

5 Vote Budget Management

- 5.1 Dáil Éireann provides for money to be issued from the Central Fund of the Exchequer to pay for the normal services of Government departments¹ by
- approving estimates of the amounts required for each service
 - formally authorising the amount that may be drawn from the Exchequer, in the annual Appropriation Act.
- 5.2 Following the end of each year, the head of each department (referred to in this context as the Accounting Officer) is required to prepare an account, known as the appropriation account, for each voted service for which he/she has responsibility. By law, the appropriation account must present details of the outturn for the year against the amount provided by the Dáil. The accounts present the cash amounts of payments and receipts in the year.
- 5.3 The Department of Public Expenditure and Reform's *Public Financial Procedures* sets out strict rules that apply to the management of voted expenditure. In particular
- overall expenditure in the year may not exceed the amount authorised in the Appropriation Act
 - any part of the amount authorised that remains unspent at the end of the year is liable for surrender back to the Exchequer
 - departments cannot use the Exchequer funds paid into a vote for any purpose other than those specified in the estimate.

Focus of this Examination

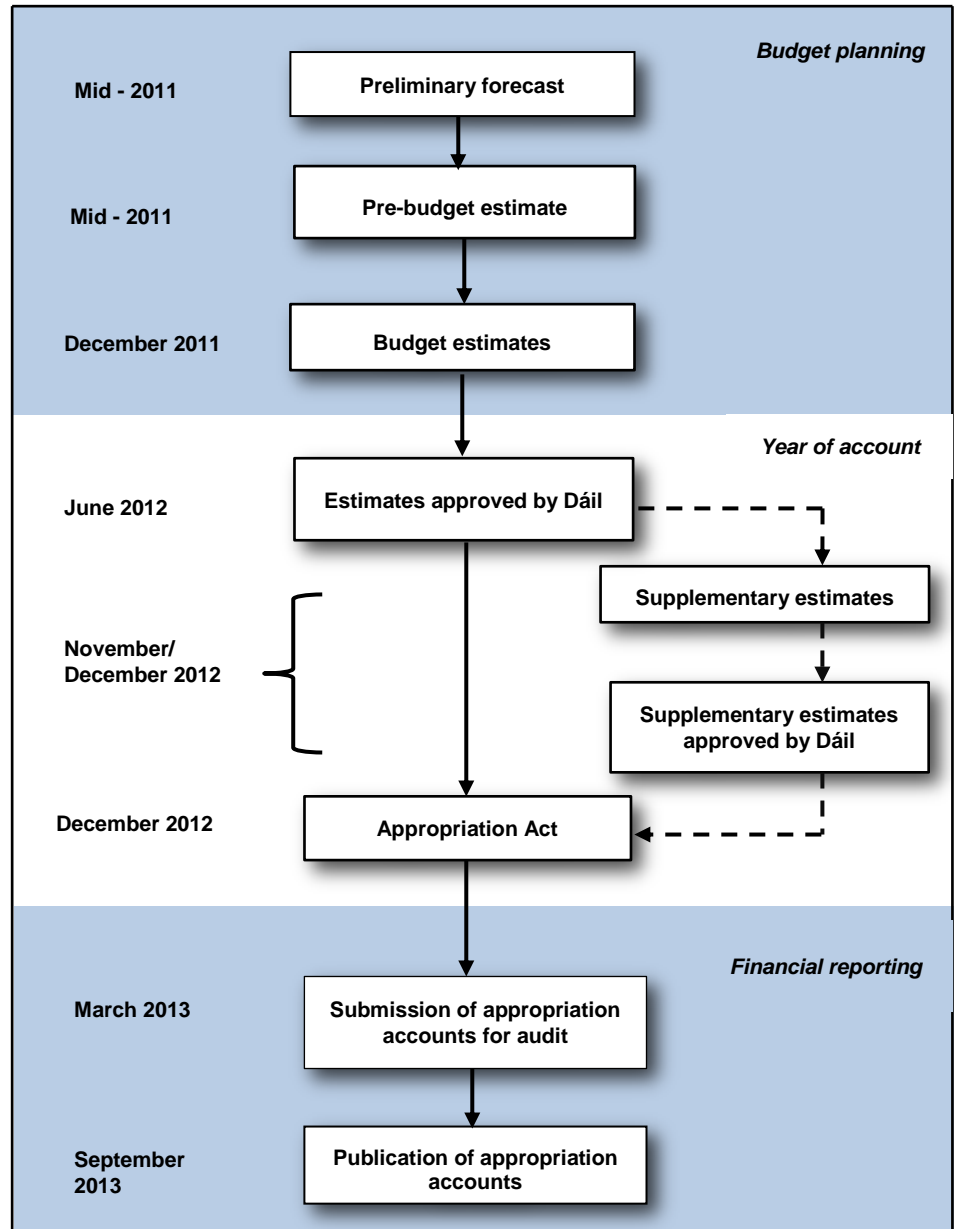
- 5.4 The estimates of expenditure presented to the Dáil for approval early in the year should reasonably accurately represent the amount that it is expected will be spent on each departmental service. They also effectively serve as cash limits.
- 5.5 This examination reviews the vote outturn results for 2012 to assess how well votes were managed relative to the estimate amounts approved. It also assesses whether appropriation accounts present adequate explanations of the extent to which outturns differ from the amounts allocated by the Dáil.

