency") is required by the Carbon Fund Act 2007 (as amended) (the "Act") to prepare financial statements in respect of the operations of the Carbon Fund for each financial year.

In preparing those statements, the Agency:

- selects suitable accounting policies and then applies them consistently;
- makes judgements and estimates that are reasonable and prudent;
- prepares the financial statements on a going concern basis unless it is inappropriate to do so;
- discloses and explains any material departure from applicable accounting standards.

The Agency is responsible for keeping in such form as prescribed under Section 5 of the Act, all proper and usual accounts in relation to the performance by it of the functions delegated or granted to it under the Act. The Agency shall whenever requested to do so in accordance with the Act, provide such financial statements and such information in relation to such financial statements as is required under legislation.

The Agency is also responsible for safeguarding assets under its control and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Section One

Measuring Greenhouse Gas Emissions

Carbon Dioxide (CO_2) is the most common greenhouse gas (GHG) and a tonne of CO_2 is used as the common unit of measure. Carbon Units therefore are each equivalent to a tonne of CO_2. Emissions of other GHGs are measured as equivalents of carbon dioxide (CO_2e) in terms of their Global Warming Potential (GWP) over a 100-year period. By definition, CO_2 has the GWP of 1. See table 1 for further details.

Table 1

	GWP-100
Carbon dioxide (CO_2)	1
Methane (CH_4)	21
Nitrous Oxide (N_2Os)	310
Hydrofluorocarbons (HFCs)	150 – 11,700
Perfluorcarbons (PFCs)	6,500 – 9,200
Sulphur Hexafluoride (SF_6)	23,900

Ireland's obligations under the 2020 EU Effort Sharing Decision

The 2020 Climate and Energy Package aims by binding legislation to ensure the EU meets its climate and energy targets for the year 2020. The package consists of key EU-wide targets; including a 20% cut in greenhouse gas emissions (from 1990 levels) and a 20% share of energy from renewable sources. There are two key tools in place to ensure the EU meets these targets:

The European Union Emissions Trading System (EU ETS)

The industry emissions are covered by the European-wide "cap and trade" scheme for major polluters – the EU ETS. Under the system, 45% of the EU's GHG emissions are controlled in sectors including commercial aviation, aluminium production, extractive and chemical-intensive industries[1]. These bodies are given direct emissions targets and allowances to manage themselves. Over 100 Irish installations participate in the scheme.

The Effort-Sharing Decision[2]/National emission reduction targets

The 2009 Effort Sharing Decision 406/2009/EC established 2020 greenhouse gas emission targets for EU Member States including Ireland. Targets are for sectors not included in the EU ETS, such as transport (excluding aviation), buildings, agriculture and waste.

Ireland's target is a reduction of 20% of non-Emissions Trading System (non-ETS) sector emissions compared to 2005 levels, with annual binding limits set for each year over the period 2013-2020. This compares with an EU average reduction of 10%. Ireland's target is jointly the most demanding 2020 reduction target allocated to EU Member States under this Decision, which is shared only with Denmark and Luxembourg.

Table 2 describes the minimum targets for each country.

1 https://ec.europa.eu/clima/policies/ets_en
2 https://ec.europa.eu/clima/policies/effort_en

Table 2

Member State GHG emission limits in 2020 compared to 2005 GHG emissions levels	
Denmark	-20%
Ireland	**-20%**
Luxembourg	-20%
Sweden	-17%
Netherlands	-16%
Austria	-16%
Finland	-16%
United Kingdom	-16%
Belgium	-15%
Germany	-14%
France	-14%
Italy	-13%
Spain	-10%
Cyprus	-5%
Greece	-4%
Portugal	1%
Slovenia	4%
Malta	5%
Czech Republic	9%
Hungary	10%
Estonia	11%
Slovakia	13%
Poland	14%
Lithuania	15%
Latvia	17%
Romania	19%
Bulgaria	20%

