

5 Accounting for allied services

- 5.1** Some government departments and offices provide services without charge to others on the basis that, as specialists, the provider is able to perform the services most efficiently. These are generally referred to as allied services. Examples include property management services provided by the Office of Public Works (OPW), and payroll and pension management services provided by the National Shared Services Office (NSSO).¹
- 5.2** Appropriation accounts are a cash-based record of receipts and payments in the year. Additional information, based on an accrual accounting approach where appropriate, is included in notes to the accounts.
- 5.3** The operating cost statement (OCS) included in each appropriation account is intended to present the full cost to the Exchequer of providing the relevant vote-funded services in a year. Included in the expenses are the estimated costs of relevant allied services received. The OCS of a service provider shows the cost of services provided to others as a deduction.
- 5.4** In 2018, there were eleven providers (ten votes and one non-vote) of allied services costing an estimated €813 million to other votes (see Figure 5.1). Superannuation and retired allowances comprised €566 million (70%) of the total. The OPW provided allied services costing an estimated €179 million (22%) of the total.
- 5.5** This chapter reviews the approaches adopted to allocate the cost of allied services between votes and the reporting of those costs in appropriation accounts.

Figure 5.1 Allied service costs disclosed by supplying votes in 2018

Vote number	Vote/body name	Value of services provided €000
12	Superannuation and Retired Allowances ^a	565,522
13	Office of Public Works	178,700
	Central Fund ^b	43,582
18	National Shared Services Office	11,676
24	Justice and Equality	4,206
9	Office of the Revenue Commissioners	4,107
11	Office of the Minister for Public Expenditure and Reform	1,287
36	Defence	1,909
20	An Garda Síochána	1,201
7	Office of the Minister for Finance	1,027
28	Foreign Affairs and Trade	253
	Total	813,470

Source: Appropriation Accounts 2018

- Notes:
- a The full cost of the allied services is included in Vote 12 but Vote 12 does not provide an operating cost statement.
 - b The Central Fund of the Exchequer is not a vote. The services paid for from the Central Fund include salaries and pensions of judges, ministers, etc.

¹ Some other services are provided on an agency basis, and are charged for. Services that are charged for are not allied services.

Accounting policies for allied service costs

5.6 Appropriation accounts are prepared in accordance with legislation and with accounting rules and procedures laid down by the Minister for Public Expenditure and Reform.¹ The Department of Public Expenditure and Reform (the Department) issues an annual circular (usually at the end of December) setting out the requirements for appropriation accounts for that year.

5.7 The latest guidance states that it is the responsibility of each accounting officer in receipt of allied services to review the basis on which charges have been calculated and to be satisfied with the calculation of the charge to their vote. The Department's annual circular requires votes to disclose allied service costs, but does not set out the cost allocation bases, due to the varying nature of the services provided. The current guidance states that actual figures should be used where possible, except where the effort and cost of a complex cost system would outweigh the benefit.

5.8 Votes allocate allied service costs differently depending on the service being provided (see Figure 5.2). For example

- The Revenue Commissioners (Vote 9) records costs for services provided to others based on
 - actual costs for data centre printing
 - actual costs plus a portion of salary costs in relation to the Revenue print centre
 - a notional cost (per rack) for data centre hosting, based on the market prices for similar services provided in the private sector.
- The OPW (Vote 13) uses actual cost incurred for the majority of allied services provided but uses actual cost incurred plus apportioned expenses in relation to property maintenance, new works, and alterations and additions.²
- The NSSO (Vote 18) apportions allied service costs to other votes based on the number of payees — NSSO costs comprise salaries and wages; travel and subsistence; training, development and incidental expenses; and office expenses and IT services.³

5.9 Certain services are provided to departments and offices free of charge, but without allocation of an allied service cost. This includes legal services provided by the Chief State Solicitor's Office, recruitment services provided by the Public Appointments Service, and audits of votes and departmental funds carried out by the Office of the Comptroller and Auditor General.

5.10 The Central Fund is not a vote but certain payments made from it are presented as allied services received by certain votes — for example, the OCS of the Courts Service discloses €34 million for judicial salaries and pensions (payments made during the year) as an allied service received. The total value of allied service payments by the Central Fund — €43 million — is charged to the Finance Accounts.

¹ The relevant legislation is the Exchequer and Audit Departments Act 1866 (as amended by the Comptroller and Auditor General (Amendment) Act 1993).