¹ In this report, the term 'department' includes central Government offices, such as the Revenue Commissioners and the Office of Public Works.

Annual Voted Expenditure Cycle

5.6 Figure 5.1 sets out the sequence and timing of the 2012 estimates process. Further details on the estimates and appropriation account process are set out in *Public Financial Procedures*.

Figure 5.1 2012 Estimates cycle



Budget Approval

- 5.7** The estimates of expenditure are presented under a series of 'votes', with one or more covering the functions of each department. The first part of the estimate for each vote (which is referred to as the ambit) provides a summary description of the services to be financed. The ambit is repeated in the Appropriation Act and so represents the purposes for which funds have been released by the Dáil.
- 5.8** Estimates are presented to the Dáil with varying levels of detail as to how the money sought will be used. For larger votes, expenditure plans are generally set out for individual programmes that comprehend the scope of the vote. In turn, each programme may be broken down into a number of expenditure 'subheads', relating to areas such as pay, specific grant schemes, capital investment programmes, etc. Subsequently, the same programme/subhead structure must be used when the appropriation account for each vote is being prepared.

Budget Monitoring and Adjustment

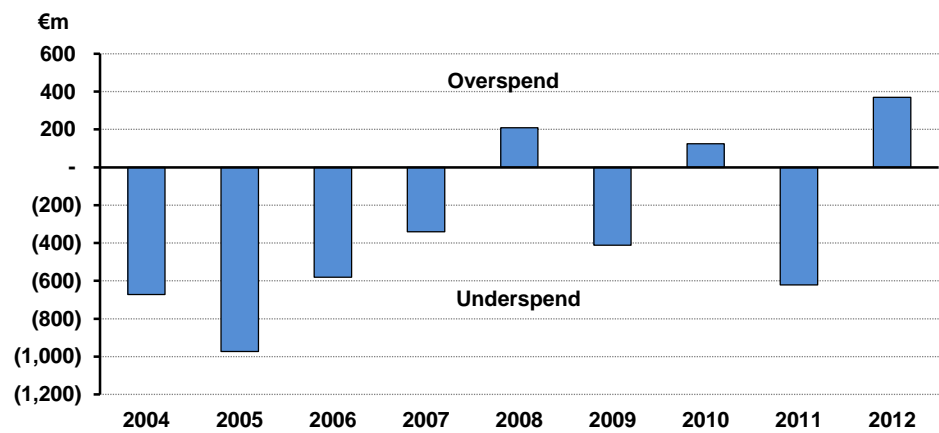
- 5.9** Departments are required to monitor and manage expenditure within the programmes and subhead allocations approved by the Dáil. The Department of Public Expenditure and Reform requires a profile of expenditure by month to be submitted with the estimate. Monthly returns of actual expenditure, including explanations of variations from profile, are also submitted to the Department, which analyses patterns of significant variances from original estimates. The monthly returns should also present a realistic view of the outlook for the remainder of the year, including all likely excesses and savings emerging. If spending begins to run over profile, or threatens to do so, departments are required to take action to bring it back into line with the approved estimate.
- 5.10** When the Dáil approves a vote estimate, it does so at the aggregate level. Departments are allowed some scope to move allocations between programmes and subheads, but only if the Department of Public Expenditure and Reform agrees. This reallocation process is referred to as 'virement'.
- 5.11** If large adjustments to the budgets for programmes or subheads are required as the year progresses, formal approval must be sought from the Dáil. This is done through the 'supplementary estimate' process. This process may also be used, if required, to increase the cash limit for the vote for the year. Details of supplementary estimates requested are discussed at the relevant Dáil committees before approval is sought from the Dáil itself.