Ireland's progress in meeting its emissions targets

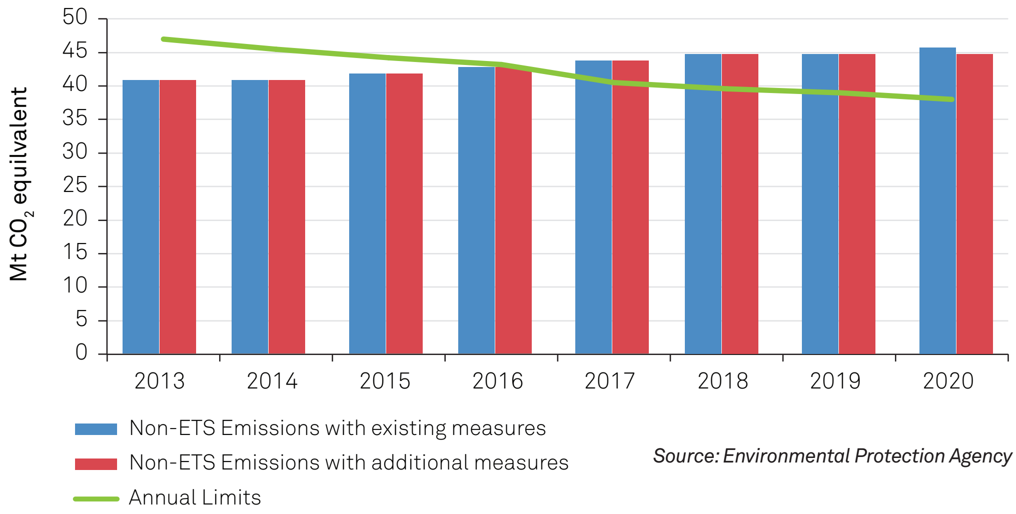
The most recent Environmental Protection Agency (EPA) projections[3], published in May 2018, describe Ireland's progress towards achieving its emissions targets as set under the EU effort Sharing Decision. As mentioned before Ireland's 2020 target is to achieve a 20% reduction of non-Emission Trading Scheme (non ETS) emissions on 2005 levels. It is estimated by the EPA that non-ETS sector emissions will be between 0% and 1% below 2005 levels by 2020.[4]

The EPA found that Ireland has exceeded its annual binding limit for the first time in 2016. Over the period 2013-2020 Ireland is projected to cumulatively exceed its compliance obligations by approximately 17 Mt CO_2 equivalent under the "With Existing Measures" scenario and 16.3. Mt CO_2 equivalent under the "With Additional Measures" scenario as shown in Figure 1.

3 http://www.epa.ie/climate/emissionsinventoriesandprojections/nationalemissionsprojections/
4 http://www.epa.ie/climate/emissionsinventoriesandprojections/nationalemissionsprojections/

The “With Existing Measures” scenario assumes policies in place by end-2017 are implemented for the projection horizon, whereas the “With Additional Measures” scenario includes further achievement of Government renewable energy efficiency targets for 2020.

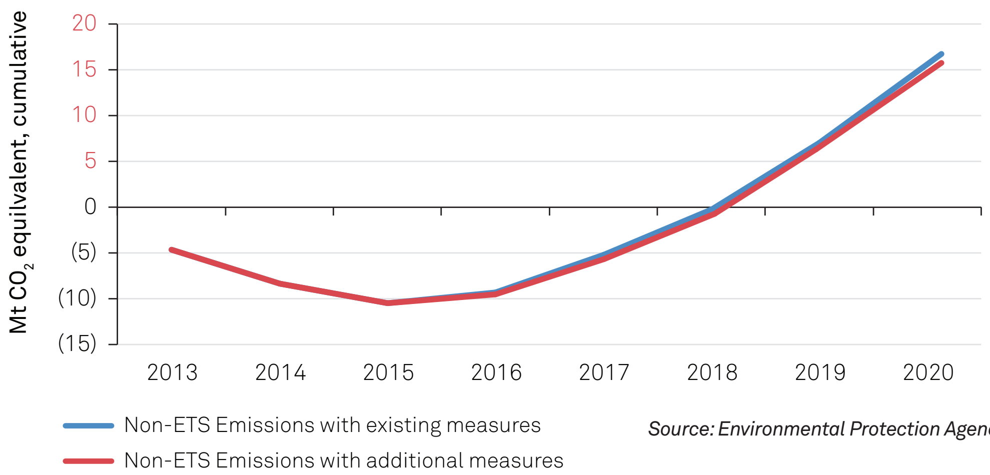
Figure 1: With Existing Measures and With Additional Measures greenhouse gas emissions projections and comparison with the reduction pathway required between 2013 and 2020



