



Ard-Reachtair Cuntas agus Ciste
Comptroller and Auditor General

Report on the Accounts of the Public Services 2022

September 2023

Report of the Comptroller and Auditor General

Accounts of the Public Services 2022

Article 33 (4) of the Constitution of Ireland requires me to report to Dáil Éireann at stated periods as determined by law. The Comptroller and Auditor General (Amendment) Act 1993 provides the main basis for such reporting.

Statutory reporting provisions

Section 3 (10) of the 1993 Act requires me each year to prepare a written report that includes

- any matters I consider it appropriate to report arising from my audits of the appropriation accounts prepared by the Accounting Officers of government departments and offices in relation to the appropriations voted by Dáil Éireann for the previous financial year
- any matters I consider it appropriate to report arising from my examinations of the internal accounting controls operated by government departments and offices (in the current or previous financial year) to ensure the regularity of their financial transactions, the correctness of their payments and receipts, the reliability and completeness of their accounting records and the safeguarding of the assets owned and controlled by them
- the results of my examinations of the accounts of the revenue of the State collected by the Revenue Commissioners and of the accounts of such other persons who receive money which is by law payable into the Exchequer — these examinations include assessment of whether the accounts are complete and accurate, and whether systems, procedures and practices have been established that are adequate to secure an effective check on the assessment, collection and proper allocation of the revenues.

Other statutes require me to prepare and present reports to Dáil Éireann on certain specific matters together with my section 3 (10) report.

Separately, section 11 of the 1993 Act provides for the preparation by me of certain special reports.

Presentation of this report

This is my report under Section 3 (10) of the 1993 Act relating to the 2022 financial year. The report is set out in four parts, which deal with the following matters

- the Central Fund of the Exchequer
- voted expenditure in 2022
- examinations of State receipts
- reports on other matters including statutory reports on the audits of the accounts of the National Treasury Management Agency, and of the Irish Fiscal Advisory Council.

The report was prepared on the basis of audited information, where available, and other information, documentation and explanations obtained from the relevant government departments and offices. Drafts of relevant parts of the report were sent to the departments and offices concerned and their comments were requested. Where appropriate, those comments were incorporated into the final version of the report.

The report is concerned with the accountability of departments and offices in respect of their administration of public funds. References to third parties should be read only in that context.

I hereby present my report for the year ended 31 December 2022 to Dáil Éireann in accordance with Section 3 (11) of the 1993 Act.

Presentation of appropriation accounts 2022

Section 3 (11) of the 1993 Act also requires me to present the appropriation accounts for the various Votes to Dáil Éireann together with the report prepared under section 3 (10).

I have certified each appropriation account for the year ended 31 December 2022 and submit those accounts, together with my audit certificates, to Dáil Éireann.



Seamus McCarthy
Comptroller and Auditor General

29 September 2023

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**Report on the
Accounts of the Public Services 2022**

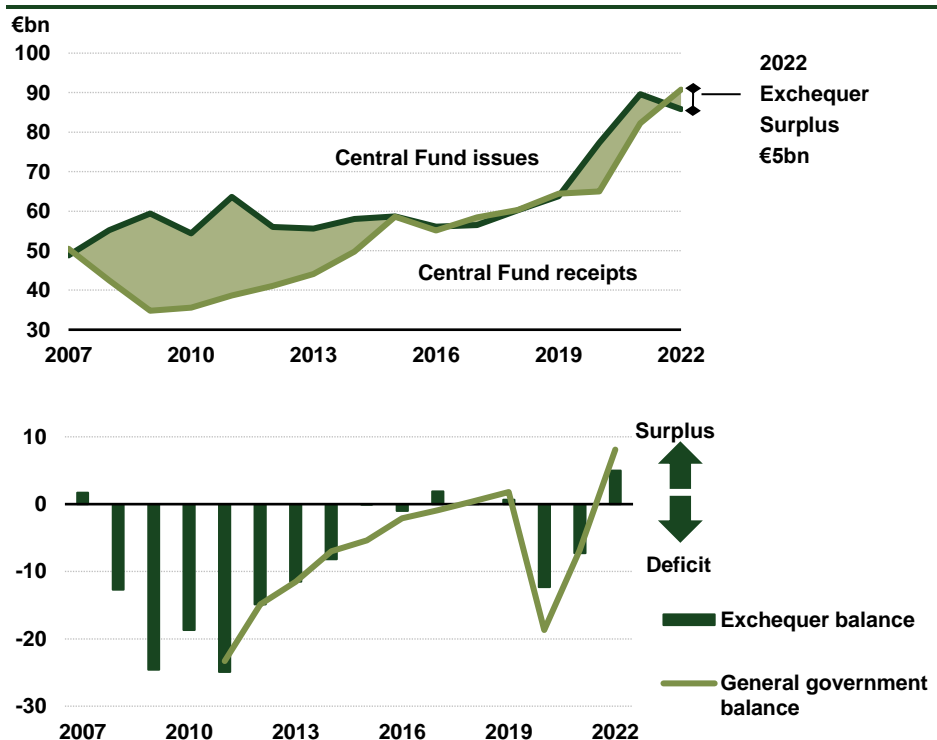
Central Government

1 Exchequer financial outturn for 2022

Fiscal summary

- 1.1** All revenues of the State are paid into the Central Fund of the Exchequer unless otherwise determined by law.¹ Issues from the Central Fund are used mainly to fund expenditure on State services, and to service State debt.
- 1.2** The annual Finance Accounts present the receipts into and issues from the Central Fund, together with details relating to borrowing undertaken by the National Treasury Management Agency (NTMA) on behalf of the State.²
- 1.3** In 2022, the Exchequer surplus was just under **€5 billion**. This represented a significant improvement in the Exchequer balance from the deficit of €7.4 billion reported in 2021 (see Figure 1.1). The improvement of almost €12.4 billion was largely driven by increases in tax revenue in 2022 and a decline in Covid-19 related expenditure.
- 1.4** A more complete view of the State's fiscal performance in 2022 indicates there was a general government surplus of around **€8.1 billion**, an improvement of around €14.9 billion (or 219%) on the 2021 general government deficit of €6.8 billion.³

Figure 1.1 Central fund receipts and issues, and Exchequer and general government balances, 2007 to 2022^a



Source: Finance Accounts 2007 to 2022 (Exchequer balance). Central Statistics Office: Government Finance Statistics, April 2023 (general government balance).

Note: a Central Fund receipts and issues include the service of national debt but exclude borrowing undertaken by the NTMA on behalf of the State and the repayment of national debt. See Annex 1B, Figure 1B.1 for analysis of Central Fund receipts and issues for 2017 to 2022.

1 State revenue not paid directly into the Central Fund includes, for example, Pay Related Social Insurance (PRSI) receipts, which are paid into the Social Insurance Fund.

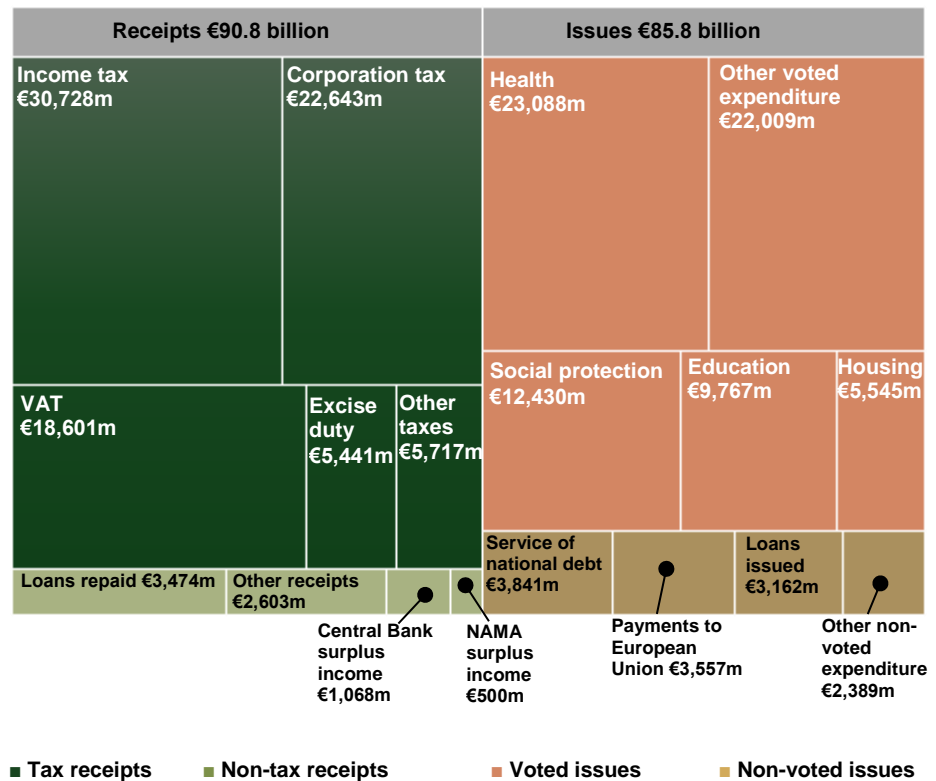
2 Transactions recorded in the Finance Accounts represent around 80% of total general government revenue and expenditure.

3 The general government balance is a broader measure than the Exchequer balance. It measures the fiscal performance of the general government sector, and is the standard benchmark used for comparative purposes across the European Union. Annual and quarterly general government finance statistics are prepared by the Central Statistics Office. See Annex 1A for an outline of these statistics.

Central Fund receipts and issues

- 1.5** Central Fund receipts in 2022 totalled **€90.8 billion**. Taxes accounted for 92% of the receipts (see Figure 1.2).¹ Issues in 2022 totalled **€85.8 billion** comprising issues for voted services (85%), servicing of national debt (5%), contributions to the EU (4%) and other non-voted expenditure (6%).

Figure 1.2 Central Fund receipts and issues in 2022



Source: Finance Accounts 2022. Any apparent differences in totals are due to rounding.

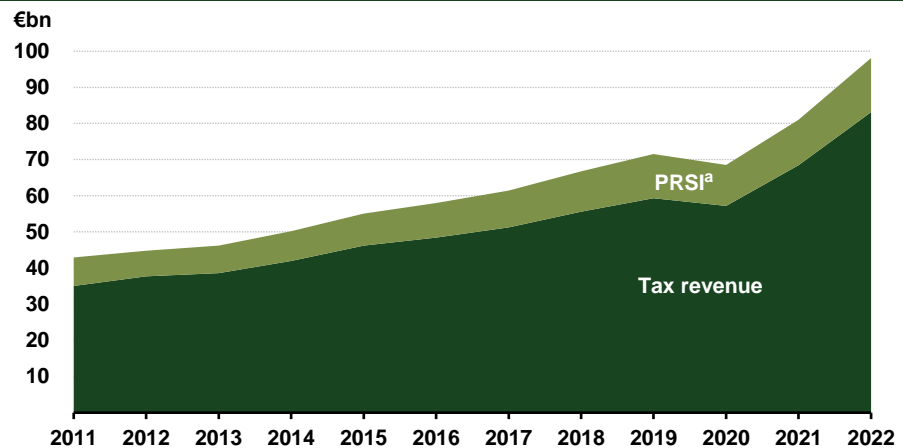
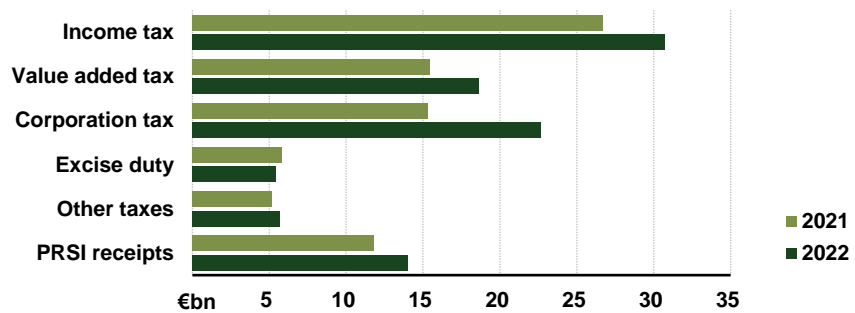
Exchequer receipts

- 1.6** Total receipts into the Central Fund increased by around €8.5 billion in 2022. An increase of €14.7 billion in tax receipts was partly offset by a reduction of around €6.9 billion in Exchequer loan receipts during 2022.

Tax receipts

- 1.7** Tax receipts in 2022 were €83.1 billion, the highest ever tax yield collected by the State. Significant increases in income tax (15%), corporation tax (48%) and VAT (20%) contributed to the record yield (see Figure 1.3).
- 1.8** Corporation tax receipts were the State's second-largest income stream in 2022, overtaking VAT receipts for the first time. Corporation tax represented 27% of total Exchequer tax receipts, while VAT receipts represented 22%.

¹ An analysis of Central Fund receipts and issues (excluding NTMA borrowing) for the years 2017 to 2022 is set out in Annex 1B, Figure 1B.1.

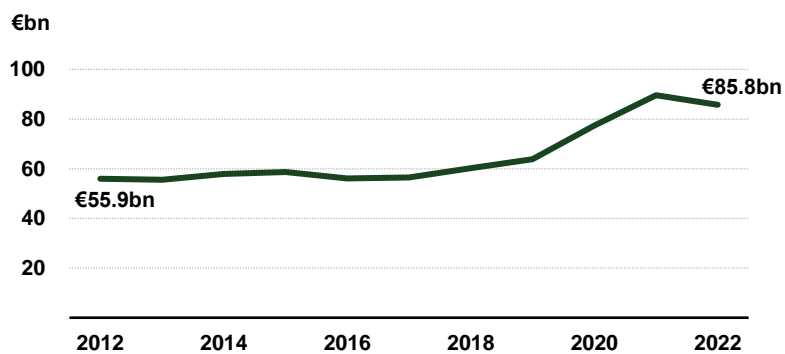
Figure 1.3 Tax revenue and PRSI receipts, 2011 to 2022**Year on year change by receipt type**

Source: Finance accounts. Social Insurance Fund accounts.

Note: a PRSI receipts are paid into the Social Insurance Fund.

Central Fund issues

- 1.9** Issues from the Central Fund decreased in 2022 to €85.8 billion — down €3.8 billion or 4% on the prior year (€89.6 billion) (see Figure 1.4).

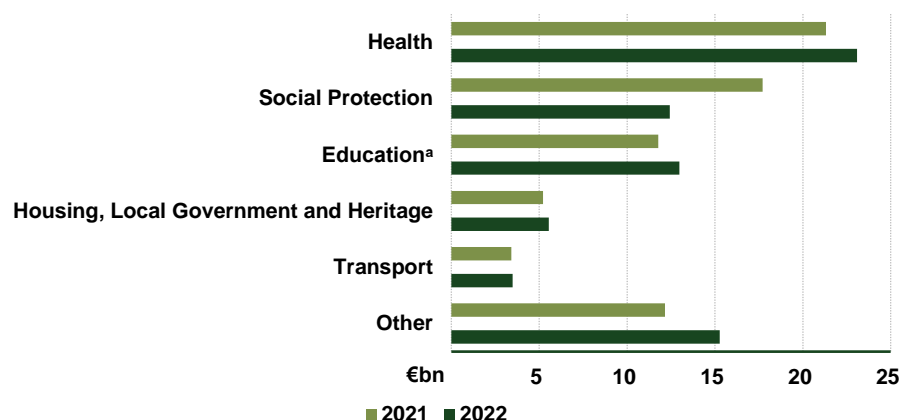
Figure 1.4 Total Exchequer issues, 2012 to 2022

Source: Finance accounts, 2012 to 2022

Voted issues

- 1.10** Issues for Voted expenditure increased by €1.26 billion (2%) to €72.8 billion and reflected allocation of funding to address cost of living pressures and support for Ukrainian refugees. Nearly 50% of voted expenditure issues was attributable to two departments — Health and Social Protection (see Figure 1.5).

Figure 1.5 Issues for Voted departmental expenditure, 2021 and 2022



Source: Finance Accounts 2022

Note: a Includes Department of Further and Higher Education, Research, Innovation and Science with expenditure of €2.9 billion in 2021 and €3.2 billion in 2022.

Debt relief payment

- 1.11** In January 2020 and May 2021, the Minister for Finance consented to the transfer of Ireland's share of resources in International Monetary Fund (IMF) managed accounts to the IMF's Administered Accounts for Somalia and Sudan, for the purpose of clearing arrears owed to the Fund by both countries, which are heavily indebted and poor. In total, Ireland contributed approximately around €8.36 million. Approximately €6.5 million of this amount was attributable to the Central Bank of Ireland (CBI), with the balance from the Exchequer.
- 1.12** In April 2022, the European Central Bank (ECB) determined that the use of Central Bank resources for the purpose of providing IMF debt relief was in breach of Article 123(1) of the Treaty on the Functioning of the European Union on the prohibition of monetary financing, and warranted corrective measures. In light of the ECB determination, the Exchequer was required to refund the Central Bank. As a result, a once-off payment of approximately €6.5 million was made to the Central Bank in December 2022.^{1,2,3}

1 The Central Bank's 2022 Annual Report and Annual Performance Statement 2022–2023 can be found [here](#).

2 The European Central Bank annual report 2022 can be found [here](#).

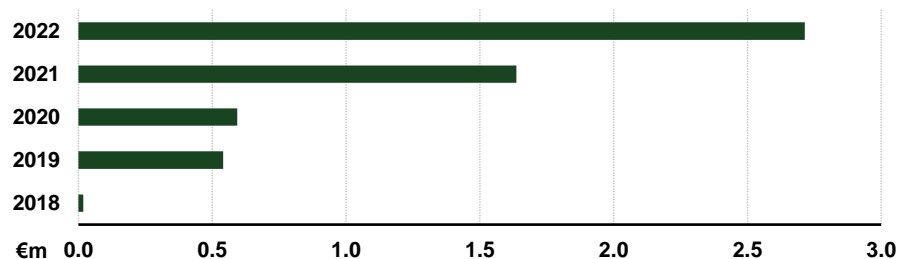
3 The Bretton Woods Agreements (Amendment) Act 2022 provides a legal basis for the payment.