Overall Budget Variance, 2004 to 2012

- 5.12** The original estimate amount approved represents the forecast of the amount required to meet the cost of the services to be provided from each vote. The budget variance is therefore the difference between the original estimate of net expenditure and the actual outturn in a year.¹ Figure 5.2 sets out the budget variance for all votes combined, for the years 2004 to 2012.
- 5.13** Between 2004 and 2007, net voted expenditure was less than originally estimated each year. More recently, there has not been a consistent pattern of variances, reflecting the greater challenges in budgeting for public services in the aftermath of the banking crisis. In 2008, 2010 and 2012, net expenditure was greater than originally forecast.

¹ There is a statutory provision for unspent capital allocations to be carried over to the following year for use for the same purpose, with Department of Public Expenditure and Reform agreement. In this report, such carryover amounts are treated as part of the annual departmental budget.

Figure 5.2 Net expenditure variance with original budget for all votes, 2004 to 2012



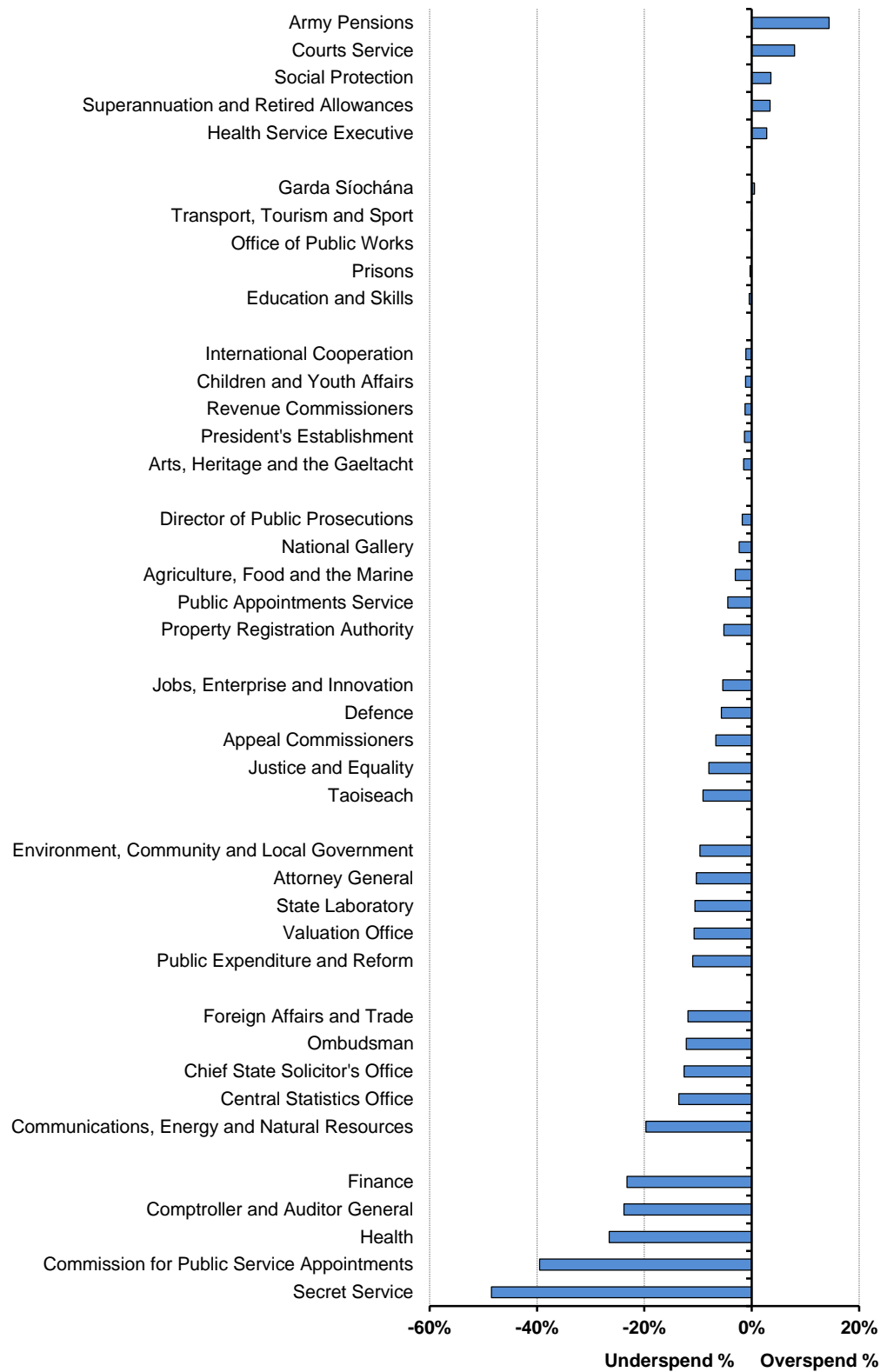
Source: Analysis by the Office of the Comptroller and Auditor General

2012 Budget Variance by Vote

5.14 Figure 5.3 sets out, for each vote, the proportionate variance between actual expenditure and the original estimate in 2012.

- There were six votes where the net expenditure outturn was greater than the original estimate. Army Pensions had the largest percentage overspend compared with the original budget.
- The remaining 34 votes incurred net expenditure less than originally anticipated in the revised estimates.

Figure 5.3 Net expenditure variance by vote, as a proportion of the original budget, 2012



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

2012 Major Budget Variances by Subhead