Source: Environmental Protection Agency

Further actions reflected in the “With Additional Measures” scenario are described in two documents[5] published by the Department of Communications, Climate Action and Environment. The cumulative shortfall relative to obligations is in a range of 16.3 – 17 Mt CO_2 equivalent by 2020, depending on the level of implementation of these further policies. It is anticipated that the units in the Carbon Fund will be used towards meeting this gap. The cumulative projections are shown in Figure 2.

Figure 2: Projected Cumulative distance to target for Ireland’s Non-ETS emissions 2013 to 2020



Source: Environmental Protection Agency

5 http://www.epa.ie/climate/emissionsinventoriesandprojections/nationalemissionsprojections/

Section Two

Investments by Ireland

Ireland's strategy to meet the carbon emission reduction requirements of the Kyoto Protocol involved a number of investments to deliver carbon units. Between 2006 and 2007 the Irish Government undertook investments in three multilateral funds.

These are:

- The Multilateral Carbon Credit Fund (MCCF)[6] of the European Bank for Reconstruction and Development;
- The World Bank Carbon Fund for Europe[7];
- The World Bank BioCarbon Fund.

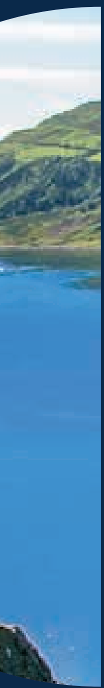
In addition to these investments, the NTMA was mandated to purchase carbon units directly from the market. This was to supplement the units received through investments and meet the reductions targets. A total of 18 million tonnes were originally estimated as required in the period 2008 to 2012.In total 21 trades were undertaken during 2008 and 2009, in which Ireland purchased 5.255 million units. The carbon purchasing programme was suspended in February 2009 by the Department of the Environment, Community and Local Government following the decline in economic activity and consequent reduction in carbon emissions.

At end-2018 these 5.255 million units were carried over to meet Ireland's commitments under the European Union's 2020 Climate and Energy Package. Additional units from the investment projects outlined above were also carried forward.

The number of carbon credits held in the fund as at the end of 2018 was 5,506,472 compared with 5,329,964 at the end of 2017. The increase relates to tCERs received from Ireland's investment in the BioCarbon Fund. The Department of Communications, Climate Action and Environment will instruct the NTMA with regard to future use of these units towards meeting upcoming emissions targets.

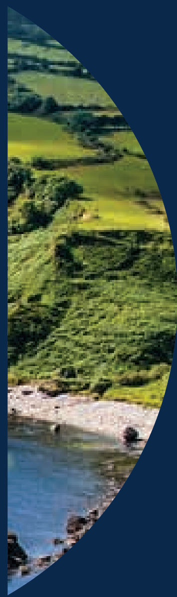
The NTMA continues to process payments for the State's existing carbon investments. During 2018, there was a call on payments under the BioCarbon Fund of €606,564. In addition the Carbon Fund for Europe was formally closed in April 2018 and the DCCAE received a refund of €98,026 which accounted Ireland's percentage of the remaining cash on the fund.

6 The European Investment Bank is partnering with the EBRD in managing the MCCF; Ireland's agreement is only with the EBRD.
7 The Carbon Fund for Europe was formally closed in April 2018.



Financial Statements of the Carbon Fund

For the Year Ended 31 December 2018



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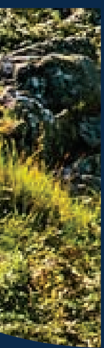


Statement on Internal Control

The National Treasury Management Agency (the "Agency") is the manager of the Carbon Fund (the "Fund"). The Agency's system of internal control is set out below.

Scope of Responsibility

On behalf of the National Treasury Management Agency we acknowledge the Agency's responsibility for ensuring that an effective system of internal control is maintained and operated. This responsibility takes account of the requirements of the Code of Practice for the Governance of State Bodies (2016).

Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a tolerable level rather than to eliminate it. The system can therefore only provide reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded and that material errors or irregularities are either prevented or detected in a timely way.

The system of internal control, which accords with guidance issued by the Department of Public Expenditure and Reform has been in place in the National Treasury Management Agency for the year ended 31 December 2018 and up to the date of approval of the financial statements.

Capacity to Handle Risk

The National Treasury Management Agency has an Audit and Risk Committee (ARC) comprising three Agency members, with financial and audit expertise, one of whom is the Chair. The ARC met nine times in 2018.

The National Treasury Management Agency has also established an internal audit function which is adequately resourced and conducts a programme of work agreed with the ARC.

The Agency has developed a Risk Management Policy and Framework which sets out its risk appetite, the risk management processes in place and details the roles and responsibilities of staff in relation to risk. The policy has been issued to all staff who are expected to work within the National Treasury Management Agency's risk management policies, to alert management on emerging risks and control weaknesses and assume responsibility for risks and controls within their own area of work.

Risk and Control Framework

The National Treasury Management Agency has implemented a risk management system which identifies and reports key risks and the management actions being taken to address and, to the extent possible, to mitigate those risks.

Risk registers are in place which identify the key risks facing the National Treasury Management Agency and these have been identified, evaluated and graded according to their significance. Key Business Unit risk registers are reviewed by the ARC as appropriate on an annual basis. The outcome of these assessments is used to plan and allocate resources to ensure risks are managed to an acceptable level.

The risk registers detail the controls and actions needed to mitigate risks and responsibility for operation of controls assigned to specific staff. We confirm that a control environment containing the following elements is in place:

- procedures for all key business processes have been documented,
- financial responsibilities have been assigned at management level with corresponding accountability,
- there is an appropriate budgeting system with an annual budget which is kept under review by senior management,
- there are systems aimed at ensuring the security of the information and communication technology systems, and
- there are systems in place to safeguard the assets.

Statement on Internal Control (continued)

Ongoing Monitoring and Review

Formal procedures have been established for monitoring control processes and control deficiencies and these are communicated to those responsible for taking corrective action and to management and the Agency, where relevant, in a timely way. We confirm that the following ongoing monitoring systems are in place:

- key risks and related controls have been identified and processes have been put in place to monitor the operation of those key controls and report any identified deficiencies,
- reporting arrangements have been established at all levels where responsibility for financial management has been assigned, and
- there are regular reviews by senior management of periodic and annual performance and financial reports which indicate performance against budgets/forecasts.

Procurement

We confirm that the National Treasury Management Agency has procedures in place to ensure compliance with current procurement rules and guidelines and that during 2018 the National Treasury Management Agency complied with those procedures in respect of the Carbon Fund.

Review of Effectiveness

We confirm that the National Treasury Management Agency has procedures to monitor the effectiveness of its risk management and control procedures. The National Treasury Management Agency's monitoring and review of the effectiveness of the system of internal control is informed by the work of the internal and external auditors, the Audit and Risk Committee which oversees their work, and the senior management within the National Treasury Management Agency responsible for the development and maintenance of the internal financial control framework.

We confirm that the Agency conducted an annual review of the effectiveness of the internal controls for 2018.

Internal Control Issues

No weaknesses in internal control in respect of the Carbon Fund were identified in relation to 2018 that require disclosure in the financial statements.

On behalf of the Agency members

Maeve Carton, Chairperson
National Treasury Management Agency

Martin Murphy, Chairperson
Audit and Risk Committee
National Treasury Management Agency

7 May 2019

Comptroller and Auditor General

Report for presentation to the House of the Oireachtas

Ard Reachtaire Cuntas agus Ciste

Comptroller and Auditor General

Report for presentation to the Houses of the Oireachtas

Carbon Fund

Opinion on financial statements

I have audited the financial statements of the Carbon Fund prepared by the National Treasury Management Agency (the Agency) for the year ending 31 December 2018 as required under the provisions of section 5 of the Carbon Fund Act 2007. The financial statements comprise the statement of financial position, the fund account and the related notes, including a summary of significant accounting policies.

In my opinion, the financial statements properly present

- the balance of the Fund at 31 December 2018, and
- the transactions for 2018.