Interest charges on public fund balances

- 1.13** The Surplus Public Expenditure Monies (SPEM) account is used to hold, on a temporary basis, surplus cash in accounts and funds across the public expenditure system. The account is held at the Central Bank.
- 1.14** During 2022, amounts totalling €28.2 billion (2021: €20.6 billion) were received into the SPEM account with a broadly equivalent total being paid out of the account. At the year end the amount held in the SPEM account was €2.1 billion.

- 1.15** Negative interest has been charged on Central Bank accounts between 2014 and September 2022 (whereafter it returned to positive rates). Negative interest charges associated with the SPEM account again increased significantly in 2022 (see Figure 1.6). Such charges arising on the SPEM account are charged to the Finance Vote.

Figure 1.6 Negative interest charges on the SPEM account, 2018 to 2022



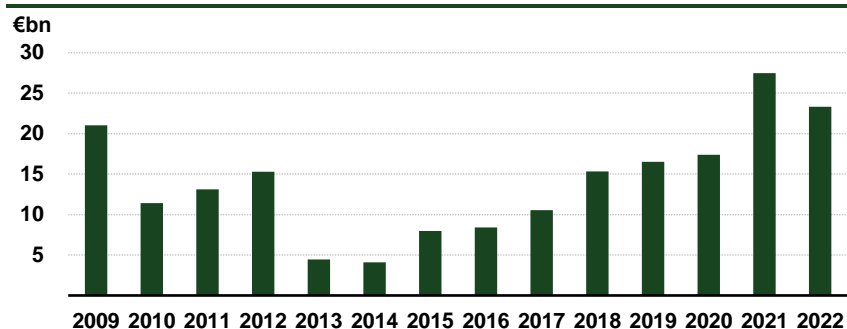
Source: Surplus Public Expenditure Monies (SPEM) account

Exchequer assets

Central Fund cash balance

- 1.16** The value of cash held by the Exchequer totalled €23.3 billion at end 2022 (see Figure 1.7). The decrease of over €4 billion (15%) year-on-year reflects the impact of net debt repayments of €7.8 billion, an increase in other financial assets of €1.4 billion and the Exchequer surplus of almost €5 billion. See Annex 1B, Figure 1B.2.

Figure 1.7 Central fund cash balance, 2009 to 2022



Source: Finance Accounts, 2009 to 2022

Exchequer lending

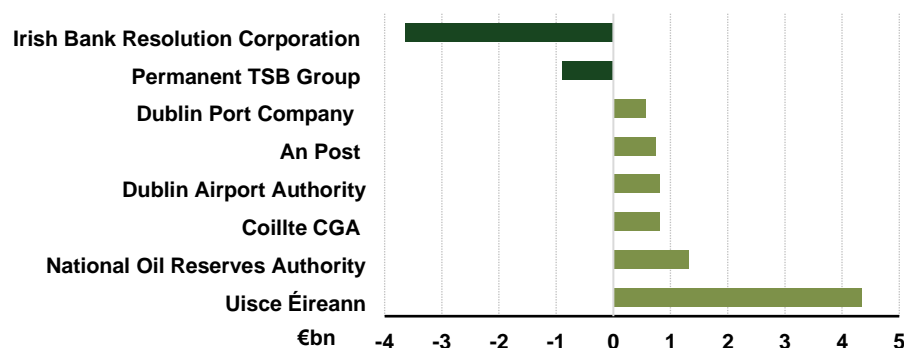
- 1.17** At 31 December 2022, Exchequer financial assets included €3 billion (2021: €1.7 billion) of Housing Finance Agency guaranteed notes, €25 million of treasury bills and €10 million of Strategic Banking Corporation of Ireland (SBCI) guaranteed notes.
- 1.18** Excluding the Housing Finance Agency, treasury bills and SBCI guaranteed notes, net loans and advances provided from the Central Fund decreased (by around €312 million) in 2022, with just under €1.8 billion outstanding at the year-end (see Annex 1B, Figure 1B.3).

- 1.19** During 2022, €2.4 billion was advanced to the Social Insurance Fund for cash flow purposes. No interest accrued on the loan and it was fully repaid before the end of the year.
- 1.20** Amounts totalling €112 million were issued from the Central Fund in 2022 to Uisce Éireann (formerly Irish Water) under a loan agreement entered into with the Minister for Finance in June 2020. Under the agreement, over €1 billion will be made available to Uisce Éireann to repay existing non-domestic commercial debt and to fund its future non-domestic water borrowing requirements. The total amount drawn down to end 2022 was €614 million (see Annex 1B, Figure 1B.3).

Shareholding in Irish companies

- 1.21** Shareholdings in 23 State and private companies are disclosed in the Finance Accounts.^{1,2} The State's interest in these companies is recorded at historic cost, and at 31 December 2022 totalled €7.96 billion.
- 1.22** Shareholdings at cost in Irish Bank Resolution Corporation Limited (IBRC), Permanent TSB Group, Coillte CGA, Uisce Éireann and the Dublin Airport Authority represent just over 95% (by value) of the total shareholdings as disclosed in the 2022 Finance Accounts.
- 1.23** In December 2022, the Department of Agriculture, Food and the Marine purchased 4.9 million shares in Irish National Stud Company for €6.2 million.
- 1.24** Up to end 2013, the Finance Accounts also disclosed details of the net asset value (NAV) of the shares.³ Figure 1.8 illustrates the difference between the NAV and the historic equity cost for the eight companies with the highest movement. The total NAV for those eight companies at 31 December 2022 was €11.74 billion and the historic cost was €7.67 billion, a difference of almost €4.1 billion. However, operating losses incurred by IBRC and Permanent TSB have significantly eroded the value of the State's shareholdings in the companies (- €3.6 billion and - €895 million, respectively) while there was a significant increase in the State's investment in Uisce Éireann (€4.4 billion).

Figure 1.8 Movement in net asset value of share capital to historic cost, at end 2022



Source: Department of Finance, Finance Accounts 2022

1 See statement 1.8(A) of the Finance Accounts 2022, which can be accessed [here](#).

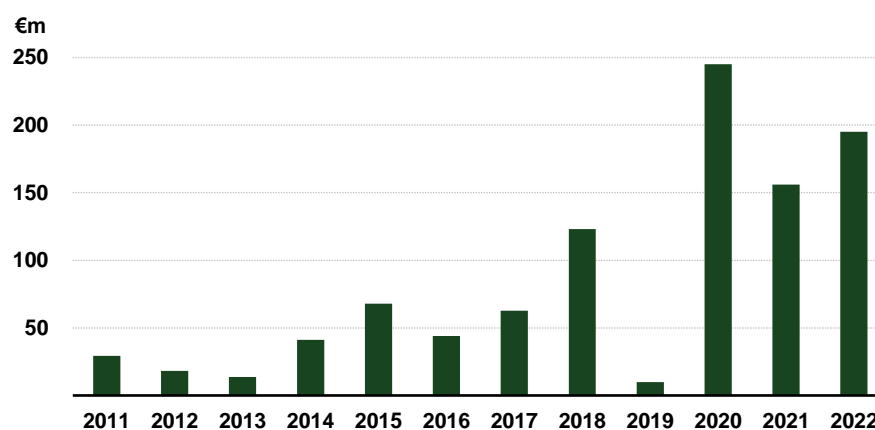
2 The Department of Finance has stated that the Finance Accounts are not a comprehensive financial statement for the State, its assets and liabilities and that the State holds an interest in more entities than those set out in the Finance Accounts.

3 Net asset value, or NAV, is the value of a company's assets minus its liabilities.

Sundry Moneys Account

- 1.25** The Sundry Moneys Account (SMA) is a temporary holding account that records transactions and balances that usually are received into the Central Fund of the Exchequer, but that are held back until proper and sufficient instructions are received for final disposal. The account is managed by the Department of Finance and, commencing in 2022, is accounted for in an appendix to the Finance Accounts. Administratively, the objective is to minimise the time that funds are held in the account, to ensure their timely receipt into the Central Fund.
- 1.26** Receipts into the SMA in 2022 totalled just over €548 million, while transfers out to the Central Fund amounted to €508 million. The balance held in the SMA at the end of 2022 was €195 million, over half of which had been received in the previous 30 days (see Figure 1.9). The balance at the end of 2021 was €156 million.
- 1.27** The vast majority of receipts to the SMA in 2022 were subsequently transferred out of the account within four months of receipt. Included in the balance at 31 December 2022 are receipts totalling €2.9 million which have been held for periods in excess of 12 months. Some smaller amounts have remained in the SMA for extended periods. Two receipts totalling €80,000 have been held in the account for over three years.

Figure 1.9 Sundry Moneys Account year-end balances, 2011 to 2022



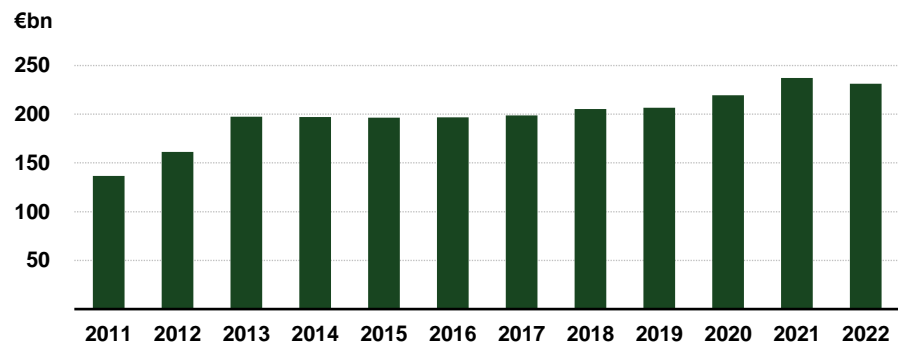
Source: Sundry Moneys Account, 2011 to 2022

Exchequer liabilities

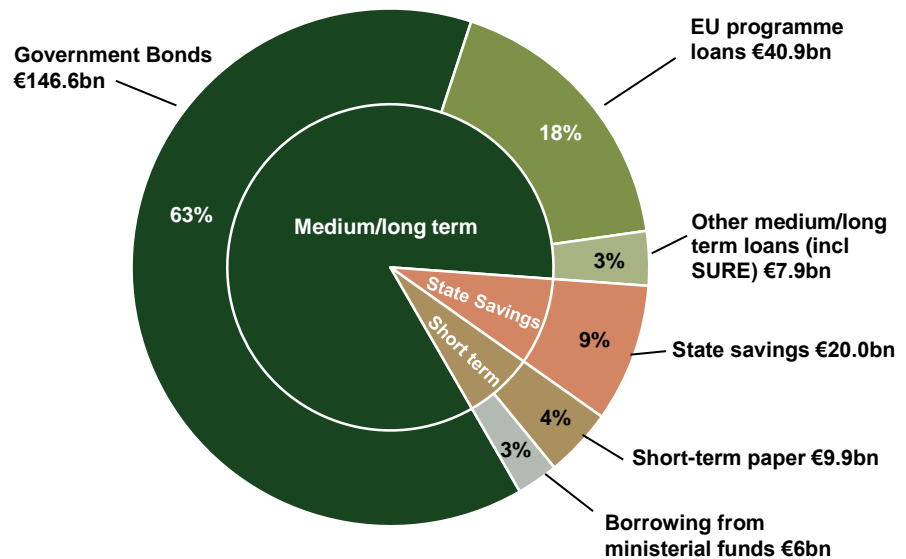
National debt

- 1.28** Ireland's national debt decreased by 2.5% (almost €6 billion) in 2022 to €231.2 billion at the year-end (see Figure 1.10).¹
- 1.29** Around 84% (€195.3 billion) of the national debt at end-2022 was in the form of medium and long term borrowing. This comprised mainly government bonds (fixed rate, floating rate, amortising and inflation linked bonds), EU programme loans (European Financial Stabilisation Mechanism and European Financial Stability Facility) and the European instrument for temporary support to mitigate unemployment risks in an emergency (SURE).
- 1.30** Debt arising from the various State savings schemes accounted for €20 billion, or 9% of the national debt at end-2022.

Figure 1.10 National debt at redeemable par values, end 2011 to end 2022



Composition of national debt at end-2022^a



¹ National debt is defined by section 1 of the National Treasury Management Agency Act 1990 as the debt outstanding for the time being of the Exchequer.

Source: Financial Statements of the National Debt of Ireland 2022, National Treasury Management Agency

Note: a Any apparent differences in totals are due to rounding.

1.31 Short-term debt accounted for €15.9 billion of the national debt at end-2022. This comprised 'short-term paper' to the value of €9.9 billion; borrowings from the Post Office Savings Bank Fund of €3.9 billion; and €2.1 billion of surplus Paymaster General funds.^{1,2}

1.32 The €9.9 billion of short term paper is comprised of Exchequer and central treasury notes. Around €8.4 billion of these notes were held by public sector bodies, including significant holdings by the National Surplus Reserve Fund (€2 billion), the Social Insurance Fund (€1.8 billion) and the National Training Fund (€1.4 billion). A further €1.4 billion was held by local authorities.

1.33 NTMA long-term bond issuance in 2022 totalled €7.1 billion (2021: €19.3 billion).³ Bonds were issued at a weighted average maturity of almost 15 years and a weighted average yield of 1.1%. The debt included the issuance of bonds with maturities of between ten and 28 years (see Figure 1.11). There was one new syndicated bond issuance (10-year bond) which raised €3.5 billion.⁴

1.34 The NTMA also raised a further €0.2 billion (2021: €1 billion) in other long-term debt under its *Euro Medium Term Note programme*. There were two fixed-rate private placements with long maturities ranging from 60 to 100 years and an average yield of just over 2%.⁵

1 Short-term paper debt has an original maturity of less than one year.

2 The surplus public expenditure moneys (SPEM) account records the borrowings and repayments of surplus funds held in the supply account of the Paymaster General.

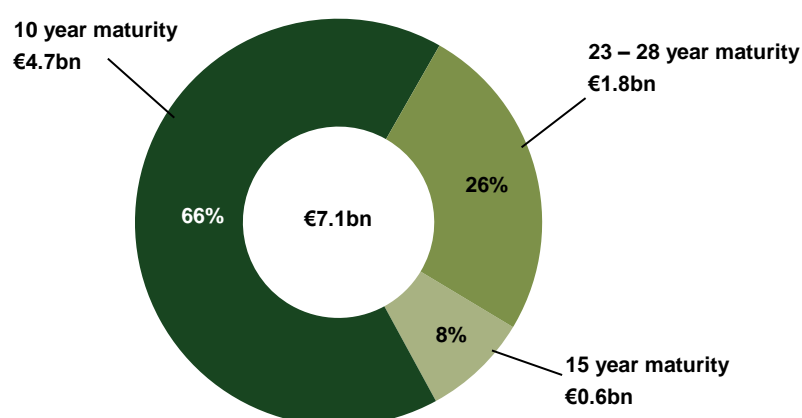
3 This includes €0.1 billion (€0.8 billion in 2021) issued in non-competitive bond auctions.

4 A syndicated bond sale is the issue of a new or existing bond through a syndicate of primary dealers in Irish government bonds. The NTMA currently recognises 14 primary dealers — mostly international financial institutions — which are responsible for market-making and the sale and distribution of Ireland's government bonds to end investors.

5 A private placement is a sale of debt instruments (notes) through a primary dealer to a single or to multiple end investors. These transactions are normally the result of a direct approach by an investor to a recognised primary dealer who will negotiate the terms of the issue with the NTMA.

6 The ISGB Framework enables Ireland to fund eligible 'green' projects through the issuance of ISGBs. The Framework was approved by Government, pursuant to a cabinet decision in July 2018.

Figure 1.11 NTMA government bond issues, 2022^a



Source: National Treasury Management Agency

Note: a Includes non-competitive auctions.

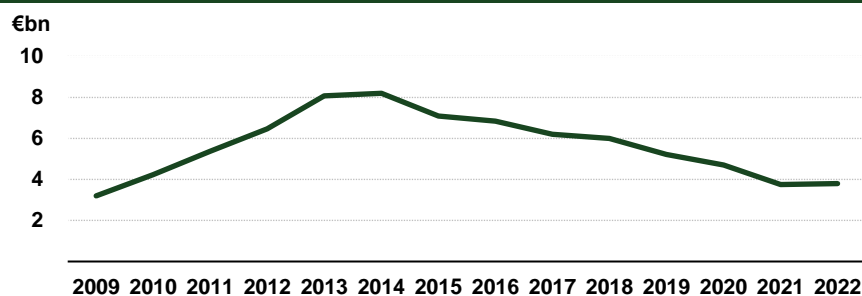
Irish Sovereign Green Bond

1.35 The government bonds balance at end 2022 includes €6.9 billion (2021: €6.9 billion) of green bonds issued under the Irish Sovereign Green Bond (ISGB) Framework.⁶ ISGBs are designed to provide investors with the financial features of a standard Irish government bond combined with sovereign green bond market practice, and to help finance Ireland's transition to a low-carbon, climate-resilient and environmentally-sustainable economy.