- 5.15** There were 24 expenditure subheads across eleven votes in 2012 where the variance between the original estimate of expenditure and the outturn was more than €10 million and represented 10% or more of the original estimate. Receipts were also significantly different from the estimate in a few cases. The major subhead variances are outlined in Annex A, together with the explanations for those variances provided by the relevant Accounting Officers.¹
- 5.16** The main causes of major variations were
- under or over estimation of the level of demand for schemes and programmes
 - price increases in the case of the Department of Social Protection's Household Benefits Package scheme
 - slower than expected progress on capital projects, for example, in the Water Services Investment Programme in the Department of the Environment, Community and Local Government
 - clearance of a backlog of Family Income Supplement claims in the Department of Social Protection
 - uncertainty regarding the level and timing of receipts in the case of European Social Fund receipts and European Globalisation Adjustment Fund receipts in the Department of Education and Skills.
- 5.17** In the case of the Garda Síochána vote, provision was not made in the estimate for expenditure on the GoSafe speed camera contract, on the basis that the cost is funded by receipts from fines. A technical supplementary estimate providing for the expenditure and the receipts is approved each year.²
- 5.18** The Accounting Officers of a number of Departments outlined that, in some cases, the additional spending on subheads is offset by savings in other subheads or votes. For example.
- The Accounting Officer for the Army Pensions vote stated that the overspend of €30 million in retirement benefits is offset by a related underspend on pay in the Defence vote.
 - The Accounting Officer of the Department of Social Protection pointed out that underspends on the Tús and National Internship work placement schemes arose because of lower demand from the target group (jobseekers allowance claimants) and as a result there were related overspends against the original estimate on the jobseekers allowance scheme.