Basis of opinion

I conducted my audit of the financial statements in accordance with the International Standards on Auditing (ISAs) as promulgated by the International Organisation of Supreme Audit Institutions. My responsibilities under those standards are described in the appendix to this report. I am independent of the Agency and have fulfilled my other ethical responsibilities in accordance with the standards.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Report on information other than the financial statements, and on other matters

The Agency has presented certain other information together with the financial statements. This comprises the annual report (including the statement of responsibilities) and the statement on internal control. My responsibilities to report in relation to such information, and on certain other matters upon which I report by exception, are described in the appendix to this report.

I have nothing to report in that regard.

Seamus McCarthy

Seamus McCarthy
Comptroller and Auditor General

16 May 2019

Appendix to the report

Responsibilities of the National Treasury Management Agency

The statement of responsibilities sets out the Agency members' responsibilities for

- the preparation of financial statements in the form prescribed under section 5 of the Carbon Fund Act 2007
- ensuring that the financial statements properly present the Fund's affairs at year-end and the transactions in the year
- ensuring the regularity of transactions
- assessing whether the use of the going concern basis of accounting is appropriate, and
- such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibilities of the Comptroller and Auditor General

I am required under section 5 of the Carbon Fund Act 2007 to audit the financial statements of the Carbon Fund and to report thereon to the Houses of the Oireachtas.

My objective in carrying out the audit is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the ISAs, I exercise professional judgment and maintain professional scepticism throughout the audit. In doing so,

- I identify and assess the risks of material misstatement of the financial statements whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- I obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls.
- I evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures.
- I conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, on whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- I evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Information other than the financial statements

My opinion on the financial statements does not cover the other information presented with those statements, and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, I am required under the ISAs to read the other information presented and, in doing so, consider whether the other information is materially inconsistent with the financial statements or with knowledge obtained during the audit, or if it otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

Reporting on other matters

My audit is conducted by reference to the special considerations which attach to State bodies in relation to their management and operation. I report if there are material matters relating to the manner in which public business has been conducted.

I seek to obtain evidence about the regularity of financial transactions in the course of audit. I report if there is any material instance where public money has not been applied for the purposes intended or where transactions did not conform to the authorities governing them.

I also report by exception if, in my opinion,

- I have not received all the information and explanations I required for my audit, or
- the accounting records were not sufficient to permit the financial statements to be readily and properly audited, or
- the financial statements are not in agreement with the accounting records.

Statement of Financial Position
As at 31 December 2018

	Note	2018 €000	2017 €000
Carbon Fund assets	4	**91,853**	91,344
Receivables	5	**607**	599
Other liabilities	6	**(607)**	(599)
Net assets of Fund		**91,853**	91,344

The accompanying notes form an integral part of the financial statements.

On behalf of the Agency

Conor O'Kelly, Chief Executive
National Treasury Management Agency

Maeve Carton, Chairperson
National Treasury Management Agency

7 May 2019

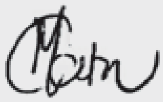
Fund Account
For Year Ended 31 December 2018

	Note	2018 €000	2017 €000
Income	7	**607**	1,029
Return of Capital	8	**(98)**	-
Movement in Fund during the year		**509**	1,029
Net assets at 1 January		**91,344**	90,315
Net assets at 31 December		**91,853**	91,344

The accompanying notes form an integral part of the financial statements.

On behalf of the Agency

Conor O'Kelly, Chief Executive
National Treasury Management Agency



Maeve Carton, Chairperson
National Treasury Management Agency

7 May 2019

Notes to the Financial Statements

1. Background

The Carbon Fund was established under the Carbon Fund Act 2007 for the acquisition of Kyoto Units[8] and any other such instruments or assets on behalf of the State to meet international climate change obligations under the 1992 United Nations Framework Convention on Climate Change, the 1997 Kyoto Protocol to that Convention and the Paris Agreement. The National Treasury Management Agency (the "Agency") has been designated as the purchasing agent on behalf of the State and administers and manages purchases of Kyoto Units.

The Agency may use the following mechanisms to purchase Kyoto Units:

- direct purchase of Kyoto Units from other Kyoto Protocol parties
- direct investment in Joint Implementation and Clean Development Mechanism projects
- investment in managed funds
- direct market purchases of Kyoto Units
- or a combination of some or all of these.