Debt service costs

- 1.36** The cost of servicing Ireland's national debt in 2022 was €3.84 billion — up 2.6% compared to 2021 (see Figure 1.12). The cost comprised net interest on the national debt of €3.59 billion, net interest paid on cash held at the Central Bank and on other financial assets of €112 million, and fees and operating expenses of €140 million.¹

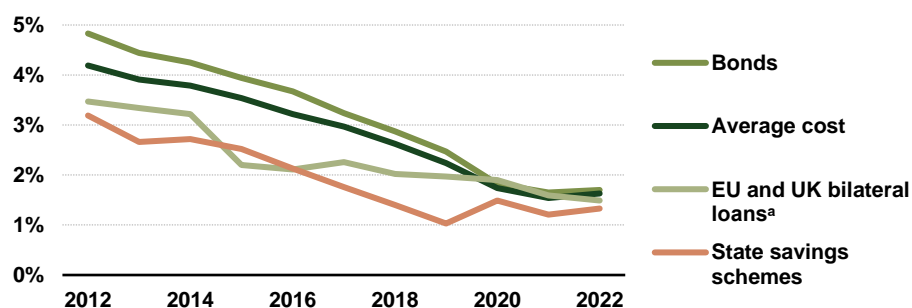
Figure 1.12 Debt service costs, 2009 to 2022 (cash basis)



Source: National Treasury Management Agency

- 1.37** The NTMA attributes the prolonged fall in the debt service cost between 2014 and 2021 mainly to the maturing of high coupon bonds — mostly issued during the financial crisis of the late 2000s — and their replacement with cheaper funding, together with the compression of sovereign bond yields brought about by the European Central Bank's quantitative easing programme.
- 1.38** These factors are reflected also in the average cost of State borrowing. At the end of the year, the overall weighted average debt service cost estimated at 1.63% (see Figure 1.13). This was also up marginally year-on-year, from 1.59% in 2021.

Figure 1.13 Weighted average debt service cost by debt type, 2012 to 2022



Source: National Treasury Management Agency

Note: a In March 2021, the NTMA completed the repayment of Ireland's bilateral loan from the UK — part of the EU/IMF programme of financial assistance.

¹ Net interest paid on cash held at the Central Bank does not include Central Bank negative interest of €2.7 million on the SPEM account balances, which was charged to Vote 8 Office of the Minister for Finance.

General government debt target

- 1.39** General government debt (GGD) is a more comprehensive measure of State indebtedness than national debt, and is the standardised measure which all EU countries are legally obliged to report under the Maastricht Treaty.¹
- 1.40** At the end of 2022, GGD totalled €224.8 billion. The difference (around €6.5 billion) between GGD and national debt is due to netting (on consolidation) of debt securities held by other government bodies and the addition of local government borrowing from outside the government sector.
- 1.41** European fiscal rules state that member states' GGD should not exceed 60% of GDP or, if greater, should steadily decrease towards the 60% target.² Due to strong GDP growth, Ireland's GGD ratio reduced to 44.4% at end 2022, compared with 54.4% at end 2021 (see Figure 1.14).
- 1.42** The Department of Finance has stated that due to statistical distortions in Ireland's GDP, ratios related to GDP do not provide a true reflection of the Irish economy's repayment capacity. For this reason, a new Irish target based on GNI* was adopted in 2019.³ The national target is to reduce Ireland's general government debt-to-GNI* ratio to 60% at a suitable pace, with an interim target of reaching 85% of GNI* by 2025 (see Figure 1.14).
- 1.43** At the end of 2022, the debt-to-GNI* ratio was 82.3% (101.2% in 2021) i.e. better than the target level for 2025.⁴

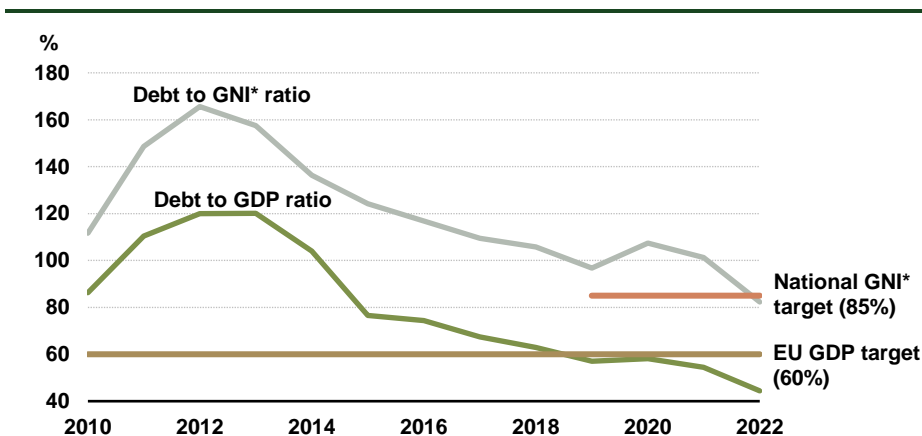
1 General government debt comprises the debt liabilities of central government, local government and social security funds, excluding debt owed by one sector of government to another.

2 The European Commission has temporarily allowed EU member states to suspend requirements to meet these fiscal targets while taking appropriate budgetary measures to address the exceptional circumstances posed by the Covid-19 pandemic.

3 The CSO defines Gross National Income (GNI*) as an indicator designed specifically to measure the size of the Irish economy by excluding globalisation effects.

4 The debt-to-GNI* ratio for 2021 was initially reported at 105.6%. This was subsequently revised to 101.2%, as published by the CSO in July 2023.

Figure 1.14 Ireland's debt to GDP and debt to GNI* ratios, 2010 to 2022 (percentage)



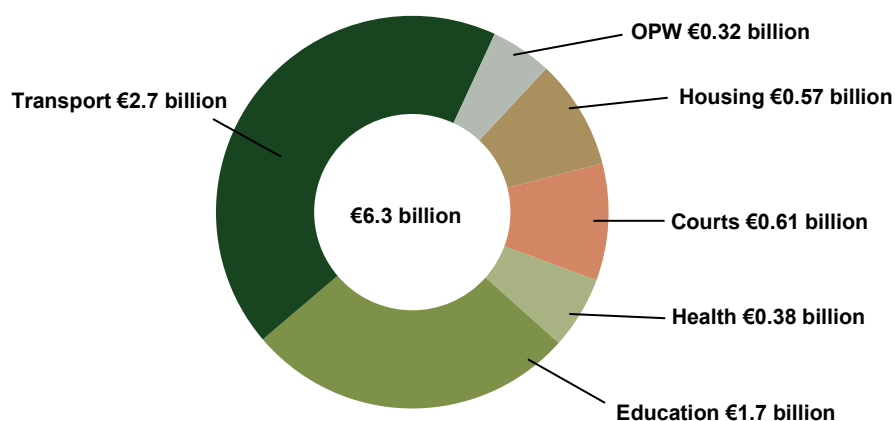
Source: Central Statistics Office. Department of Finance.

Other liabilities

Public private partnerships

- 1.44** A public private partnership (PPP) is an arrangement between a public authority and a private partner designed to procure and deliver public infrastructure assets and/or services under long-term contracts. The asset is funded and constructed by the private partner, following which it is made available for public use and is paid for by the State and/or by users (through user charges) over an extended period (typically 25 years), after which the asset comes into State ownership.
- 1.45** PPPs are typically regarded as an 'off-balance sheet' funding mechanism from a general government perspective, as liabilities under PPP contracts are generally not included in the calculation of GGD. Liabilities are met as they arise from voted issues out of the Central Fund, or from user charges in the case of PPP concession projects.
- 1.46** Future commitments under PPP projects are tracked by the Department of Public Expenditure, National Development Plan Delivery and Reform. At the end of 2022, 30 PPP schemes were fully operational and six were at development stage. At that date, future PPP commitments totalled just over €6.3 billion (see Figure 1.15).
- 1.47** Expenditure on PPP unitary payments totalled around €334 million in 2022. Under the deals currently in place, the Exchequer is committed to making payments totalling on average around €335 million a year until 2035.¹ Thereafter, payments under those deals will taper off, largely because the older contracts will have been completed.²

Figure 1.15 Composition of projected total cost of all PPP outstanding payments



¹ Aggregate annual repayment levels in this period could increase as new PPP contracts are put in place.

² Chapter 5 *Vote Accounting and Budget Management* outlines the total impact of inflation on contracts in appropriation accounts valued over €10 million.

Source: Department of Public Expenditure, National Development Plan Delivery and Reform

Annex 1A Central Statistics Office government finance statistics

The European Union's statistics authority, Eurostat, requires each member state to produce a range of finance statistics that comply with the harmonised definitions and standards within the European System of Accounts 2010.

The Central Statistics Office (CSO) is responsible for the official reporting of Ireland's general government finance statistics.

The CSO's general government finance outputs and general government statistics include the following key statements

- Table 1.1 — general government finances
- Table 1.2 — general government transactions: revenue, expenditure, financing and deficit
- Table 2.1 — general government; detailed classification of revenue and output
- Table 2.2 — general government; detailed classification of expenditure and consumption
- Table 3.1 — general government gross and net debt
- Table 3.2 — general government financial transactions
- Table 3.3 — general government: detailed breakdown of net worth
- Table 3.4 — general government net worth, gross and net debt.

The general government sector encompasses both central and local government, non-commercial State-owned bodies and extra budgetary funds, the larger approved housing bodies and voluntary hospitals.

The full list of entities included is published on the CSO's website.

Annex 1B Data tables

Figure 1B.1 Composition of Central Fund receipts and issues, 2017 to 2022^a

	2017	2018	2019	2020	2021	2022
	€m	€m	€m	€m	€m	€m
Receipts						
Current receipts						
Tax revenue	50,737	55,557	59,314	57,165	68,410	83,130
Central Bank surplus income ^b	1,836	2,108	2,395	2,050	666	1,068
National Lottery receipts	227	225	251	270	290	258
Dividends from State bodies	324	261	262	133	152	199
NAMA surplus income	—	—	—	2,000	1,000	500
Other current revenues	478	311	440	197	422	413
Capital receipts						
Loans advanced/repaid ^c	1,021	933	1,055	1,680	10,382	3,474
Financial sector stabilisation measures	3,723	341	682	3	—	—
National Surplus Reserve Fund	—	—	—	1,500	—	—
Receipts from EU	—	89	24	25	645	277
Other capital receipts	30	483	6	5	274	1,455
Total receipts	58,376	60,308	64,429	65,028	82,240	90,774
Issues						
Issues for voted expenditure	46,291	50,445	54,146	67,849	71,579	72,840
Service of national debt	6,227	5,967	5,220	4,676	3,745	3,841
Contribution to EU budget	2,016	2,519	2,432	2,569	3,507	3,557
Oireachtas Commission	110	131	126	132	133	137
Loans/advances ^c	963	975	935	1,523	10,264	3,050 ^e
Uisce Éireann (shares, capital contributions and loans)	270	—	758	372	130	112 ^e
Transfer to Local Government Fund ^d	480	12	—	—	—	—
National Surplus Reserve Fund	—	—	—	—	—	2,000
Other payments	113	160	165	224	255	251
Total issues	56,470	60,209	63,782	77,345	89,612	85,788
Surplus/(deficit) for the year	1,906	99	647	(12,317)	(7,372)	4,985

Source: Finance Accounts 2017 to 2022. Any apparent differences in totals are due to rounding.

- Notes:
- a Transactions of the Central Fund account and the Capital Services Redemption Account are consolidated. The latter account is maintained by the NTMA for servicing national debt and transactions of a normal banking nature.
 - b The amount received into the Central Fund each year principally consists of the surplus income for the previous financial year, as per the audited financial statements of the Central Bank of Ireland.
 - c See Figure 1B.3 for further details.
 - d Related to application of local property tax (LPT) receipts, which were included in tax revenue prior to 2018. With effect from 1 January 2018, LPT receipts are paid directly into the Local Government Fund by the Revenue Commissioners, rather than indirectly through the Central Fund.
 - e **Corrected figures:** The Exchequer loan of €112 million to Uisce Éireann in 2022 was previously presented incorrectly grouped with other loans/advances.

Figure 1B.2 Movements in Exchequer cash and financial asset balances, 2017 to 2022

Movement in year	2017	2018	2019	2020	2021	2022
	€m	€m	€m	€m	€m	€m
Balance at 1 January	11,119	13,217	17,593	18,536	19,200	29,149
Net Exchequer borrowing /(repayment) in year	193	4,276	297	12,981	17,321	(7,783)
Exchequer surplus/(deficit)	1,906	99	647	(12,317)	(7,372)	4,985
Balance at 31 December	13,217	17,593	18,536	19,200	29,149	26,351
Composition of cash and financial assets at 31 December						
Central fund cash balance	10,533	15,338	16,502	17,362	27,474	23,306 ^a
Treasury bills	—	—	—	—	—	25
SBCI medium-term guaranteed notes ^b	85	85	25	—	10	10
Housing Finance Agency guaranteed notes	1,742	1,558	1,913	1,586	1,665	3,010
Collateral funding	857	612	96	252	—	—
Balance at 31 December	13,217	17,593	18,536	19,200	29,149	26,351

Source: Finance Accounts 2017 to 2022. Any apparent differences in totals are due to rounding.

Notes: a Includes a balance of €204,000 held in the Capital Services Redemption Account (CSRA) (2021: €216,000).
b Strategic Banking Corporation of Ireland (SBCI) was established under the Strategic Banking Corporation of Ireland Act 2014. Its aim is to ensure access to flexible funding for Irish small and medium enterprises by facilitating the provision of lower-cost funding and flexible products. The issued share capital of the SBCI is owned by the Minister for Finance.

Figure 1B.3 Loans and advances, 2017 to 2022

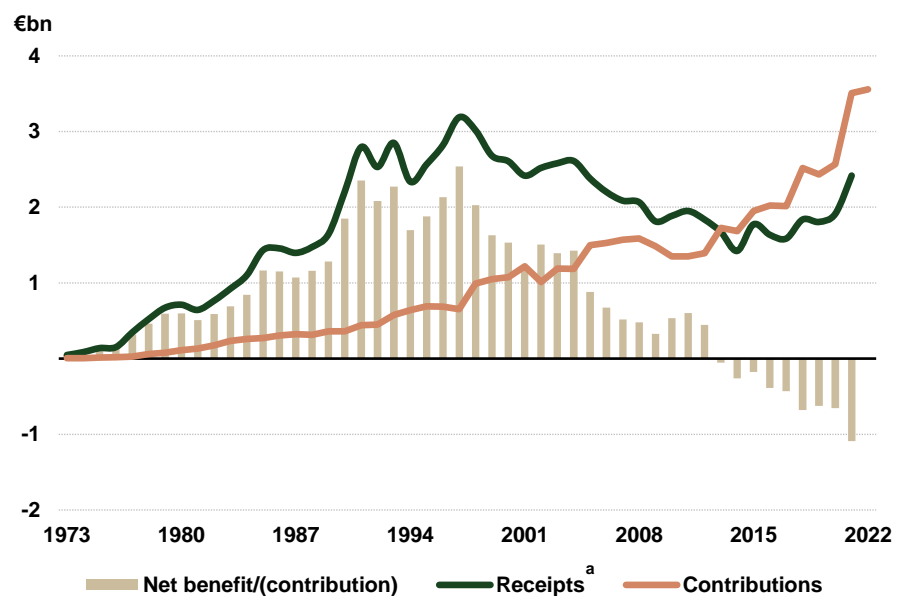
	2017	2018	2019	2020	2021	2022
	€m	€m	€m	€m	€m	€m
European Agricultural Guarantee Fund						
Opening balance	770	740	725	750	670	655
Repayments	(770)	(740)	(725)	(750)	(670)	(655)
Loans issued	740	725	750	670	655	670
Closing balance	740	725	750	670	655	670
Social Insurance Fund						
Opening balances	—	—	—	—	—	—
Repayments	—	—	—	(600)	(9,370)	(2,380)
Advances	—	—	—	600	9,370	2,380
Closing balance	—	—	—	—	—	—
Insurance Compensation Fund						
Opening balance	706	636	636	556	414	345
Repayments	(70)	—	(80)	(142)	(69)	(185)
Loans issued	—	—	—	—	—	—
Closing balance	636	636	556	414	345	160
EU stability to support Greece						
Opening balance	347	347	347	347	344	323
Repayments	—	—	—	(3)	(22)	(13)
Closing balance	347	347	347	344	323	310
Uisce Éireann						
Opening balance	—	—	—	—	372	502
Repayments	—	—	—	—	—	—
Advances	—	—	—	372	130	112
Closing balance	—	—	—	372	502	614
Other loans and advances						
Opening balance	194	236	293	228	296	284
Repayments/loans conversion	(181)	(193)	(250)	(185)	(253)	(241)
Loans issued	223	250	185	253	241	—
Closing balance	236	293	228	296	284	43
Total closing balance	1,959	2,001	1,881	2,096	2,109	1,797

Source: Finance Accounts 2017 to 2022. Any apparent differences in totals are due to rounding.

2 Reporting Ireland's EU transactions

- 2.1** Ireland's contribution to the European Union (EU) budget has increased considerably due to economic growth since the 2008 banking crisis, with Ireland becoming a net contributor since 2013 (see Figure 2.1). In 2022, Ireland contributed around €3.6 billion to the EU budget. The Department of Finance forecasts that Ireland's contribution will continue to rise year-on-year, reaching almost €4.5 billion by 2027.

Figure 2.1 Contributions and receipts to/from the EU budget 1973 – 2022



Source: Ireland: Budgetary Statistics 2021 (Department of Finance) and the Finance Accounts 2022

Note: a Figures for the 2022 receipts were not available at the time of publication.

- 2.2** The EU budget is approved annually within the terms of agreements known as Multiannual Financial Frameworks (MFF), typically covering a seven-year period.¹ The current MFF, agreed in July 2020, runs from 2021 to 2027 and has a total budget of around €1.211 trillion (in current prices).²
- 2.3** In response to the impacts of the Covid-19 pandemic, the EU also agreed a new recovery fund, referred to as NextGenerationEU (NGEU), with a budget of €807 billion (in current prices). The primary fund of the NGEU is the Recovery and Resilience Facility (RRF) comprising up to €338 billion in grants and €386 billion in loans.
- 2.4** A new €5 billion Brexit Adjustment Reserve (BAR) was also created to support member states most impacted by the UK's exit from the EU.
- 2.5** This examination was undertaken to review Ireland's contributions to and receipts from the EU budget; how receipts from the EU are accounted for in departments' annual appropriation accounts, and in the Department of Finance's annual Finance Accounts; and the assurance arrangements in place over EU funding.