² The OPW property maintenance allied service cost is based on the direct cost of building maintenance services for each vote plus an allocation of cost of pay and travel for the OPW building maintenance staff services. The allocation is based on the proportion of cost of suppliers and services for each vote. The OPW new works, alterations, and additions allied cost includes actual costs and apportioned costs for the energy conservation programme. For participating departments, the charge is apportioned based on the approximate floor area of office space that the department has in a building.

³ The allied service provided by the NSSO is the processing of salaries payroll, pensions payroll and travel and subsistence payments on behalf of 54 client bodies. The NSSO also provides HR and pensions services for 40 client bodies but charges a levy (called the PeoplePoint levy) — in 2018, levy receipts were €4.5 million (recorded as appropriation-in-aid of Vote 18).

Figure 5.2 Allied service cost allocation bases

Service provider	Service type	Direct costs	Apportioned costs ^a	Notional costs	Overhead ^b costs
Office of Public Works	President household staff and expenses	✓			
	Purchase of sites and buildings	✓			
	New works, alterations and additions	✓	✓		
	Property maintenance for votes	✓	✓		
	Rents paid for departments	✓			
	Service charges and utilities paid for departments	✓			
Office of the Revenue Commissioners	Revenue data centre printing	✓			
	Revenue printing centre	✓	✓		
	Services in connection with IT hosting			✓	
Superannuation and Retired Allowances	Payment of pensions	✓			
Central Fund	Payment of salaries and pensions of judges, ministers, etc.	✓			
Office of the Minister for Public Expenditure and Reform	Office of the Minister for Finance	✓			
	Policing Authority	✓			
	National Shared Services Office	✓			
Office of the Minister for Finance	Accounting and facility support	✓			
	Facilities management	✓			
	Accounting	✓			
National Shared Services Office	Payroll charge		✓		✓
Defence	Staff based in Presidents Establishment and Department of the Taoiseach	✓			
	Army Pensions	✓	✓		✓
Foreign Affairs and Trade	Expenses in relation to presidential travel abroad		✓		✓
Justice and Equality	Cost of Financial Shared Services Centre ^c		✓		
An Garda Síochána	Cost of Garda transport provided to other votes		✓		

Source: Analysis by the Office of the Comptroller and Auditor General

- Notes:
- Apportioned expenses are actual expenses that are not readily assignable to a specific vote but are apportioned on a measurement basis that reflects usage of the resource in question.
 - Overhead expenses relate to supplying votes inclusion of an apportioned element of its overhead.
 - The cost of financial shared services is apportioned based on headcount of departments receiving the service. The cost for the supplier payments section is based on the number of invoices processed, adjusted to reflect the added complexity of some services.

Estimated cost of pension benefits

5.11 The Superannuation and Retired Allowances Vote (Vote 12) funds expenditure on

- pensions, superannuation, occupational injuries, and additional and other allowances and gratuities of civil servants^{1,2}
- extra-statutory pensions, allowances and gratuities awarded by the Minister for Public Expenditure and Reform
- fees to medical referees and occasional fees to doctors for pension related assessments
- compensation and other payments in respect of personal injuries
- fees to the Pensions Authority and miscellaneous payments.

5.12 In 2018, expenditure of the superannuation vote was €573 million. This figure is arrived at in line with Public Financial Procedures using a cash-based approach. The total of the allied services amounts related to Vote 12 recorded in 34 other votes in 2018 was €566 million, accounting for 99% of the vote expenditure.³

5.13 While the majority of allied service superannuation payments are recorded in the relevant votes, exceptions exist in relation to

- retired civilian employees of An Garda Síochána, the costs of which are charged to the Justice and Equality Vote, rather than to the Vote of An Garda Síochána
- retired staff of the Office of the Director of Public Prosecutions and the Office of the Chief State Solicitor, where the charge to each vote is the same amount because the pensions related to both are charged to the same Vote 12 cost centre.