Any surplus Kyoto Units held by the State at the end of the 2008-2012 commitment period can be used in a subsequent commitment period of the Kyoto Protocol or any successor treaty. The final accounting transactions for the first commitment period of the Kyoto Protocol (2008-2012) were carried out in 2015. The unused credits were carried over with the intention to use them to meet Ireland's 2020 commitments under the European Union's 2020 Climate and Energy Package.

The functions of the Minister for Finance under the Carbon Fund Act 2007 were transferred to the Minister for Public Expenditure and Reform on 29 July 2011. The functions of the Minister for the Environment, Community and Local Government under the Carbon Fund Act 2007 were transferred to the Minister for Communications, Climate Action and Environment on 22 July 2016.

2. Basis of Preparation

The financial statements have been prepared in accordance with section 5(1)(a) of the Carbon Fund Act 2007 in a format that was approved by the Minister for the Environment, Heritage and Local Government, with the consent of the Minister for Finance.

The reporting currency is the euro which is denoted by the symbol €. Where used, €m denotes million.

3. Accounting Policies

3.1 Carbon Fund Assets

Carbon Fund assets represent investments in the following:

Direct Holdings

Kyoto Units purchased are recorded on delivery at cost of acquisition. The cost of acquisition includes Value Added Tax paid and payable in respect of the purchase of the Kyoto Units.

8 A Kyoto Unit is defined in the Carbon Fund Act 2007 as *"a unit, equivalent to one metric tonne of carbon dioxide, issued pursuant to the Kyoto Protocol and the decisions adopted pursuant to the Convention and the Kyoto Protocol"*. Kyoto Units are generally referred to as carbon credits. The legislation allows for the disposal of Kyoto Units only with the consent of the Minister for Communications, Climate Action and Environment and the Minister for Public Expenditure and Reform and on such terms as they may specify.

Notes to the Financial Statements (continued)

3. Accounting Policies (continued)

3.1 Carbon Fund Assets (continued)

Indirect Kyoto Units

Investments in indirect units are made in managed funds. Investments in these funds are recorded at investment cost. Such investments relate to carbon reducing projects that may or may not produce Kyoto Units. The total number of units, if any, will not be known until a future date when the projects are complete.

The Minister for the Environment, Heritage and Local Government invested €20 million in 2006 in a Multilateral Carbon Credit Fund established by the European Bank for Reconstruction and Development. That investment does not form part of the Fund but the units produced by projects undertaken are included herein as explained in Note 4(d).

3.2 Gains and Losses on Carbon Fund Assets

The Kyoto Units were acquired with the intention to meet Ireland's obligation under the Kyoto Protocol, in the commitment period 2008 to 2012. The final accounting transactions for the first commitment period of the Kyoto Protocol (2008-2012) were carried out in 2015. On 20 December 2016 the unused credits were carried over with the intention to use them to meet, in part, Ireland's 2020 commitments under the European Union's 2020 Climate and Energy Package.

3.3 Fund Account

The Fund Account records the accumulated income received or receivable from the relevant Department. Investments are funded initially through repayable advances from the Central Fund under section 3 of the Carbon Fund Act 2007 pending receipt of this income.

3.4 Foreign Currencies

All transactions in foreign currencies are translated into euro at the rates of exchange prevailing at the date of such transactions. Unfunded commitments to non-euro investments are translated into euro using the foreign exchange rates prevailing at the year end date.

3.5 Taxation

The income and profits of the Carbon Fund are exempt from Irish corporation tax. The purchases of Kyoto Units by the Carbon Fund are liable to Value Added Tax as such transactions are regarded as a supply of a service, as defined by Section 25(1) of the Value-Added Tax Consolidation Act 2010. VAT incurred is included in the cost of acquisition of the Carbon Fund assets.

3.6 Asset Surrender/Carry Over to Next Commitment Period

Direct holdings of Kyoto units are surrendered at the average cost of the direct holdings at the date of surrender.

Indirect Kyoto units are surrendered at the average cost of the investment in the relevant managed fund at the date of surrender.