1 Each MFF must be at least five years but typically it covers seven years. The European Commission proposes an annual budget within the limits set by the MFF to the European Council and European Parliament. The budget receives final approval when passed by the European Parliament.

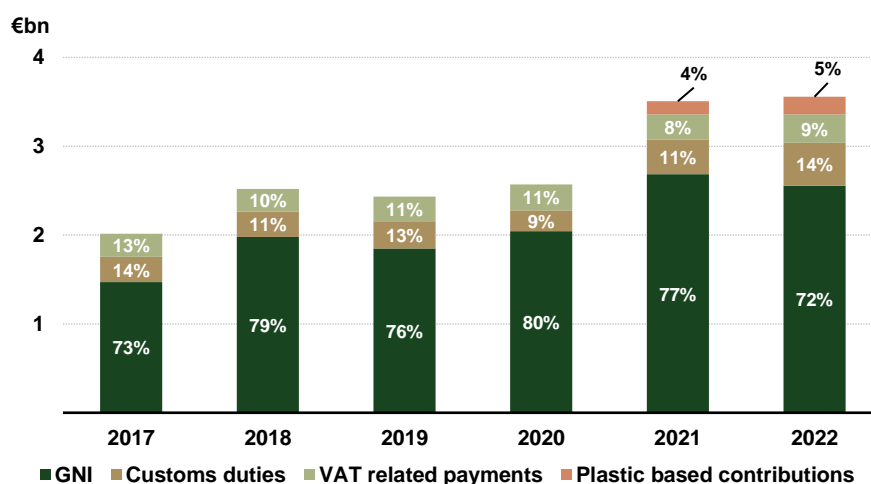
2 The original budget was framed on 2018 prices and set at €1.074 trillion. The difference stems from the annual adjustment for inflation. The EU's 2021-2027 long-term budget and NextGenerationEU report is available [here](#).

Ireland's contribution to the EU

2.6 Ireland contributed €3.6 billion to the EU budget in 2022 — €50 million or 1.4% more than in 2021 (see Figure 2.2).¹ The contribution comprises the following elements.

- GNI 'own resource' contribution (€2.6 billion) — based on the level of income as defined by gross national income (GNI) of a member state.²
- Traditional 'own resource' (TOR) contribution (€482 million) — based on customs duties collected by the Revenue Commissioners on imports from outside the EU, of which 75% is payable to the EU.
- VAT-based contribution (€323 million) — 0.3 per cent on Ireland's VAT base.³
- Non-recycled plastic packaging waste based contribution (€197 million) — since 2021, member states make a contribution based on a rate of €0.80 per kg of non-recycled plastic packaging waste.

Figure 2.2 Ireland's contribution to the EU budget, 2017 to 2022



¹ These figures exclude payments by Ireland arising from funding recovered by the EU and fines imposed by the EU.

² GNI own resource contribution is deemed the balancing element to ensure that all agreed expenditures in an EU annual budget are sufficiently covered by the total budget revenues. Depending on the total annual revenues required to finance expenditures, a uniform call rate is applied to each member state's GNI. The call rate varies from year to year.

³ VAT-based contributions are capped at 50% of the GNI of the member state.

⁴ Figures for the 2022 receipts were not available at the time of publication.

Source: Finance Accounts 2017 to 2022 (See Annex 2A)

Ireland's receipts from the EU

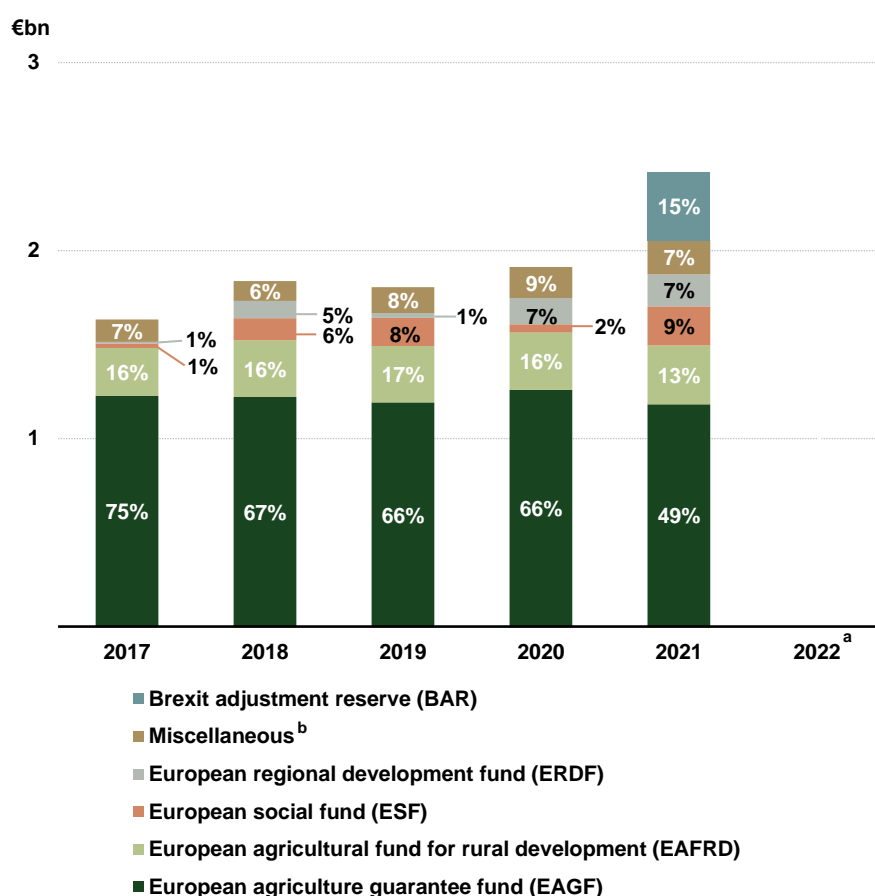
2.7 Budgetary statistics published by the Department of Finance show that Ireland received almost €2.5 billion from the EU in 2021 (see Figure 2.3).⁴ Most of the EU funding received was for agriculture and rural development.

2.8 While EU receipts have been trending upwards moderately since 2017, there was a larger increase between 2020 and 2021 — an increase of around 26% or €505 million. The majority of this increase relates to receipts from the BAR.

2.9 The Department of Public Expenditure, National Development Plan Delivery and Reform (DPENDPDR) noted that following the introduction of the BAR Regulation in October 2021, specific funding of €389 million was provided in Budgets 2022 and 2023 across a number of sectors. Almost 70% of this funding (€271 million) was allocated to the Department of Agriculture, Food and the Marine for various grant aid programmes.

- 2.10** The Department of Further and Higher Education, Research, Innovation and Science also received a significant funding allocation (€37.3 million) from the BAR which included, for example, funding towards training and reskilling for businesses or individuals impacted by Brexit.
- 2.11** DPENDPDR also stated that it is currently carrying out a review of Brexit-related spending over the eligibility period for possible inclusion in Ireland's BAR claim to the EU Commission in September 2024. This involves engaging with departments on Brexit spending outside of that allocated under Budgets 2022 and 2023, and to date a figure of approximately €0.7 billion has been identified in this regard. It further noted that the Department of Agriculture, Food and the Marine, the Department of Enterprise, Trade and Employment and the Revenue Commissioners are likely to account for a significant amount of that €0.7 billion figure. This identification work is ongoing and will continue into 2024. The final claim will be submitted in September 2024.

Figure 2.3 Sources of Ireland's receipts from the EU budget, 2017 to 2021



Source: Ireland: Budgetary Statistics 2021 (December 2022), Department of Finance

Notes: a Figures for the 2022 receipts were not available at the time of publication.

b For 2021, miscellaneous included €68 million for rural community and development-related programmes, €39 million for education-related programmes, €8 million for the Asylum, Migration and Integration Fund and €4 million for agriculture-related programmes.

Accounting for Ireland's transactions with the EU

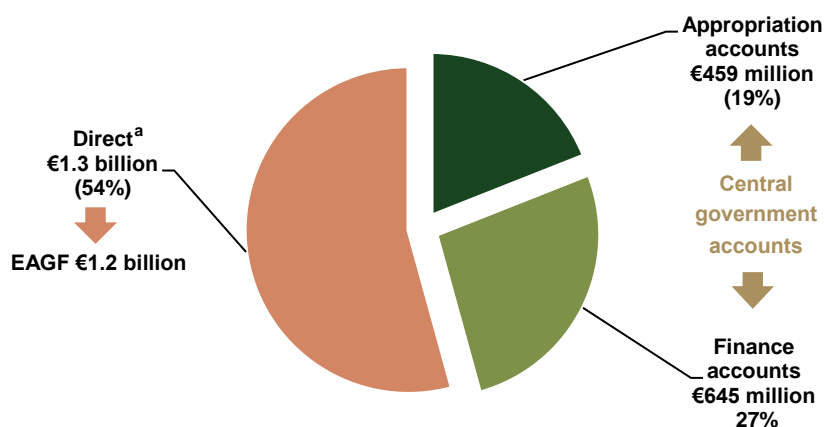
- 2.12** Information on Ireland's net financial position with the EU is not readily available as Ireland's transactions with the EU are not recorded in a single set of financial statements. In early 2020, the Department of Finance committed to publish an annual report, presenting a consolidated view of the financial transactions between Ireland and the EU.^{1,2}
- 2.13** However, there has been a time lag in reporting by the Department of Finance. The Department published the first report, on 2018 transactions, in September 2020, and annual reports for 2019 and 2020 in June 2022 and October 2022 respectively.³ The Department has stated that the annual report for 2021 will be published in Q3 2023, and that the next report will not be available until 2024 because Ireland's EU budget receipts for 2022 will not be confirmed until the end of 2023.
- 2.14** The Department of Finance's reports for 2018 – 2020 presented information on receipts and contributions during the respective years, but did not include information relating to end-year balances, any disallowances or fines incurred, or estimated long-term commitments.
- 2.15** Contributions to the EU budget are managed by the Department of Finance and are fully accounted for in the Finance Accounts. Receipts from the EU budget are managed and recorded by various government departments and public bodies. Less than half of the funds received from the EU in 2021 were accounted for through central government accounts that are presented to the Oireachtas (see Figure 2.4).

1 This commitment was in response to a recommendation in the Comptroller and Auditor General's special report 105: Ireland's transactions with the EU in 2017. The report can be found [here](#).

2 This replaced a composite annual account of the Irish operations of the EAGF, the EAFRD and the EMFF, produced under a formal agreement between DPENDPDR, the Department of Agriculture, Food and the Marine and the Department of Rural and Community Development. This report was originally produced in response to a request from the Committee of Public Accounts.

3 The 2020 report can be found [here](#).

Figure 2.4 Accounting for EU receipts, 2021



Source: Appropriation accounts for year end 31 December 2021 and the Finance Accounts for year end 31 December 2021 and Ireland: Budgetary Statistics 2021 (December 2022), Department of Finance

Note: a Direct refers to EU receipts paid directly to beneficiaries. For example, in the case of the EAGF, the receipts are paid directly to farmers.

Appropriation accounts

- 2.16** Almost a fifth (€459 million) of receipts from the EU were accounted for as appropriations-in-aid in the 2021 appropriation accounts. The requirement to include information on the application of EU receipts in the appropriation accounts was introduced in 1992 for funding received from the ERDF and the ESF.¹ This was revised for the 1995 appropriation accounts to include information about any EU fund income brought to account.² Since then, there have been no significant changes to the reporting requirements for EU funding in the appropriation accounts.
- 2.17** The current disclosures in appropriation accounts in relation to EU funding provide a limited amount of detail. This makes it difficult for users of those accounts — including members of the Oireachtas — to assess the performance of a central government department or office in managing any EU funding it receives, or in drawing down funds to which it has access. For example, the current format does not require the presentation of the following kinds of information.
- **Total amount allocated to the State with respect to the fund.** The EU budget sets out 'commitment appropriations' — the maximum annual amount the EU can spend on a specific heading. These allocations run through the lifetime of the MFF. The appropriation accounts do not show the total budget available to Ireland, or the proportion of this that has been successfully drawn down to date, or against a funding plan or profile.
 - **Financial corrections in the period.** The appropriation accounts provide no information on the various financial corrections made to a department's EU claims (such as the recovery of funds by the EU, the withdrawal of ineligible claims or decommitments).
 - **Fines in the period.** The appropriation accounts are not required to provide information on EU fines incurred by departments for the infringements of EU rules.
- 2.18** A total of 18 government departments and offices disclosed some level of EU funding in their 2022 appropriation accounts, with varying levels of disclosure. In the absence of definitive guidance, accounting officers have extensive scope over what additional information is presented in appropriation accounts. This has led to inconsistent presentation across votes, and limits assessments of performance in funding management over time and between vote areas.
- 2.19** A significant amount of information about EU transactions flowing through votes is provided in the appropriation accounts for Vote 30 Agriculture, Food and the Marine, Vote 26 Education and Vote 45 Further and Higher Education, Research, Innovation and Science. In the case of the vote for Agriculture, Food and the Marine, summary information is also provided in the appropriation account in respect of the amount spent on direct payments to farmers, which the Department manages on behalf of the EU Commission.

¹ Department of Finance Circular 18/92 *Information in the Appropriation Accounts and Estimates*.

² Department of Finance Circular 1/96 *Appropriation Account requirements for 1995 and related issues*.

Financial corrections

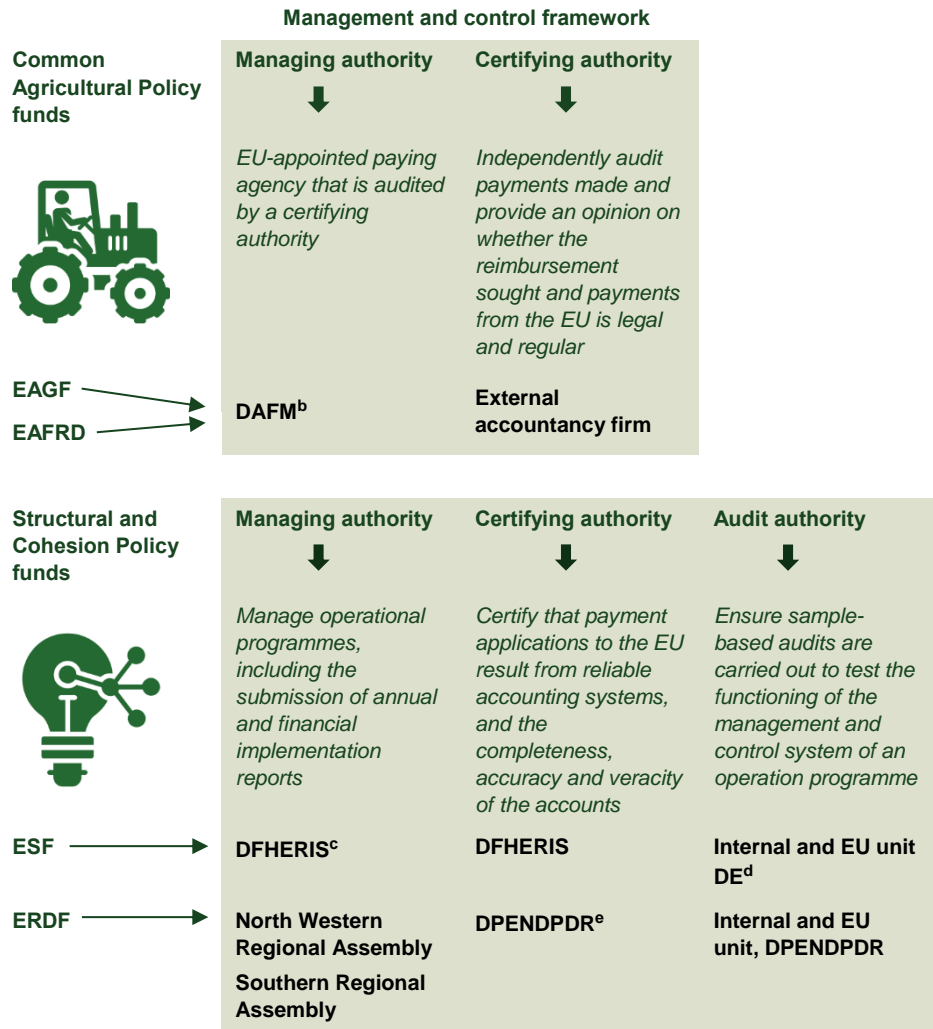
- 2.20** Financial corrections are used to correct errors and irregularities in EU expenditure. They are made by the Commission in order to exclude expenditure that is not in accordance with the rules and regulations. For some claims, alternative expenditure may be allowed to replace the excluded expenditure, resulting in no reduction in the overall EU receipt.
- 2.21** Financial corrections can result from controls and audits at any level of the control system in member states or from audits by the Commission, ECA or OLAF investigations. For example
- DPENDPDR has stated that, in the last five years, it declared expenditure totalling almost €30 million in respect of the ERDF that was subsequently withdrawn and was replaced with other eligible expenditure resulting in no reduction in receipts from the ERDF.
 - As reported in the Department of Agriculture, Food and the Marine's appropriation accounts, the European Commission has recovered EU funding totalling almost €22 million in respect of Common Agricultural Policy funds in the last six years.

Assurance over the regularity of EU funds

- 2.22** EU funds are administered under a funding management and control framework with the majority of Ireland's receipts from the EU being managed under the shared management model (see Figure 2.5). This sets out the roles of the respective parties involved in management and oversight of the expenditure.
- 2.23** There are also further structures in place to provide assurance on the use of EU funds. This assurance is provided by the
- Comptroller and Auditor General
 - European Court of Auditors (ECA)
 - European Commission (the Commission)
 - European Anti-Fraud Office (OLAF).
- 2.24** Annex 2B provides further information on the respective roles and responsibilities for these institutions and offices.