¹ Variances on the Health Service Executive vote are considered separately in Chapter 21.

² See Chapter 8 which provides further information in relation to the operation of this contract.

Supplementary Estimates 2008 to 2012

5.19 Figure 5.4 lists the 20 votes which have had recourse to supplementary estimates between 2008 and 2012. In 2012, there were supplementary estimates for nine votes.

Figure 5.4 Votes with supplementary estimates, 2008 to 2012

	2008	2009	2010	2011	2012
Army Pensions	●	●	●	●	●
Health Service Executive	●	●	●	●	●
Garda Síochána	○	●	●	●	●
Courts Service	○	○	○	●	●
Justice and Equality	○	○	○	○	
Social Protection	●		●		●
Jobs, Enterprise and Innovation		○	○	○	○
Environment, Community and Local Government			○	○	○
Transport, Tourism and Sport	○		○		●
Arts, Heritage and the Gaeltacht	○	○	●		
Superannuation and Retired Allowances		●			●
Education and Skills	●		○		
Foreign Affairs and Trade	○		●		
Agriculture, Food and the Marine	●	○			
Children and Youth Affairs	○	○			
Public Expenditure and Reform				○	
Director of Public Prosecutions		●			
Secret Service		●			
Communications, Energy and Natural Resources		○			
Prisons	●				

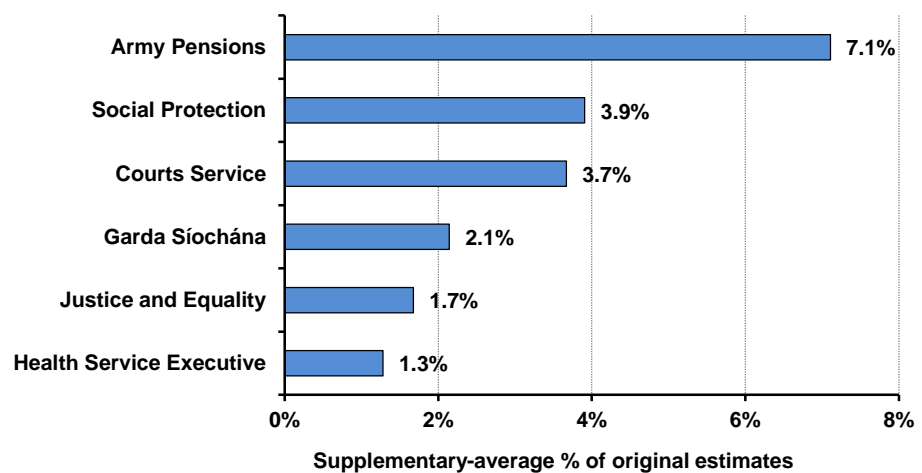
Source: Analysis by the Office of the Comptroller and Auditor General

Note:

- indicates that there was an increase in the net expenditure estimate i.e. a substantive supplementary estimate.
- indicates that the increase in net expenditure was a token €1,000 i.e. a technical supplementary estimate.

- 5.20** Some votes received supplementary estimates which had the effect of increasing their net provision by a token amount of €1,000. This is required, for instance, where
- substantial increases in expenditure are proposed under some subheads, but they are offset by substantial savings on other subheads
 - a substantial increase in overall expenditure is proposed, but this is offset by increases in receipts on the vote (appropriations-in-aid).
- 5.21** Six votes have had frequent recourse to supplementary estimates in order to increase their expenditure provision. Figure 5.5 sets out the average increases provided for in those votes.