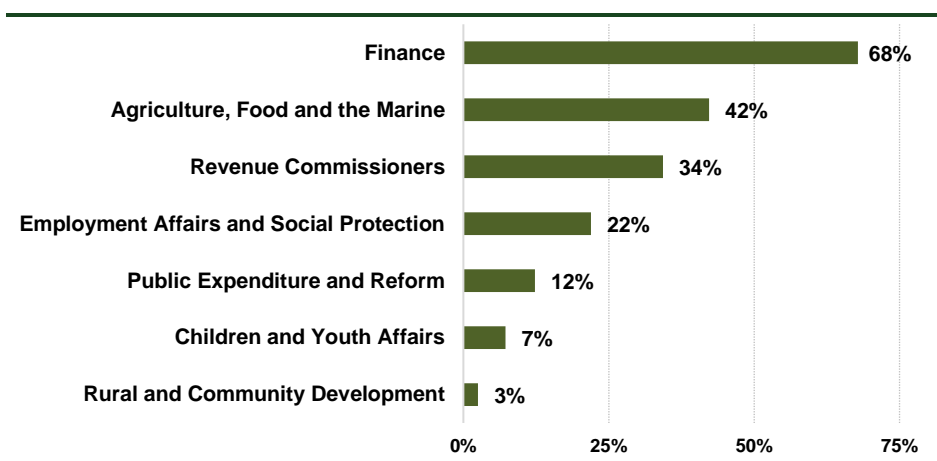
5.14 The cash amounts charged to Vote 12 in respect of pensions, lump sums, etc. in a year are apportioned between votes based on the last recorded location of service of each pensioner. As a result, the expenditure attributed to 'new' departments and offices may be very low. The current apportionment approach also may not reflect the impact of significant changes in the size of a department's workforce. The result is wide divergence in apportioned cash payments in a year as a proportion of the department/office payroll (see Figure 5.3).

1 Superannuation payments for Gardai, teachers, army personnel and Health Service Executive and former Health Board personnel are met on a current basis from the relevant votes.

2 Includes the appropriation account of the Houses of the Oireachtas Commission. Payments relate to retired civil servants and catering and bar staff. The cost of the allied services received are disclosed in the account of the Houses of the Oireachtas Commission.

3 The €7 million difference relates to payments recouped to votes for expenditure incurred — for example, the lump sum of a non-established member of staff is paid by the employing vote and recovered from the Superannuation and Retired Allowances Vote. Such sums are accounted for as appropriations-in-aid.

Figure 5.3 Superannuation net allied services charge as a proportion of vote payroll — selected votes, 2018



Source: Analysis by the Office of the Comptroller and Auditor General

- 5.15** The apportionment of pension costs incurred in a year does not reflect standard accrual-based accounting for pensions. The latter seeks to estimate the net present cost of future retirement benefits earned by current staff in the year of account. This is frequently expressed as a percentage of current pensionable salary. The Department currently estimates that the future pension cost of current service is 27% for pre-2013 civil servants and 8% for post-2013 civil servants.¹ Applying standard percentage uplifts to pay (or pensionable pay) for OCS purposes could provide a more meaningful estimate of the cost of current public services.

Allied service capital expenditure

- 5.16** The OCS is designed to show the total resources consumed in providing the vote services in the year of account — it deducts appropriations-in-aid received, working capital changes, capital costs and costs relating to other periods to give a net programme cost.

- 5.17** In 2018, the OPW provided €179 million of allied services of which

- €127 million related to current expenditure
- €52 million related to capital expenditure.

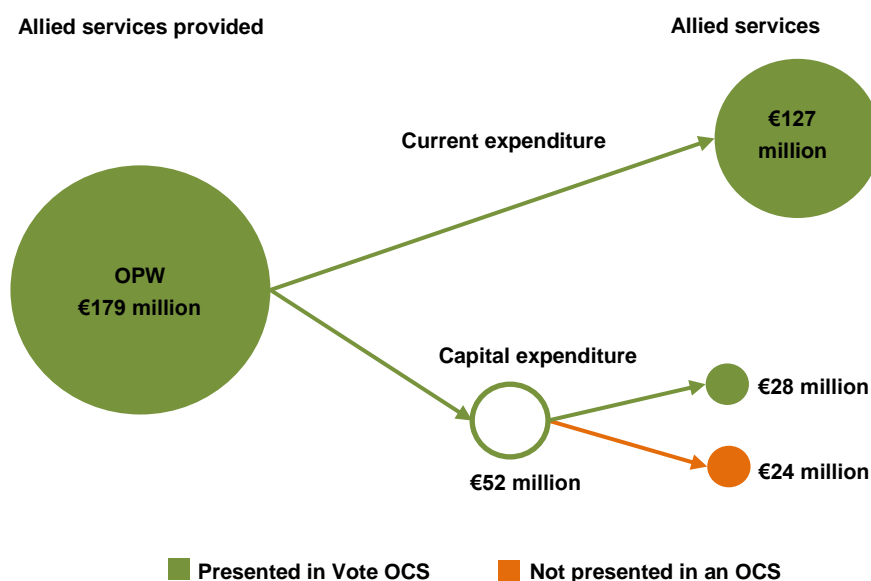
In its OCS, the OPW deducts all current and capital allied service costs when calculating its net programme cost.