Figure 2.5 Management and control framework — shared management model**Shared funding management model^a**

Funding is managed under programmes jointly administered by the Commission and national authorities. Each member state prepares an agreement setting out how funding will be used.



Source: Office of the Comptroller and Auditor General

Notes: a The EU also operates two other funding management models.

Direct management model — The Commission implements all budget tasks. This is performed by a department in EU headquarters, an EU delegation or an EU executive agency. The Commission, EU delegations or executive agencies are the contracting authority and take decisions on behalf of partner countries.

Indirect management model — Budget implementation is entrusted to national authorities (inside or outside the EU), international organisations or member state development agencies. This is performed by the department in EU headquarters, an EU delegation or an EU executive agency.

b DAFM = Department of Agriculture, Food and the Marine.

c DFHERIS = Department of Further and Higher Education, Research, Innovation and Science.

d DE = Department of Education.

e DPENDPDR = Department of Public Expenditure, National Development Plan Delivery and Reform.

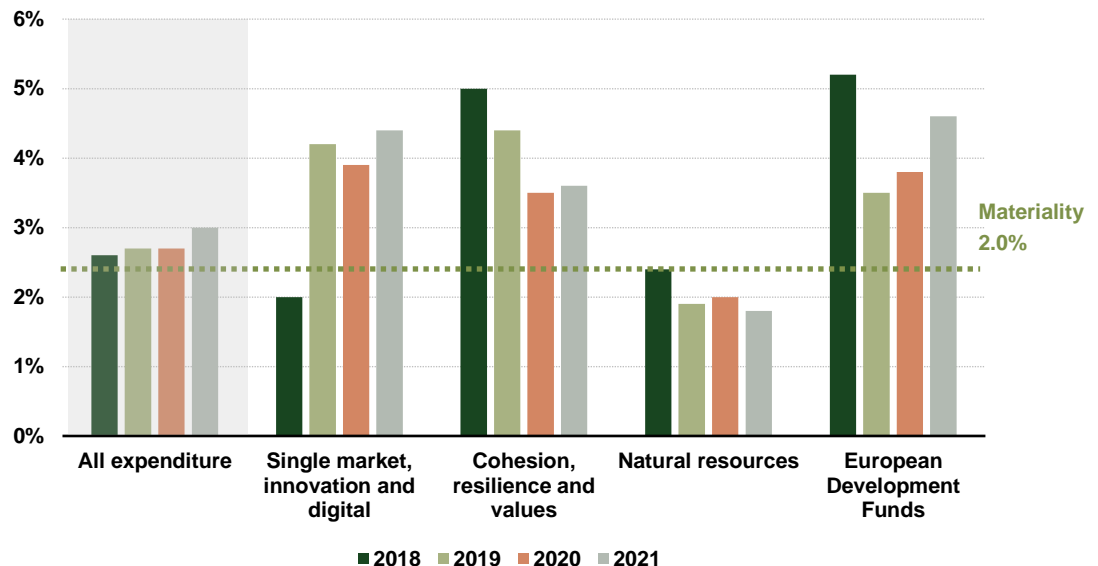
European Court of Auditors annual report

- 2.25** The ECA's audit of the consolidated accounts of the EU for the financial year ended 31 December 2021 found that a substantial proportion of the EU's budget expenditure was materially affected by error.¹ The overall estimated level of error has increased from 2.6% in 2018 to 3% in 2021 (see Figure 2.6). The error rate was significantly higher in some programme areas than in others.

Figure 2.6 Regularity of transactions, in EU programme areas, 2018 to 2021^a

Extract from ECA audit opinion

Our overall estimated level of error for budget expenditure accepted in the accounts for the year ended 31 December 2021 is 3.0%. A substantial proportion of this expenditure is materially affected by error. This mainly concerns reimbursement-based expenditure, in which the estimated level of error is 4.7%. Such expenditure increased to €90.1 billion in 2021, representing 63.2% of our audit population. The effects of the errors we found are therefore both material and pervasive to the year's accepted expenditure.



Source: European Court of Auditors Annual Reports 2018 to 2021

Note: a The figure for 'All expenditure' also includes three EU budget headings: 'Migration and Border Management', 'Security and Defence', and 'Neighbourhood and the World' for which separate levels of error could not be determined due to limitations on sample size. Another heading 'European Public Administration' is excluded as this was found to be free from material error.

Recovery and Resilience Facility (RRF)

- 2.26** The Recovery and Resilience Facility (RRF) provides financial support to member states to accelerate economic recovery from the impact of the pandemic and to make member states more resilient.² DPENDPDR is responsible for its implementation in Ireland.
- 2.27** The RRF follows a different funding model to other EU programmes. The fund is performance-based which means that the Commission only pays out amounts to each member state when they have achieved the agreed milestones and targets included in their plan.

¹ The European Court of Auditors Annual Report for the 2021 financial year can be found [here](#).

² The RRF was established by Regulation (EU) 2021/241 which came into force on 19 February 2021.

2.28 Overall, funds are available to member states under the RRF in the form of loans and/or grants, over two tranches. In Ireland's case, only grant funding has been requested. Under the first tranche, Ireland was allocated grant funding totalling €915 million. Allocation of the second tranche was related to the Covid-19 impact on member states' economic growth. Because Ireland's economy was more resilient during Covid-19 than other member states, no further grant allocation has been made to Ireland under the RRF.

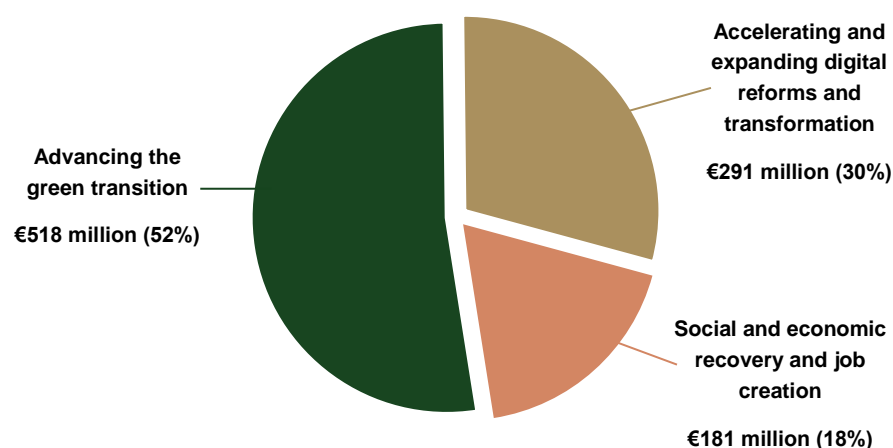
2.29 In order to access RRF funding, member states were required to prepare a National Recovery and Resilience Plan (NRRP), setting out a programme of investments and reforms that are planned for delivery. Ireland's NRRP was approved by the EU in September 2021.¹ All investments and reforms planned under the RRF must be completed by August 2026.

2.30 Ireland's NRRP was developed taking into account the requirements for the RRF for

- a minimum of 37% of expenditure to be on climate and 20% on digital investments and reforms
- the need to address investment and reform challenges identified in relevant 'country specific recommendations' addressed to Ireland by the EU in recent years
- the importance of alignment with national economic and investment plans.

2.31 Ireland's NRRP comprises 16 investments and nine reform commitments, to a total value of just under €1 billion, to be supported both by grants from the RRF and national funds (see Figure 2.7). The drawdown of funding from the RRF is contingent on Ireland achieving 109 associated milestones and targets.²

Figure 2.7 Ireland's National Recovery and Resilience Plan priorities^a



¹ Ireland's Recovery and Resilience Plan, 2021 can be found [here](#).

² Annex to the Proposal for a Council Implementing Decision on the approval of the assessment of the recovery and resilience plan for Ireland.

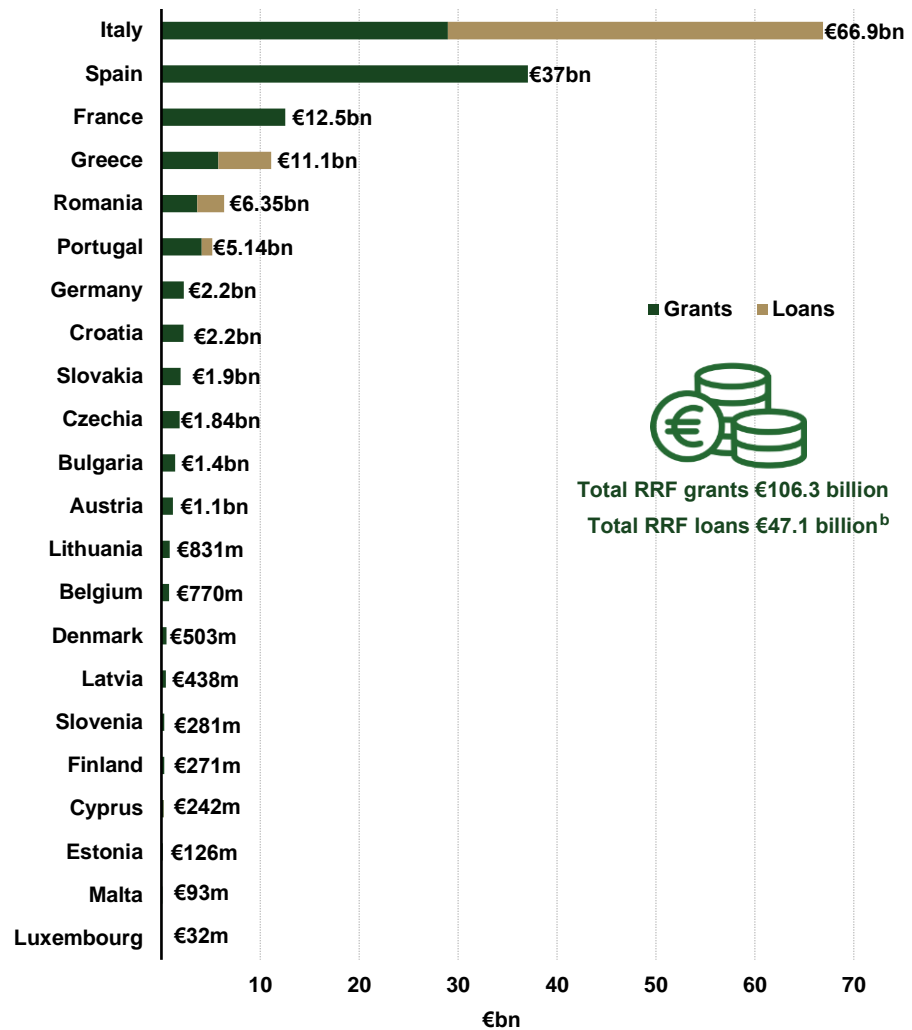
Source: Ireland's National Recovery and Resilience Plan, Department of Public Expenditure, National Development Plan Delivery and Reform. Any apparent differences in totals are due to rounding.

Note: a Ireland's original allocation under the RRF was €989 million, made up of the first tranche of €915 million and a second tranche of €74 million. As Ireland's economic performance in 2020 and 2021 was better than anticipated, no funding will be received under the second tranche, reducing the total allocation to €915 million.

2.32 As of July 2023, a total of €153.4 billion, or 21% of the total allocation (€724 billion), had been disbursed under the RRF (see Figure 2.8). Ireland was one of only five member states that had yet to submit a payment claim for RRF funding.

2.33 RRF projects are funded through voted issues from the Exchequer, and subsequently recouped from the EU after the required milestones and targets have been achieved and verified. DPENDPDR has stated that on 7 September 2023, Ireland submitted its first payment request for €324 million relating to achievement of 41 of the 109 milestones and targets under Ireland's NRRP. On receipt, RRF funds will be paid into the Central Fund of the Exchequer.

Figure 2.8 Aggregate RRF disbursements, by member state, at 19 July 2023^a



Source: European Commission Recovery and Resilience Scoreboard. Any apparent differences in totals are due to rounding.

Notes: a Member states yet to submit a payment claim are Ireland, Hungary, the Netherlands, Poland and Sweden.

b The total amount of loans given to each member state is determined by the assessment of its loan request and cannot exceed 6.8% of its 2019 GNI.

European Court of Auditors concerns around control of the RRF

- 2.34** The ECA's audit of the consolidated accounts of the EU for the financial year ended 31 December 2021 (reported upon in October 2022) covered the RRF for the first time, and found that the RRF expenditure incurred in the year of account was legal and regular in all respects.
- 2.35** However, in a March 2023 report on the design of the Commission's control system for the RRF, the ECA concluded that there is an assurance and accountability gap at EU level in the design of the new delivery model, despite the extensive control activity being planned. For instance, non-compliance with procurement, state aid and eligibility rules constitute significant risks but compliance with such rules is not covered by the Commission's systems audits, with little guidance provided to member states in this regard (see Figure 2.9).¹

Figure 2.9 European Court of Auditors special report on RRF control system (March 2023): key findings and recommendations

- The Commission has designed a control system that provides for an extensive process for verifying the fulfilment of milestones and targets. However, the control system provides only limited verified information at EU level that RRF-funded investment projects comply with EU and national rules, impacting the assurance the Commission can provide and results in an EU-level accountability gap.
- The ECA found the control procedures around fulfilment of milestones and targets to be extensive. Ex-ante checks for the preliminary assessment are complemented by additional on-the-spot audits. However, the various stages in the preliminary assessment were insufficiently specified and not fully documented.
- There is no method in place yet on how to quantify the impact of not fulfilling a milestone or target, and no guidance addressing the risk associated with not identifying the reversal of a measure for which a milestone or target was previously fulfilled.
- The Commission has planned systems audits in each member state that will focus on member states' control systems relating to fraud, corruption, conflicts of interests and double funding. However, they will not cover whether member states adequately check the compliance of RRF-funded investment projects with EU and national rules. As a consequence, there is limited verified information at EU level on RRF-funded investment projects' compliance with these rules. The lack of such verified information impacts the assurance that the Commission can provide in this regard.
- The responsibility that the Commission has assumed in terms of protecting the financial interests of the Union does not go beyond ensuring that the Commission recovers any amount due in the event of fraud, corruption and conflict of interest (where the member state failed to do so) or in the event of an established serious breach of the financing agreement.
- The Irregularity Management System does not contain centralised and standardised information on fraud related to the RRF and the different levels of flat rate corrections to be applied in the event of a deficiency in member states' control systems are insufficiently defined.

The ECA recommended that the Commission

- improve the procedures for ex-ante verifications
- draw up guidance on the reversal of a measure related to a previously fulfilled milestone or target
- address the EU-level assurance gap regarding the compliance of RRF-funded investment projects with EU and national rules
- align reporting on RRF-related fraud
- develop internal guidance regarding corrections, as provided for in the financing agreements.

¹ The ECA published a report in March 2023 relating to the Design of the Commission's control system for the RRF. A copy of the report can be found [here](#).

Conclusions and recommendations

- 2.36** Since 2013, Ireland has been a net contributor to the EU budget. Ireland's contribution in 2022 was €3.6 billion and is expected to rise to almost €4.5 billion by 2027. As a significant and increasing contributor to the EU budget, Ireland therefore has an increasing interest in ensuring that spending under the EU budget is properly controlled and is used to good effect.

Transparency of EU transactions

- 2.37** Information on Ireland's net financial position with the EU is not readily available as Ireland's transactions with the EU are not recorded anywhere in a single set of financial statements. While the Department of Finance committed to publishing an annual report presenting such information, there has been a significant time lag in its reporting. The latest available report (from October 2022) relates to the financial year 2020, and does not include all the information necessary to understand Ireland's overall financial position with the EU.

Recommendation 2.1

The Department of Finance should publish its annual report on Ireland's transactions with the EU in a more timely way.

Department of Finance Accounting Officer's response

Agreed.

The annual report on Ireland's transactions should be published in a more timely way.

Timeline for implementation

The Department commits to publishing the 2021 EU Transactions report in autumn 2023. Full data for 2022 EU receipts will only be available to the Department at the end of 2023. The Department commits to publishing the 2022 annual report no later than the second quarter of 2024 and to continue with publication of the report for the pre-preceding year in the second quarter of each year.

Recommendation 2.2

The annual report on Ireland's transactions should also be expanded to provide better information on Ireland's overall performance in managing EU funding e.g. end-of-year balances of claims submitted, funding recovered by the EU, fines and estimated long-term commitments.

Department of Finance Accounting Officer's response

Agreed.

The Department of Finance currently does not have access to information on end-of year balances of claims submitted, disallowances, fines and estimated long-term commitments. The Department is, however, open to examining how this information can be sourced and whether or not it would be feasible to include in future editions.

Timeline for implementation

The Department will revert to the Office of the Comptroller and Auditor General before the year end in relation to the feasibility of including the additional information contained in the recommendation in future editions of the report.

- 2.38** Ireland received almost €2.5 billion from the EU in 2021 with less than half of this accounted for through central government accounts.
- 2.39** EU receipts of almost €460 million were accounted for as appropriations-in-aid in the 2021 appropriation accounts. The related disclosures included in the accounts lack transparency and provide limited assurance on the management of EU funds by government departments and offices. For example, a user cannot see from those accounts the amounts that are available to the State in respect of particular EU funds; amounts drawn to date; claims submitted, paid and/or withdrawn during the period; or financial corrections and fines that arose during the period. Availability of this kind of information would facilitate the Department of Finance in improving the scope of its reporting on EU transactions.