Figure 5.5 Supplementary estimates for expenditure subheads — average proportion of original estimates, 2008 to 2012



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

Note: Each vote received a supplementary estimate for each of the five years, except Justice and Equality (four years) and Social Protection (three years).

Accounting for Budget Variances

- 5.22** The accounting policies for appropriation accounts set by the Department of Public Expenditure and Reform require the inclusion in the notes to the accounts of an explanation of any significant variance between the outturn and the total amount provided in the appropriation act.¹ *Public Financial Procedures* require that explanations of variations should be concise, meaningful, and should supplement rather than reiterate the information contained in the appropriation account. The Department of Public Expenditure and Reform has issued reminders to departments of this requirement each year. The quality of the explanations provided varies. In some cases, the explanations provided include minimal levels of detail. Some merely reiterate the fact of a variation, rather than present a cogent explanation of why the estimate was wrong.
- 5.23** Supplementary estimate adjustments are incorporated before the variance is calculated. As a result, there is no requirement to provide explanations in the appropriation account of the reasons for any supplementary estimates that have been approved during the year.

¹ An explanation is required where the outturn of a subhead varies, compared to the amount provided, by €100,000 or more, and represents 5% or more of the amount provided (25% in the case of administrative budget subheads).

- 5.24** In 2012, there were 31 expenditure subheads across nine votes that would have required an explanation of the variation against the original estimate, but because of a supplementary estimate, no explanation was required in the relevant appropriation account.¹ In 12 further cases, explanations of the variation of expenditure outturn compared with the amount appropriated are given but ten of these do not include reasons for the supplementary estimate adjustments.
- 5.25** The absence of explanations where budget variances have been dealt with through supplementary estimates, and the quality of a significant number of explanations means that the usefulness of some of the disclosures in the appropriation accounts with respect to variances is diminished.

Conclusions and Recommendation

- 5.26** Estimates approved by Dáil Éireann early in the year are stated to represent “an estimate of the amount required” to provide for the cost of departmental services in the year. This is the basis on which the Dáil is asked to allocate budgets to the departments.
- 5.27** Most votes are managed each year within the original voted expenditure limits. On an individual vote basis, there were six votes in 2012 where net expenditure exceeded the amount originally voted.
- 5.28** A number of votes have had repeated recourse to supplementary estimates over the past five years. Significant variations from original estimate and the repeated requirement for supplementary estimates for the same subheads may be indicative of a need to improve departmental budget forecasting.
- 5.29** Explanations are required to be provided in appropriation accounts where the variances exceed parameters set by the Department of Public Expenditure and Reform. In some cases, the explanations do not clearly explain the precise factors that caused the outturn to differ from the original amount provided. In addition, where a supplementary estimate changed the original estimate for the subhead, an explanation may not be required. As a result, the appropriation account may not give a complete picture of how a departmental budget was managed in a year.

Recommendation 5.1: Appropriation accounts should explain the variance between the original estimate approved by Dáil Éireann and the outturn in terms of the elements of the forecast which differed from that originally approved. The fact that a variation was addressed by way of supplementary estimate should form part of the explanation. The Department of Public Expenditure and Reform should revise the relevant accounting policy to require more appropriate disclosure of variances.

Accounting Officer’s Response: Agreed. The Department of Public Expenditure and Reform will review the relevant accounting policy.

¹ In one case, an explanation of the variance between outturn and final estimate was provided, but did not explain the reason for the supplementary estimate.