- 5.18** The Department provides a breakdown of OPW current and capital allied service expenditure to each vote accounting officer (including the Houses of the Oireachtas Commission).

- 5.19** All 2018 appropriation accounts disclose the notified OPW current cost of allied services. However, 2018 appropriation accounts inconsistently accounted for notified OPW capital expenditure allied services (see Figure 5.4)

- 12 accounts include capital costs of €28 million in their net allied services disclosure
- 20 accounts do not include capital costs of €24 million in their net allied services disclosure.

¹ These rates are based on assumed discount rates and salary increases. They reflect the projected cost of pensions after deducting employee contributions but the pension related deduction (PRD) has not been deducted. There is also an assumption that pension increases remain linked to the salary of the position held on retirement. The Single Pension Scheme Act 2013 allows the Minister to link pension increases to inflation instead.

Figure 5.4 Presentation of the OPW allied service costs in OCS in 2018

Source: Appropriation Accounts 2018

Allied services provided to non-vote bodies

- 5.20** A department may have a number of bodies under its aegis — these are referred to as non-vote bodies.¹ The accounting policy provided by the Department does not state whether the cost of allied services provided to a body under the aegis of the vote should be included in the OCS of that vote — as a result, the presentation of this information is inconsistent between votes.
- 5.21** For example, in 2018, the Revenue Commissioners provided €1.2 million in allied services to non-voted public sector bodies including the Local Government Management Agency, the Houses of the Oireachtas and the Private Residential Tenancy Board. It did not deduct the cost of allied services provided to these bodies in the OCS — as a result, these costs remain in its net programme cost.² It does however include a table note to disclose the value of allied services provided to non-voted bodies.
- 5.22** Some departments count the notified cost of allied services to bodies under their aegis as part of their own vote's cost. For example, the Department of Education and Skills includes the cost of allied services provided by the Revenue Commissioners to bodies under its aegis as a cost of allied services provided to it.

¹ Departments disclose the bodies under their aegis in notes to the appropriation accounts. For example, the Department of Justice and Equality discloses nine bodies under its aegis in an appendix to the account.

² The Revenue Commissioners stated that the above treatment is in line with guidance received from the Department in March 2014.

Communication of allied services cost estimates

- 5.23** The Department compiles and circulates a summary of net allied service costs to each vote each year.
- 5.24** However, there is currently no formal requirement for a service supplier to provide the accounting officer of a service recipient with a statement of the cost allocation basis or a breakdown of the actual costs (e.g. each charge or a summary of charges).

Conclusions and recommendations

- 5.25** The purpose of the operating cost statement in appropriation accounts is to disclose the net programme cost of the vote in the year of account. The cost of services provided to or received from other votes free of charge is accounted for in the net allied services figure, which feeds into the reported net programme cost.
- 5.26** The accounting policy for allied services and the guidance issued by the Department of Public Expenditure and Reform does not provide a clear definition of a net allied service leading to inconsistent treatment of those costs. As a result
- the cost of allied services provided and received is not complete
 - the treatment of allied services provided to, and received from, non-vote bodies is inconsistent
 - the treatment of capital allied services received is inconsistent
 - the correct treatment by the parent vote of the cost of allied services provided to non-vote bodies under its aegis is not clear.

Recommendation 5.1

The Department of Public Expenditure and Reform should revise the accounting policy and guidance issued to votes in relation to allied services to provide clear instructions on the treatment of allied service costs, including how departments should deal with allied service provision to non-vote bodies, bodies under the aegis of a parent vote and capital expenditure.

Accounting Officer's response

Agreed.

The Department of Public Expenditure and Reform will review the accounting policy and guidance issued to votes in relation to allied services. This process will commence in 2019, and will be introduced as part of the phased implementation of the financial reporting reforms recommended by the OECD over the financial reporting periods 2019 to 2021.

- 5.27** There is currently limited analysis of the cost measurement and allocation bases being used by votes to calculate allied service cost.

Recommendation 5.2

The Department of Public Expenditure and Reform should provide guidance on appropriate measurement bases to allocate allied service costs, and commence a process of reviewing the methodology and expenditure allocated to other bodies as an allied service.

Accounting Officer's response

Agreed.

This recommendation will be examined as part of the phased implementation of the financial reporting reforms recommended by the OECD. This process will commence in 2020 and will be introduced as part of the phased implementation of the financial reporting reforms recommended by the OECD over the financial reporting periods 2019 to 2021.