View of the Department of Public Expenditure, National Development Plan Delivery and Reform

- 2.40** The Department of Public Expenditure, National Development Plan Delivery and Reform agrees that a more standardised approach to reporting on EU funding should be progressed in the interests of transparency. However, it is the view of the Department that the annual appropriation account published on or by 30 September each year for the preceding year is not the optimal reporting vehicle for this information relating to multiannual EU programmes.
- 2.41** The Department agrees that this information in relation to EU funding must be made more accessible to the public and the Oireachtas and will examine mechanisms to report information on the drawdown and recoupment of EU funds in a timelier, comprehensive and uniform manner.
- 2.42** In setting out this position, a key consideration is the Department's financial reporting reform programme currently underway. As part of these reforms the Department would like to see signed appropriation accounts submitted earlier to the Comptroller and Auditor General. The achievement of such an outcome requires detailed consideration of and consultation with stakeholders to examine how information such as that in relation to EU funding can best be reported, given its complexity arising from factors including the multiannual nature of the programmes, and the difference between accounting periods in which the expenditure is incurred, the claim submitted, and the funding received.

Drawdown of Recovery and Resilience Fund allocation

- 2.43** The EU's Recovery and Resilience Fund (RRF) of €724 billion was established to accelerate economic recovery arising from the impact of the Covid-19 pandemic and to enable member states to become more resilient in responding to major shocks. The RRF follows a very different funding model to traditional EU funding models, with the Commission only disbursing funds from the RRF to a country when agreed milestones and targets have been achieved. All investments and reforms planned under the RRF must be completed by August 2026.
- 2.44** Ireland's plan setting out projects and milestones for RRF funding was approved by the EU in September 2021. In response to the plan, Ireland was allocated grant funding of €915 million. As of July 2023, Ireland was one of only five member states that had yet to submit an RRF payment claim. At that stage, 21% of the total RRF budget had been disbursed.
- 2.45** On 7 September 2023, DPENDPDR submitted its first payment request for €324 million under the RRF.

Annex 2A Adjustments to member contributions

Contribution ceiling

Contributions by member states cannot exceed a maximum rate of 1.4% of the total EU GNI. In order to finance the NextGenerationEU (NGEU) and the Recovery and Resilience Fund, the ceiling was temporarily increased in 2020 to 2%. The increase does not entail an increase in contribution to the EU budget, but functions as a joint guarantee for the issuance of the EU bonds to fund the NextGenerationEU. This will be reversed following the repayment of liabilities related to the NGEU.

Financial corrections

The GNI-based contribution is also subject to financial corrections agreed by the European Council. As Denmark and Ireland do not participate in certain justice and home affairs policies, their contribution is reduced in line with the 'JHA adjustment'. In 2022, Ireland's contribution was reduced by €22.5 million with respect to the JHA adjustment.

Annual lump sum reductions are provided to reduce the GNI contribution payable by certain member states. For example, lump sum corrections will reduce the GNI contribution paid by Denmark, Germany, the Netherlands, Austria and Sweden for the 2021 to 2027 period.

Balancing exercise

Forecasted or estimated annual contributions to the EU budget are regularly adjusted as updated data is provided or published by a wide variety of sources. In addition, annual balancing exercises are carried out in respect of GNI and VAT elements of the contributions. This involves retrospective comparison of the forecasts for GNI and VAT provided by the member states for the prior year with the outturn.

Ireland's monthly payments to the EU are based on a compromise figure agreed between the Department of Finance and the EU Commission, which is based on estimates prepared by both parties. The compromise figure usually falls somewhere in the middle of the two estimates.

The following year when the actual figures are available, a true-up calculation is prepared and amounts are paid to, or refunded from the EU.

Ireland's gross GNI and VAT contributions and adjustments for the period 2019 to 2022

Relevant year	Gross GNI and VAT contributions ^a	Subsequent year adjustment ^b	Percentage adjustment
	€m	€m	%
2019	1,992	(44.5)	(2.2)
2020	2,187	84.5	3.9
2021	2,740	185.7	6.8
2022	2,727	101.5	3.7

Source: Department of Finance

- Notes:
- a The amounts reflect gross GNI and VAT payments and exclude any other adjustments made relating to other member states.
 - b Adjustments can relate to more than one year and usually occur in June of the following year.

Annex 2B External assurance

Institutions and entities	Role and responsibilities
Office of the Comptroller and Auditor General (C&AG)	<p>Where a department or State body audited by the Comptroller and Auditor General accounts for EU funds or transactions in their financial statements, the receipt and application of EU funds are audited in the same way as other transactions by that body.</p> <p>Audit planning takes account of work done and concerns raised by others including the Commission, ECA, audit authorities, internal audit units and the certification body for agricultural supports.</p> <p>Audit work includes testing of compliance with national rules that have been transposed from EU directives and regulations.</p>
European Court of Auditors (ECA)	<p>The European Court of Auditors (ECA) is the Commission's external auditor. Its aim is to improve the way the Commission's finances are managed and to contribute to public accountability regarding the raising and spending of the EU budget through assurance and advice.</p> <p>It conducts its work through financial audits, compliance audits and performance audits.</p> <p>The ECA audits EU revenue and expenditure, reports findings and recommendations for EU institutions (such as the Commission) and member states, reports suspected fraud to OLAF and recommends how EU funds could be better managed.</p>
European Commission (EC)	<p>The European Commission is ultimately responsible for managing the EU budget. An Annual Activity Report is produced by each Commission department and includes a declaration of assurance, signed by the Director-General of the department, that the transactions of the department were legal and regular.</p> <p>The Commission operates a conformity clearance process to verify, primarily by means of on-the-spot inspections, whether the member states have made correct use of the funds and have functioning management and control systems capable of ensuring that payments to beneficiaries are regular.</p>
European Anti-Fraud Agency (OLAF)	<p>The European Anti-Fraud Office (OLAF) is an EU body mandated to detect, investigate and prevent fraud in relation to EU funds. It is independent and can investigate matters relating to EU income and expenditure.</p>

Source: Office of the Comptroller and Auditor General

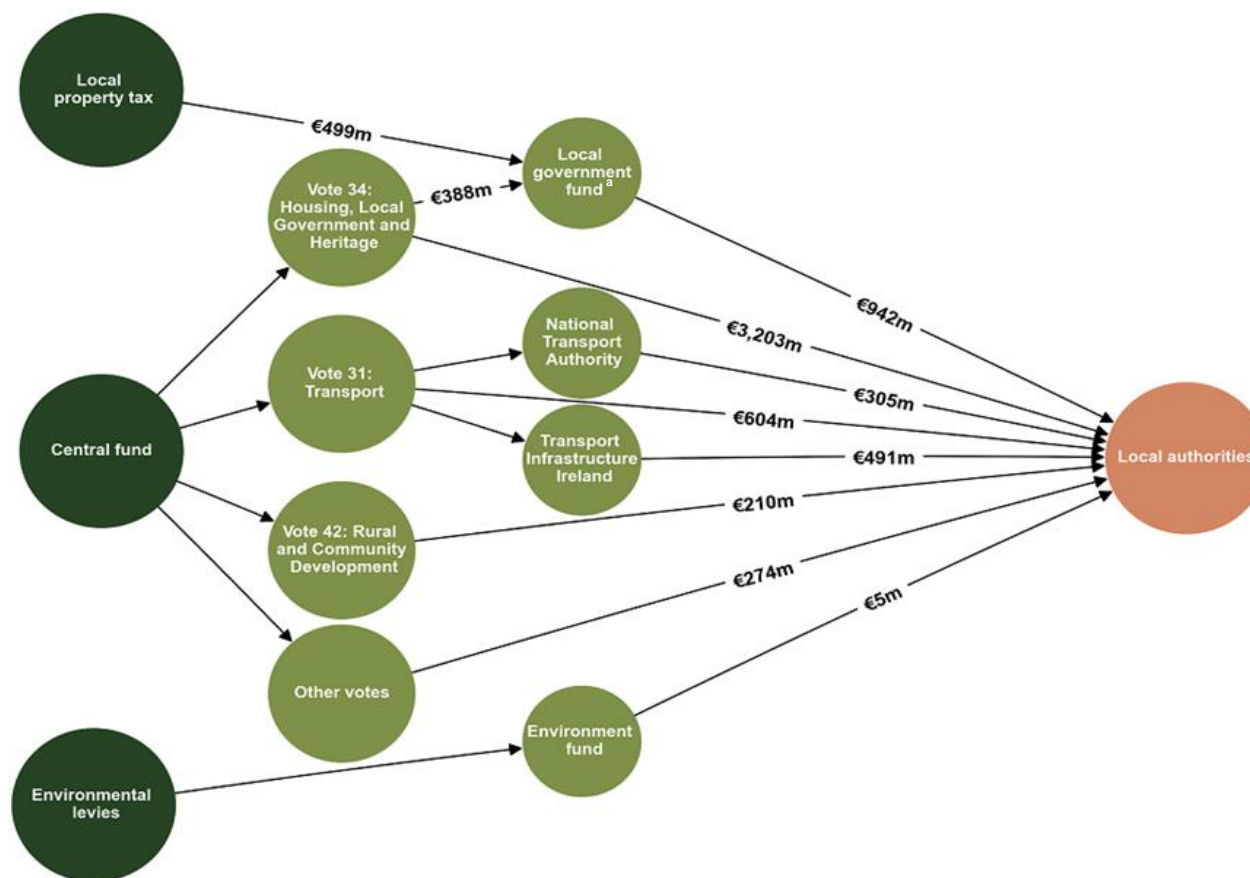
3 Central government funding of local authorities

Local authorities receive a sizeable portion of their annual funding from various central government departments and agencies (see Figure 3.1).

The objective of this report is to provide an overview of the funds flowing from and through central government sources to local authorities, and of the purposes for which those funds have been provided.

The primary sources of central government funding are the Department of Housing, Local Government and Heritage (through Vote 34 and the Local Government Fund); and the Department of Transport.

Figure 3.1 Flow of central government funding to local authorities in 2022



Source: Office of the Comptroller and Auditor General

Note: a The flow of funding to and from the Local Government Fund may not be equal in a given year.

Section 1 Central government transfers and application of central government funding

In 2022, funding from central government to local authorities totalled almost €6.04 billion, a net increase of around €270 million (5%) on 2021, and up around 127% since 2017 (see Figure 3.2). Covid-19 related funding decreased by €440 million, year-on-year.

The main purposes for which central government funding was provided were for the provision of social housing and transport investment; a contribution towards local authority general activities (budget support); and support in response to Covid-19 related impacts (see Figure 3.4).

Figure 3.2 Central government funding, 2017 – 2022

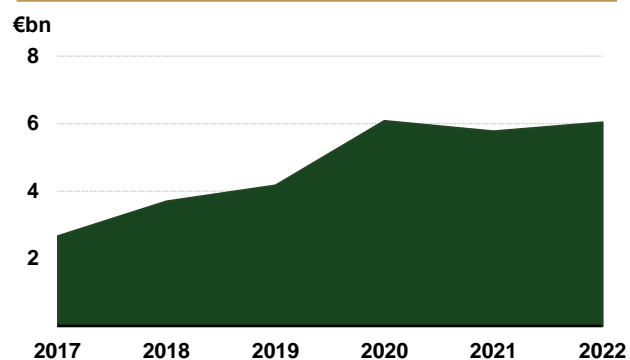


Figure 3.4 Purpose of central government funding, 2022

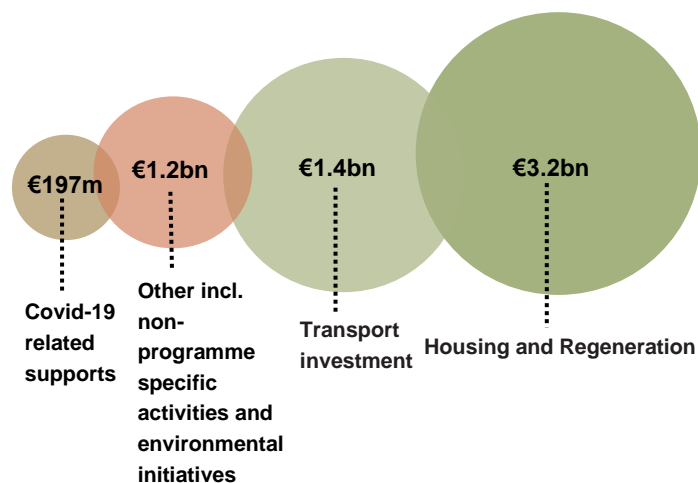
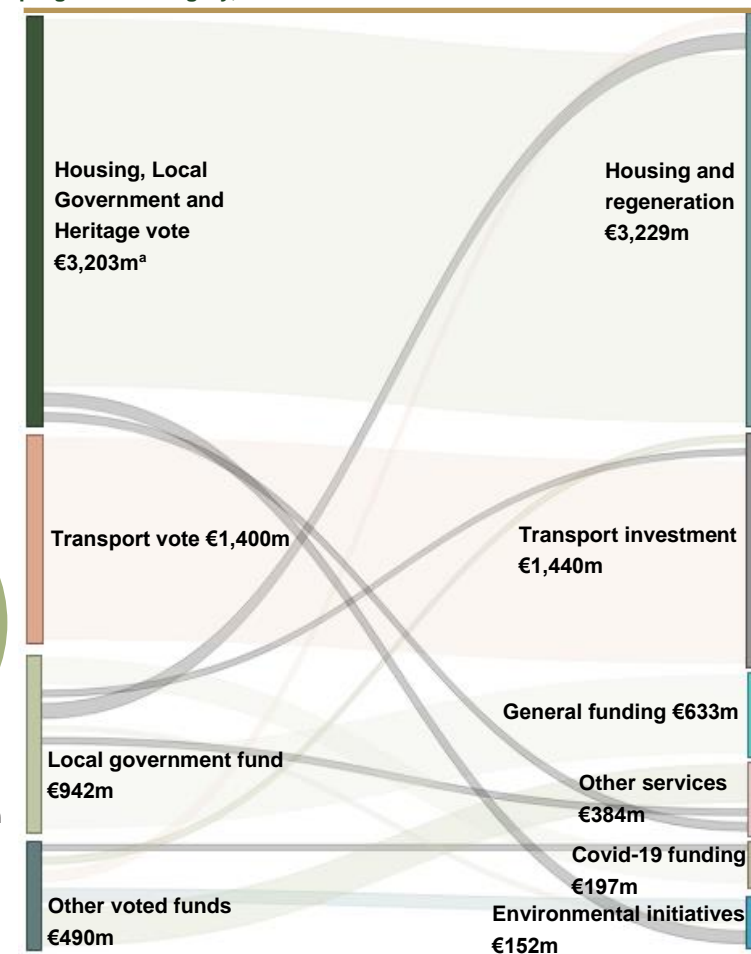


Figure 3.3 Grouped analysis of central government funding by programme category, 2022



Source: Annex 3A

Note: a This excludes receipts of €40.6 million in additional superannuation contributions and audit fees from local authorities

Section 2 Housing and regeneration

The Department of Housing, Local Government and Heritage provides the majority of the funding for local authority expenditure on housing and regeneration — around 98% in 2022. The funding is used by local authorities for the provision of social housing stock (managed by local authorities and approved housing bodies) and other housing supports including the housing assistance payment (HAP), rental accommodation scheme (RAS), and accommodation for homeless people. The funding is also used for the improvement of existing local authority housing units and adaptation grants for older people and for people with a disability.

The Department of Rural and Community Development also provides funding to local authorities for rural regeneration — €53 million in 2022. This funding is used to support schemes targeting building vacancy, infrastructure to develop town-centre housing, and the development of community or public facilities that enhance heritage and other community assets.

Figure 3.5 Central government funding to local authorities for investment in housing and regeneration, 2017 – 2022

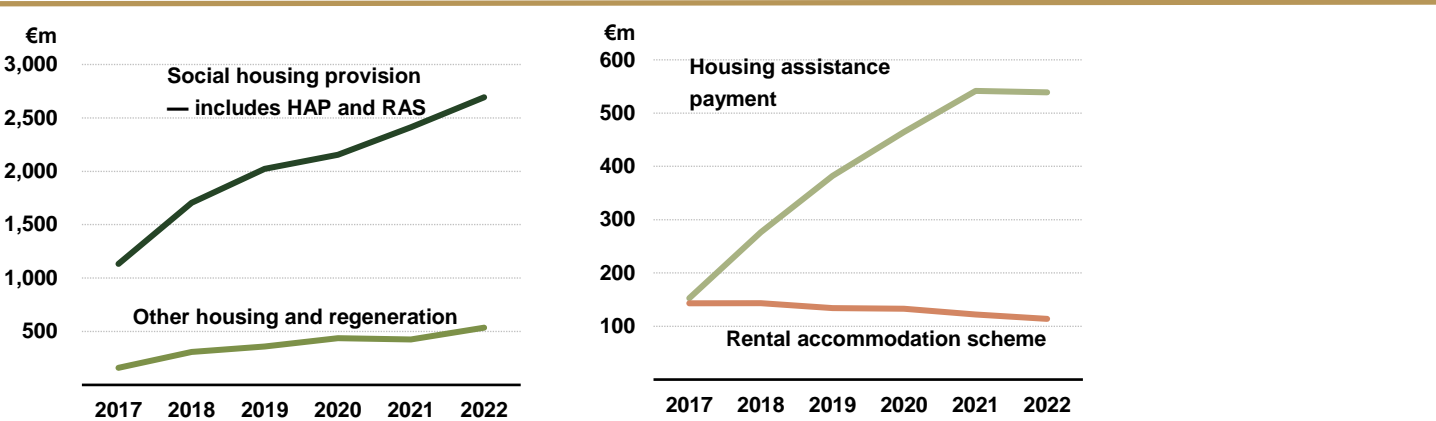
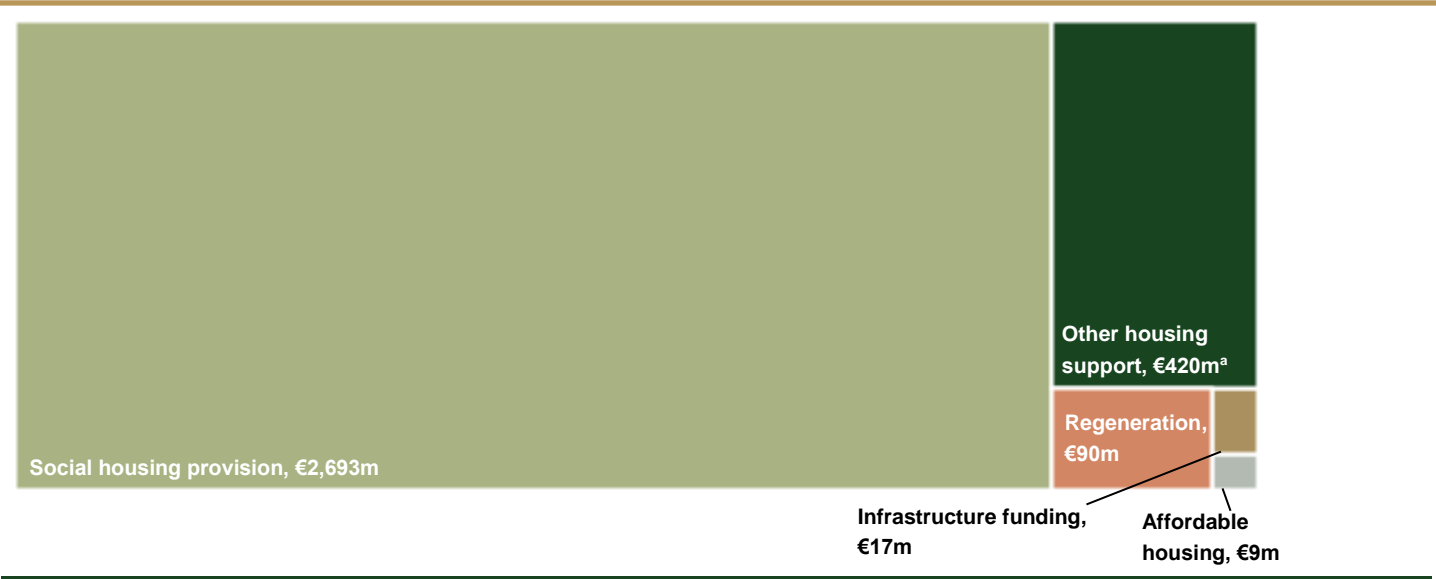


Figure 3.6 Breakdown of funding for housing and regeneration purposes, 2022



Source: Annex 3A
Note: a Includes €371,000 provided by the Department of Justice.