Annex A Variances from Original Estimates of €10 million and 10%, or more

Subhead	Explanation
Vote 12 Superannuation and Retired Allowances	
Additional allowances and gratuities in respect of established officers and payments in respect of transferred service	
Original estimate	€116 million
Outturn	€141 million
Variance	↑ €25 million / 22%
There was a higher than anticipated level of retirements in early 2012 as the 'grace period' (where retirement benefits were based on salary rates at 31 December 2009 - i.e prior to the pay cuts introduced from 1 January 2010 under the Financial Emergency Measures in the Public Interest (No 2) Act, 2009), originally due to terminate at the end of 2011, was extended to end February 2012.	
Vote 20 Garda Síochána	
Communications and other equipment	
Original estimate	€18 million
Outturn	€28 million
Variance	↑ €10 million / 56%
The overrun arises from costs associated with the GoSafe contract for the operation of safety cameras.	
Safety cameras — certain receipts from fixed charges	
Original estimate	€0.1 million
Outturn	€16 million
Variance	↑ €16 million / 160 times
It was agreed that the operational cost of the GoSafe contract would be met from the speeding fines issued as a result of the system. As such, a nominal estimate of €0.1 million is included each year in appropriations-in-aid in relation to these receipts and a technical supplementary adjustment is obtained to utilise the receipts to help defray the cost of the GoSafe contract.	
Vote 25 Environment, Community and Local Government	
Water Services Investment Programme	
Original estimate	€331 million
Outturn	€268 million
Variance	↓ €63 million / 19%
Local authorities did not achieve the expected level of progress on the Water Services Investment Programme in 2012.	
LEADER – rural economy sub-programme 2007—2013	
Original estimate	€97 million
Outturn	€53 million
Variance	↓ €44 million / 45%
Savings arose due to slower than anticipated project spending by the Local Action Groups which deliver the programme.	
Vote 26 Education and Skills	
Payments to local authorities in respect of superannuation	
Original estimate	€220 million
Outturn	€262 million
Variance	↑ €42 million / 19%
The excess on the VEC and Institutes of Technology Superannuation subhead arose due to the increased number of new retirees in 2012 as well as the associated cost of their pension and gratuities (580 estimated versus actual retirements of 955).	
Residential Institutions Redress	
Original estimate	€70 million
Outturn	€38 million
Variance	↓ €32 million / 46%
The saving in 2012 arose mainly due to a lower than expected number of applications being finalised by the Redress Board.	
Miscellaneous second level and further education receipts	
Original estimate	€1 million
Outturn	€11million
Variance	↑ €10 million /10 times
Circa €8m of the surplus arose due to refunds from the European Globalisation Adjustment Fund on foot of the finalisation of claims submitted to Europe. The remainder of the surplus arose from refunds relating to the recoupment of social insurance benefits, refunds of overpayments and other ad hoc refunds that are miscellaneous in nature and difficult to estimate.	

Subhead	Explanation
Receipts from the European Social Fund	
Original estimate	€13 million
Outturn	€2 million
Variance	↓ €11 million / 85%
Vote 29 Communications, Energy and Natural Resources	
Sustainable energy programmes	
Original estimate	€87 million
Outturn	€72 million
Variance	↓ €15 million / 17%
Vote 31 Transport, Tourism and Sport	
Public service provision payments	
Original estimate	€254 million
Outturn	€290 million
Variance	↑ €36 million / 14%
Vote 32 Jobs, Enterprise and Innovation	
Enterprise Ireland	
Original estimate	€169 million
Outturn	€140 million
Variance	↓ €29 million / 17%
Vote 35 Army Pensions	
Defence forces pension schemes and payments in respect of transferred service	
Original estimate	€204 million
Outturn	€234 million
Variance	↑ €30 million / 15%









The shortfall in EU receipts arises principally from a timing issue in the payover of the receipts.

Savings were due to slower than anticipated uptake of the commercial and domestic grant schemes under the Better Energy Programme. This is a demand-led scheme and the slower than anticipated uptake reflects the economic slowdown and lower activity in the construction sector in particular. It can be extremely difficult to accurately predict the requirement for demand-led schemes.