Direct and indirect Kyoto units are carried over at cost from the first commitment period of the Kyoto Protocol (2008 – 2012) to meet Ireland's commitments under the European Union's 2020 Climate and Energy Package.

4. Carbon Fund Assets

(a) Summary of Assets

	2018 €000	2017 €000
Direct Holdings	**90,217**	89,573
Indirect Holdings	**1,636**	1,771
	91,853	91,344

(b) Analysis by Currency of Acquisition

	2018 €000	2017 €000
Euro	**90,217**	90,315
US dollar	**1,636**	1,029
	91,853	91,344

(c) Indirect Holdings

	2018 €000	2017 €000
World Bank – Carbon Fund for Europe	**1,636**	1,029
World Bank – Bio Carbon Fund	**-**	742
	1,636	1,771

Due to the closure of the Carbon Fund for Europe in April 2018 all holdings in the Carbon Fund for Europe were reclassified as direct holdings.

(d) Credits Delivered and Held

The number of carbon credits delivered and held with the Union Registry of the European Commission at 31 December:

	2018	2017
Purchased Directly	**5,255,000**	5,255,000
Acquired Via Indirect Holdings	**251,472**	74,964
	5,506,472	5,329,964

At 31 December 2018, 30,795 units (2017: 30,795) of the 5,506,472 units (2017: 5,329,964) relate to credits acquired through investments made by the Department of the Environment, Community and Local Government prior to the establishment of the Carbon Fund.

Notes to the Financial Statements (continued)

5. Receivables

	2018 €000	2017 €000
Receivable from Department	**607**	599
	607	599

The amounts owed to the Carbon Fund are due under Section 3(4) of the Carbon Fund Act 2007 from the Department of Communications, Climate Action and Environment.

6. Other Liabilities

	2018 €000	2017 €000
Central Fund	**607**	599
	607	599

The liability to the Central Fund is in respect of advances made by the Central Fund to the Carbon Fund, and will be repaid to the Central Fund when the Carbon Fund receives funds from the Department of Communications, Climate Action and Environment.

7. Income

	Year Ended 31 December 2018 €000	Year Ended 31 December 2017 €000
Income from Department	**607**	1,029

During 2018, there was a call on payments under the BioCarbon Fund from the Department of Communications, Climate Action and Environment to the value of €606,564.

8. Return of Capital

The Carbon Fund for Europe was formally closed in April 2018 and the Carbon Fund received a refund of €98,026 in respect of the remaining assets of the fund.

9. Commitments

Carbon Fund Investments

The Agency administers payments on behalf of the Minister for Communications, Climate Action and Environment in respect of the World Bank Fund. Investments in this fund relate to projects which may yield Kyoto Units but the total number of units will not be known until a future date when the projects complete.

At 31 December 2018, there were no uncalled commitments in respect of these investments.

10. Operating Expenses

Operating expenses of the Carbon Fund, where incurred, are charged to the Agency's Administration Account and are paid out of the Central Fund. This charge in 2018 is €nil (2017: €nil).

11. Contingent Liabilities

The Carbon Fund had no contingent liabilities at 31 December 2018.

12. Related Parties

(a) Minister for Public Expenditure and Reform

Under Section 3 of the Carbon Fund Act 2007, the Minister for Public Expenditure and Reform may advance monies to the Carbon Fund from the Central Fund which are reimbursed by the Carbon Fund out of monies made available by the Minister for Communications, Climate Action and Environment See note 7 in relation to advances made in 2018.

(b) Minister for Communications, Climate Action and Environment

Under Section 2(3) of the Carbon Fund Act 2007, the Minister for Communications, Climate Action and Environment manages and controls the Carbon Fund.

(c) National Treasury Management Agency

Under Section 2(4) of the Carbon Fund Act 2007, the management of the Carbon Fund is delegated to the Agency.

Under Section 8 of the Carbon Fund Act 2007, the Minister for Communications, Climate Action and Environment, following consultation with the Minister for Public Expenditure and Reform, may give directions or guidelines to the Agency in relation to the performance by it of the functions delegated or granted to it under the Act.

13. Approval of Financial Statements

The financial statements were approved by the Agency on 7 May 2019.

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