Section 3 Transport investment

The Department of Transport and the Department of Rural and Community Development provide funding to local authorities for roads and public transport investment. The Department of Transport provides funding for regional and local roads, as well as active travel, directly to local authorities, with funding for other purposes provided through the National Transport Authority and Transport Infrastructure Ireland. Some local authorities also fund expenditure on regional and local roads (€16.5 million in 2022) from local property tax allocations.

Figure 3.7 Central government funding to local authorities for transport investment, 2017 – 2022

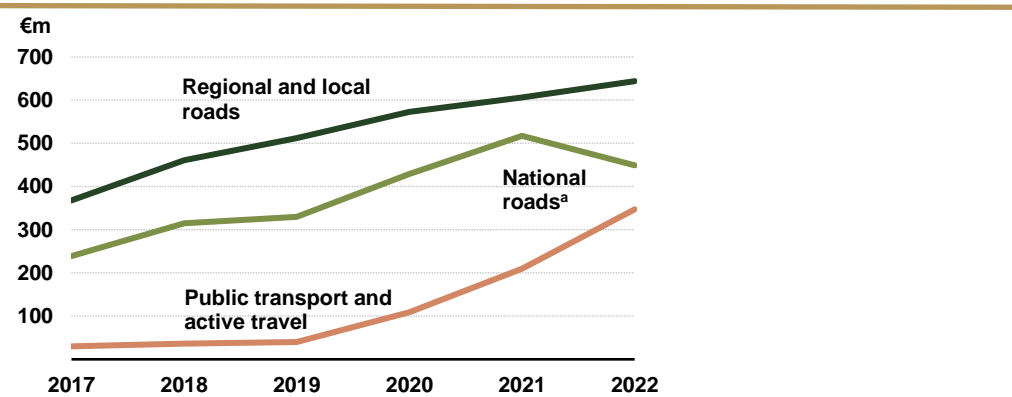
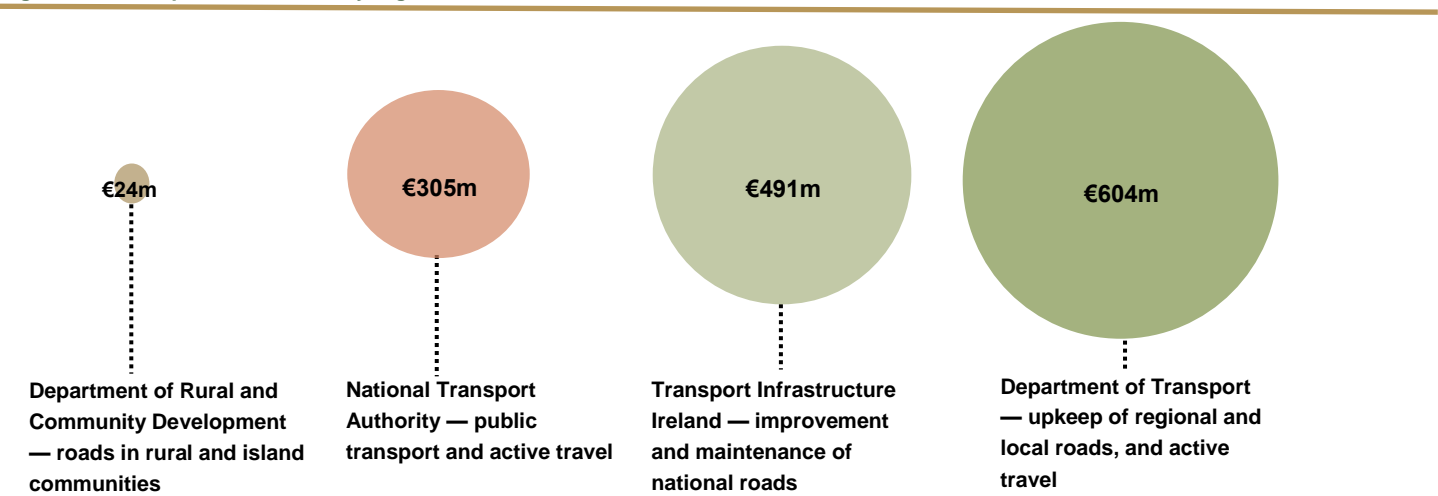


Figure 3.8 Transport investment, by organisation and role, 2022^b



Source: Office of the Comptroller and auditor General

Notes: a Includes electric car infrastructure funding.

b This figure does not include the funding from local property tax allocations of €16.5 million for expenditure on local and regional roads.

Section 4 Environmental initiatives

Funding is provided to local authorities for a range of environmental services, including water and sanitation projects, waste management, and flood relief.

The OPW provided local authorities with funding of around €28 million for flood relief works in 2022.

In 2022, as also was the case in 2021, funding of around €3 million was provided to Offaly and Longford County Councils to replace lost commercial rates receipts due to the previous closure of peat-fired power stations in their areas.

Figure 3.9 Central government funding to local authorities for environmental initiatives, 2017 – 2022

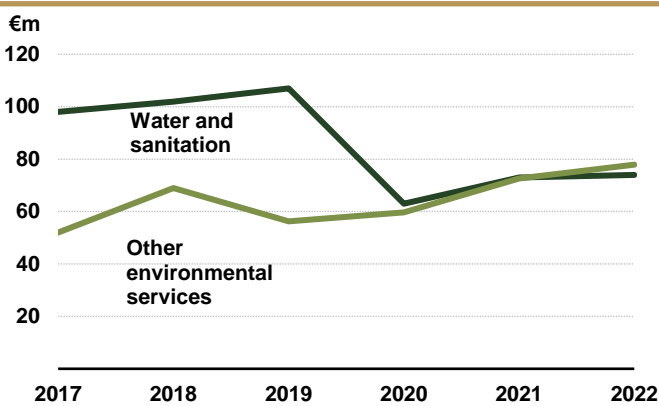
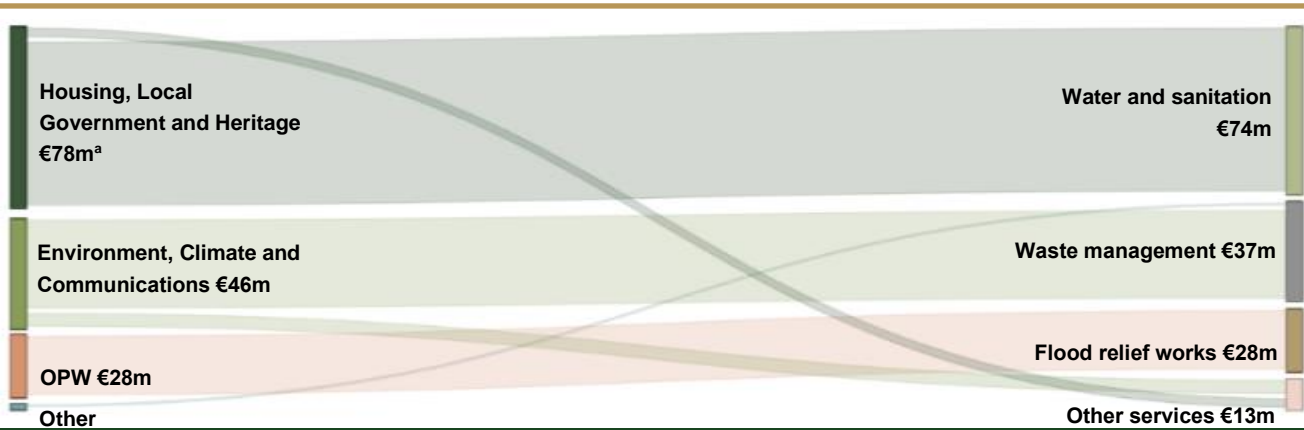


Figure 3.10 Environmental initiatives — sources and purposes of funding, 2022



Source: Annex 3A
Note: a Includes €4 million in funding from the Local Government Fund.

Section 5 Miscellaneous capital programmes

The Department of Rural and Community Development provided €44 million (2021: €47 million) to local authorities in respect of the LEADER programme; around €5 million for the community enhancement programme; and the balance of around €4 million was provided for a range of other programmes.

The Department of Rural and Community Development received refunds from local authorities totalling €4.9 million in 2022, which included a repayment of €1.6 million from Mayo County Council for capital works funding, which had previously been drawn down incorrectly over the period 2017 – 2019.

The Department of Agriculture, Food and the Marine provided capital funding of around €52 million, through An Bord Iascaigh Mhara, for coastal business and commercial activities. It also provided just under €1.6 million (2021: €4 million) for harbour development projects.

The Department of Tourism, Culture, Arts, Gaeltacht, Sport and Media provided, through Bord Fáilte, funding of around €5 million for miscellaneous capital programmes.

Figure 3.11 Central government funding to local authorities for miscellaneous capital programmes, 2017 – 2022

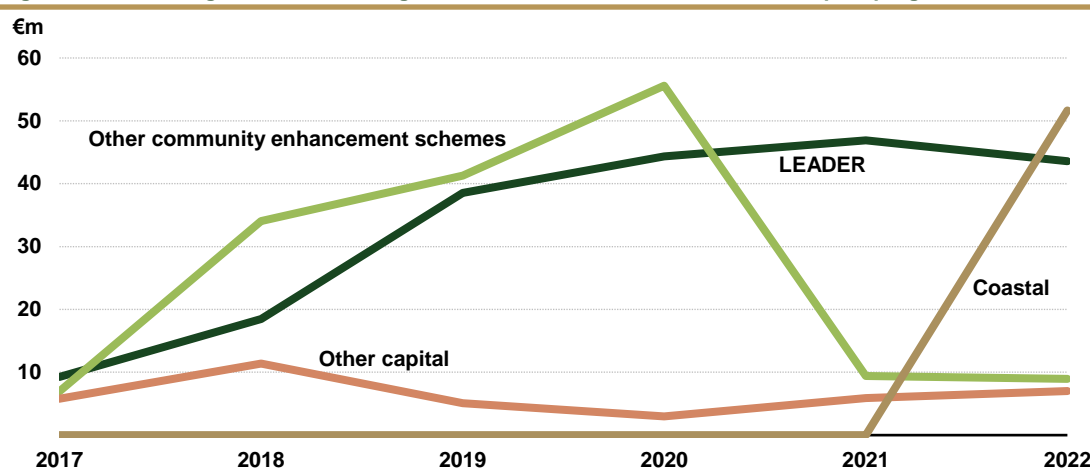
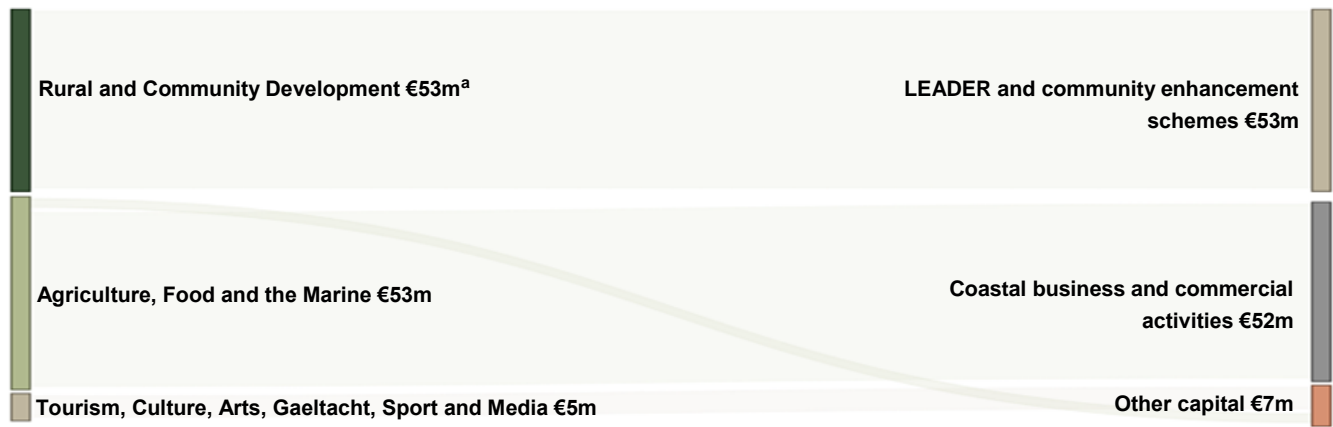


Figure 3.12 Miscellaneous capital programmes — sources and purposes of funding, 2022



Source: Annex 3A

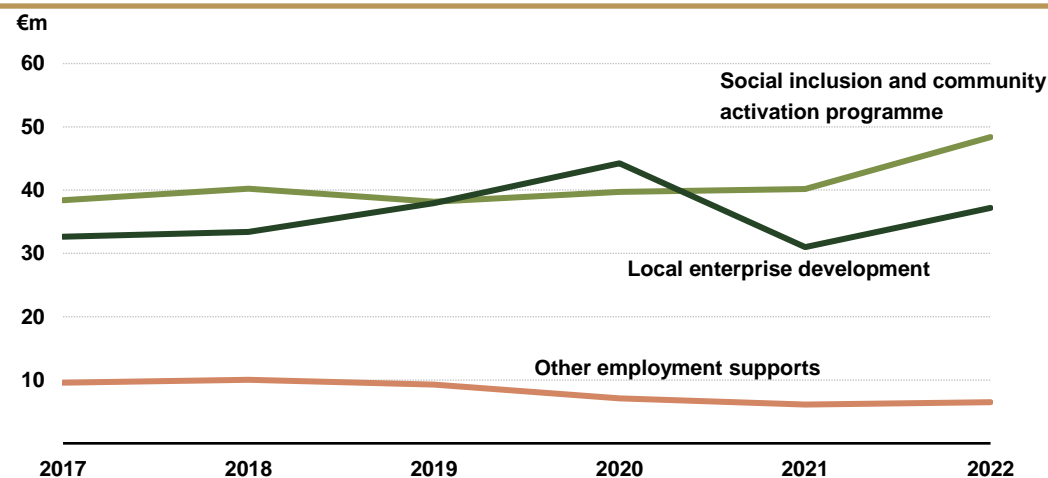
Notes: a This reflects the gross funding. Reimbursements from local authorities of €4.9 million are not included.
b Amounts are rounded to the nearest million.

Section 6 Employment schemes

The Department of Rural and Community Development provided just over €48 million (2021: €40 million) to local authorities for the Social Inclusion and Community Activation Programme (SICAP) — this aims to support disadvantaged individuals with learning and labour market supports, and to address social equality and exclusion issues. Around €5 million of the increased funding in 2022 was to support people from Ukraine.

In 2022, the Department of Enterprise, Trade and Employment, through Enterprise Ireland, provided €37 million (2021: €31 million) to local authorities for the local enterprise development programme delivered by local enterprise offices (LEOs).