Public Service Obligation subventions are allocated to companies by the National Transport Authority to supplement fare income on services that would otherwise be uneconomic. Losses by CIE companies had increased due to rising fuel costs and lower passenger numbers. As a result, the Government decided in July 2012 to provide a further subvention of €36 million to CIE. CIE companies have put a recovery programme in place to avoid a recurrence of the need for emergency support.

Investments committed to by Enterprise Ireland under the Innovation Fund Ireland were not drawn down at the pace anticipated at the time of the estimate. Commitments by Enterprise Ireland to provide funds are concluded when sufficient other capital has been raised. Fund managers took longer to close funds due to the challenging fundraising environment. In addition, the development plans of Enterprise Ireland client companies have been curtailed or postponed due to the impact of the economic downturn.

Mainly due to the higher than projected number of retirements in late 2011 and early 2012. The original estimate for 2012 provided for 345 retirements while the actual number of retirements in 2012 was 597, of which 511 retired before 29 February 2012. In addition, the pension and gratuity entitlements were higher than average due to the higher proportion of retirements at senior levels and with long service. Retirement patterns in the defence forces are difficult to predict due to the nature of the pension arrangements in place. This, together with the incentivised retirement provisions up to February 2012, made accurate forecasting of numbers retiring extremely difficult.

Subhead	Explanation
Vote 37 Social Protection	
Payment to the Social Insurance Fund	
Original estimate	€1,816 million
Outturn	€2,084 million
Variance 	€268 million / 15%
Family Income Supplement	
Original estimate	€199 million
Outturn	€223 million
Variance 	€24 million / 12%
Supplementary Welfare Allowance	
Original estimate	€160 million
Outturn	€180 million
Variance 	€20 million / 13%
Household Benefits Package	
Original estimate	€125 million
Outturn	€144 million
Variance 	€19 million / 15%
Tús – Community Work Placement Scheme	
Original estimate	€84 million
Outturn	€67 million
Variance 	€17 million / 20%
National Internship Scheme	
Original estimate	€66 million
Outturn	€55 million
Variance 	€11 million / 17%
Vote 38 Health	
The National Treatment Purchase Fund Board and Special Delivery Unit	
Original estimate	€71 million
Outturn	€41 million
Variance 	€30 million / 42%
Payments to a special account established under section 10 of the Hepatitis C Compensation Tribunals Act 1997 and 2002	
Original estimate	€43 million
Outturn	€25 million
Variance 	€18 million / 42%

Subhead	Explanation
<i>Development, consultative, supervisory, regulatory and advisory bodies</i>	Spending on health agencies, including the two largest agencies funded from this subhead, the Mental Health Commission and the Health Information and Quality Authority (HIQA), was less than anticipated. The Department advances funds to these agencies up to the approved level of expenditure or actual expenditure, whichever is the lesser amount.
Original estimate €59 million	In respect of the Mental Health Commission, provision was made for Mental Health Tribunal hearings, which are a statutory right under the Mental Health Act 2001. The number of hearings originally provided for did not materialise as projected. There were also a number of other savings initiated by the Commission in 2012. These factors gave rise to a saving on the Commission's allocation for the year.
Outturn €48 million	In line with the Health Act 2007, HIQA was due to take on additional responsibilities in the area of registration and inspection of residential disability services. Due to delays in finalising arrangements to undertake this function the Authority did not require its full allocation.
Variance ↓ €11 million / 19%	There were other savings on this subhead due to anticipated expenditure not arising during the year. This accounted for the bulk of the remaining savings on the subhead.
<i>Statutory and non-statutory inquiries and miscellaneous legal fees and settlements</i>	The saving arose within miscellaneous legal settlements and fees. The primary reason was the length of time it took to settle anticipated cases. The Department does not have control over the timing of settlements and it is therefore difficult to estimate the number of cases or their value in a given year.
Original estimate €19 million	
Outturn €9 million	
Variance ↓ €10 million / 53%	

Source: Responses by the relevant Accounting Officers