Figure 3.13 Central government funding to local authorities for employment schemes, 2017 – 2022



Source: Annex 3A

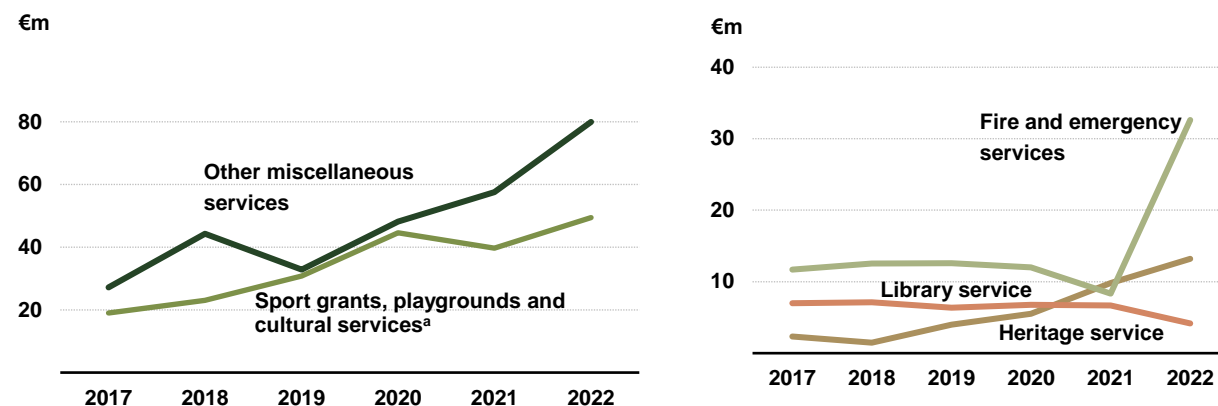
Section 7 Other services

In 2022, other services supported by central government funding included €16 million from the Department of Children, Equality, Disability, Integration and Youth for accommodation for Ukrainian refugees. It also included funding of €7 million (2021: €8 million) from the Department of Health, paid via the Food Safety Authority of Ireland, for the local authority veterinary service and €4 million (2021: €4 million) from the Department of Defence for civil defence activities.

The Department of Tourism, Culture, Arts, Gaeltacht, Sport and Media provided funding of €15.5 million (2021: €16.5 million) to local authorities, through Sports Ireland, in 2022.

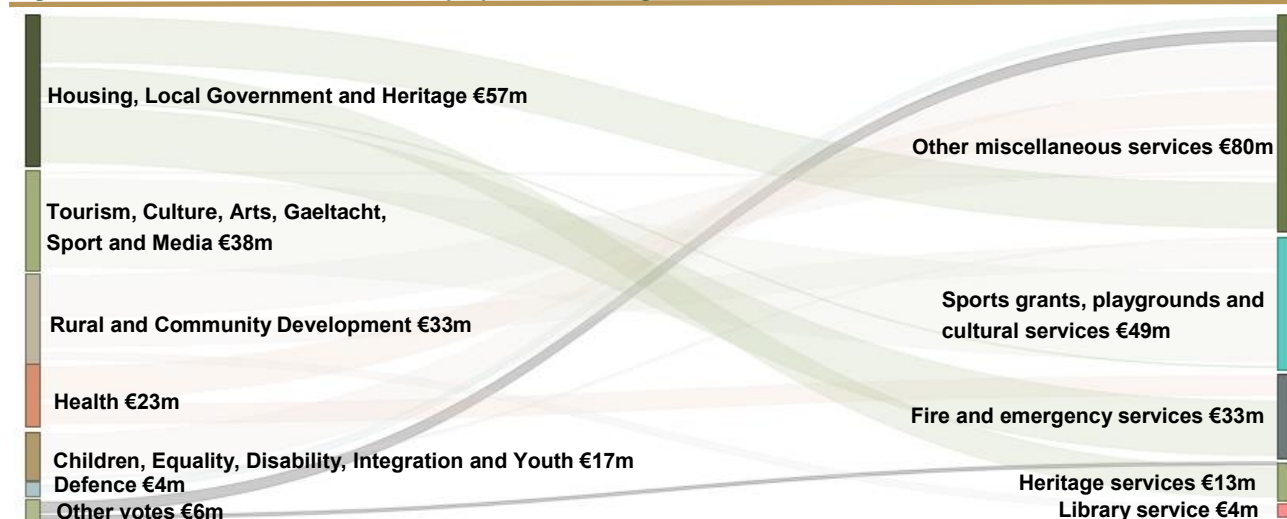
In 2022, a total of €32.6 million was provided to support the fire and emergency services (2021: €8.3 million). €23.4 million was provided from the Housing vote (2021: €8.3 million). The HSE provided a further €9.2 million to support the Dublin Fire Brigade Ambulance Service (see also Chapter 5).

Figure 3.14 Central government funding to local authorities for other services, 2017 – 2022



Note: a Includes funding for swimming pools in respect of 2017 – 2018.

Figure 3.15 Other services — sources and purposes of funding, 2022



Source: Annex 3A

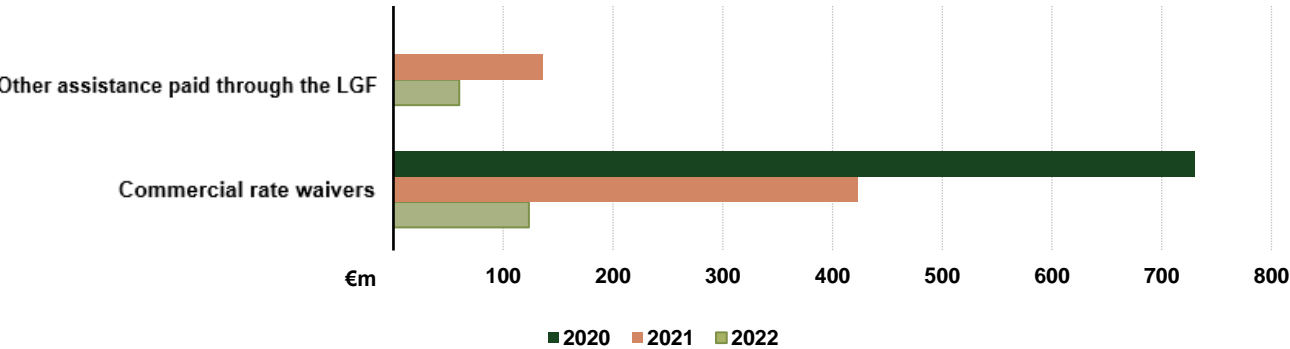
Note a Amounts are rounded to the nearest million.

Section 8 Special funding to mitigate the impact of Covid-19

In 2022, central government provided additional funding totalling €197 million (2021: €637 million) to local authorities to mitigate the ongoing impact of Covid-19 on their operations. Around €183 million or 93% of the total funding was provided by the Department of Housing, Local Government and Heritage via the Local Government Fund (LGF). Approximately €120 million of the €183 million paid from the LGF in 2022 related to 2021.

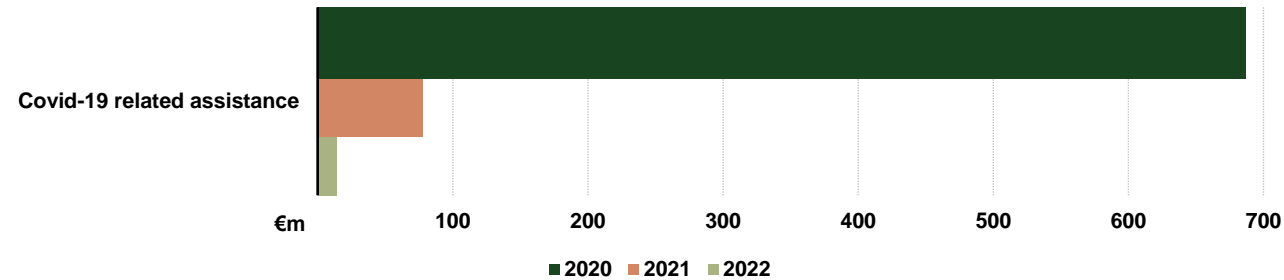
The funding paid over in 2022 was mainly in the form of support for the local authorities for reduced commercial rates income due to rate waivers granted in response to Covid-19 restrictions. The final rates waiver scheme concluded at the end of quarter 1, 2022.

Figure 3.16 Direct supports to assist local authorities, 2020 to 2022^a



Note: a There were no payments in relation to 'Other assistance paid through the LGF' in 2020.

Figure 3.17 Supports to businesses administered by local authorities, 2020 to 2022



Source: Annex 3A

Section 9 Local Government Fund

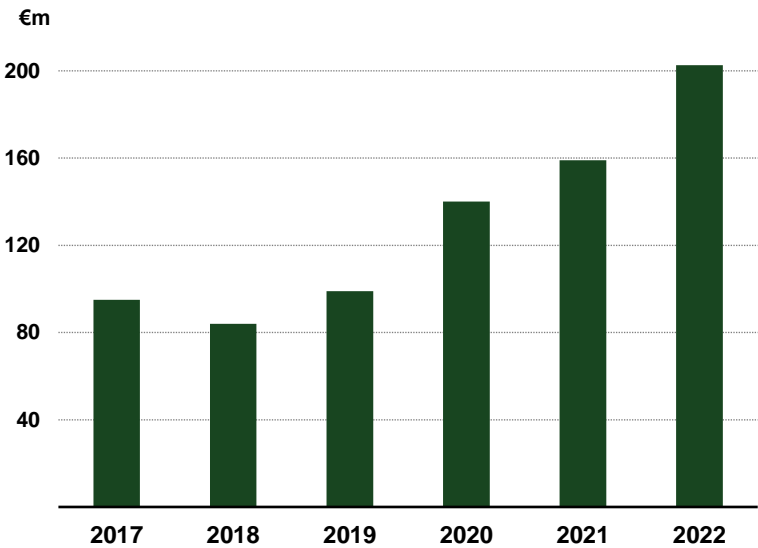
The Local Government Fund (LGF) is a special central fund managed by the Department of Housing, Local Government and Heritage (the Department) that distributes funding to local authorities from the Exchequer (via the Vote) and from the local property tax (LPT) receipts collected during the year by the Revenue Commissioners.

Towards the end of each year, the Department estimates the total LPT yield that will be liable on properties for the following year. Along with an equalisation contribution from the Exchequer, this is the LPT allocation that local authorities will receive in that year (see Annex 3B for the calculation of the LPT 2022 allocation).

The LPT collected in a particular year may not match the allocations for that year as property owners may pay their LPT in the year prior to liability, or as a late payment in a subsequent year. For example, €75 million of LPT receipts were received in 2022 for the 2023 liability year, while €125 million of LPT receipts were received in 2021 for the 2022 liability year. In addition, €52 million was received in 2022 for liability years prior to 2022.

Figure 3.18 shows that LGF reserves have increased steadily from €95 million at the end of 2017, to around €203 million at the end of 2022, an increase of over 110%. The Department stated that the reserves at the end of 2022 include funding for committed future expenditure, including €75 million advance payments of LPT, €60 million for supplementary funding due to funding pressures mainly related to energy costs, and €8 million towards LPT equalisation funding for 2023.

Figure 3.18 Year end reserves of Local Government Fund, 2017 – 2022



Source: Department of Housing, Local Government and Heritage, Local Government Fund accounts

Annex 3A Central government transfers to local authorities, by expenditure programme, 2017 – 2022

The trends in funding to local authorities in the period 2017 to 2022 is shown in Figure 3A.1. Some figures may not tot due to rounding.

Sources of funding

The sources of funding reported in Figure 3A.1 below are

The Office of Public Works

Department of Housing, Local Government and Heritage

Department of Transport

Department of Tourism, Culture, Arts, Gaeltacht, Sport and Media

Department of Health

Department of Justice

Department of Agriculture, Food and the Marine

Department of Social Protection

Department of Children, Equality, Disability, Integration and Youth

Department of the Environment, Climate and Communications

Department of Defence

Department of Enterprise, Trade and Employment

Department of Rural and Community Development

Department of Further and Higher Education, Research, Innovation and Science

Local Government Fund account

Figure 3A.1 Central government transfers to local authorities, by expenditure programme, 2017 to 2022^a

Expenditure category	2017	2018	2019	2020	2021	2022
	€m	€m	€m	€m	€m	€m
Housing and regeneration						
Social housing provision	1,133	1,704	2,024	2,156	2,413	2,693
Affordable housing, etc.	3	—	—	—	4	9
Infrastructure funding	—	7	22	32	16	17
Other housing supports	79	215	258	340	324	420
Regeneration	78	86	79	67	82	90
	1,293	2,012	2,383	2,595	2,839	3,229
Transport investment						
National roads improvement	239	315	330	429	517	449
Regional and local roads improvement	368	461	512	573	606	644
Public transport and active travel	30	36	40	109	209	348
	637	812	882	1,111	1,332	1,441
Environmental initiatives						
Water and sanitary services	98	102	107	63	73	74
Flood relief works	28	31	28	31	26	28
Waste management	17	25	23	26	39	37
Other environmental measures	7	13	6	3	8	13
	150	171	164	123	146	152
Miscellaneous capital programme	22	64	85	103	62	111
Employment schemes	81	84	86	91	77	92

Figure 3A.1 Central government transfers to local authorities, by expenditure programme, 2017 to 2022 (continued)

Expenditure category	2017	2018	2019	2020	2021	2022
	€m	€m	€m	€m	€m	€m
Other services						
Swimming pools	6	1	—	—	—	—
Fire and emergency services	12	13	13	12	8	33 ^b
Library service	7	7	6	7	7	4
Sports grants, playgrounds and cultural projects	13	22	30	45	40	49
Heritage services (architectural heritage)	2	1	4	5	10	13
Other miscellaneous services	27	44	34	48	58	80
	67	88	87	117	123	179
Covid-19 supports						
Covid-19 related funding for waived rates	—	—	—	730	423	123
Covid-19 related funding for businesses	—	—	—	687	78	14
Other Covid-19 assistance	—	—	—	—	136	60
	—	—	—	1,417	637	197
LPT allocations — non-programme specific/discretionary	393	395	394	410	422	423
Remuneration-related payments paid from the LGF	20	60	86	109	130	210
Total funding provided to local authorities	2,662	3,686	4,167	6,076	5,768	6,035

Source: Annex 3A

Note: a Some figures may not tot due to rounding.

b Includes €9.2 million in funding from the Department of Health, paid via the HSE, for the Dublin Fire Brigade Ambulance Service. This funding was not included in prior years' figures due to an oversight by the Department.

Annex 3B Allocation of local property tax

Local property tax (LPT) funding received by each local authority, and the amount that can be used for local authorities' own purposes (i.e. discretionary funding) is set out in an annual allocation schedule published on the Department's website. The allocation process is underpinned by a Government memorandum that sets out, *inter alia*, the maximum amount of discretionary LPT funding each local authority can receive.

Every local authority is entitled to receive a minimum amount of funding known as baseline funding. Local authorities that do not have a strong enough property base to meet this minimum level of funding have their allocation increased by a process known as equalisation. The same 20 local authorities have had their allocation increased each year since 2020.

Local authorities initially retain 80% of their LPT projected yield with the remaining 20% redistributed to local authorities below the baseline. Central government also contributes funding to equalisation when this redistribution pool is not sufficient (€34 million in 2022).

Local authorities are permitted to vary the rate at which local property owners pay the LPT. When local authorities vary upwards they retain the increased revenues, while a downwards revision leads to a reduced allocation. In total, LPT allocations decreased by €4 million in 2022 (2021: €3 million increase) due to local variations.

Local authorities above the baseline are also required to use some of their allocation for housing and transport expenditure that would otherwise be funded by the Exchequer. This totalled €101 million in 2022 (2021: €108 million). These local authorities are permitted to retain the remainder of their LPT surplus subject to a maximum of 20% of their projected yield.

Under the 2022 allocation process, the four Dublin local authorities were permitted to receive €40.8 million discretionary LPT funding in addition to their baseline level of funding. During 2022, the Department increased the discretionary LPT funding by €8 million. This adjustment is further explained in Chapter 5 Vote accounting and budgeting.

			2022	2021
	80% retention > base	80% retention < base	All	All
Number of local authorities	11	20	31	31
	€m	€m	€m	€m
Total LPT projected yield	332	161	494	492
Local retention (80%)	266	129	395	394
Equalisation funding				
- LPT redistribution (20%)	—	99	99	98
- Exchequer contribution	—	34	34	35
Pre-variation LPT allocations	266	262	528	527
Adjustment for local variations in tax rate	(20)	16	(4)	3
Post-variation LPT allocations	246	278	524	530
Of which^b				
- for authority's own general use	146	278	423	422
- self-funding of housing and roads	101	—	101	108

Source: Department of Housing, Local Government and Heritage

Notes: a Some figures may not tot due to rounding.

b The increase in the discretionary funding is offset by a reduction of €8 million in the self-funding LPT. The amounts included in the published allocation schedule for 2022 are €415 million for own general use and €109 million for self-funding purposes

4 Accountability for central funding of local authorities

- 4.1** Local authorities receive a significant level of Exchequer funding annually from a number of central government departments and agencies. An overview of the funding flowing from and through central government sources to local authorities, and of the purposes for which those funds have been provided, is presented in Chapter 3.
- 4.2** The statement on internal control presented with the 2021 appropriation account for Vote 42 Rural and Community Development included a disclosure about a case where a local authority drew down grant funding on a basis that was not compliant with the terms and conditions of a vote-funded grant scheme. The matter was discovered as a result of inspection work carried out by the Department for Rural and Community Development, and resulted in the local authority being obliged to return significant grant funding.
- 4.3** Central government providers of funding to local authorities are required to ensure that an effective grant-funding supervision regime is in place that accords with the provisions of Department of Public Expenditure, National Development Plan Delivery and Reform (DPENDPDR) Circular 13/2014 *Management of and Accountability for Grants from Exchequer Funds* (Circular 13/2014).¹
- 4.4** Local authorities, as independent corporate entities, have full legal responsibility for the performance of their functions and for ensuring that Exchequer funding is correctly accounted for and managed.
- 4.5** The Department of Housing, Local Government and Heritage (DHLGH) has responsibility for policy, legislation, Oireachtas accountability and, at a broad level, oversight, in respect of the local government system. Local authorities are required to comply with any accounting code of practice issued by the Minister for Housing, Local Government and Heritage under the provisions of the Local Government Act 2001.²
- 4.6** The DHLGH is also responsible for communicating DPENDPDR-issued circulars and guidance on public sector spending to local authorities.
- 4.7** This examination was undertaken to review the application of certain circulars in relation to Exchequer funding provided to local authorities. In particular, it reviews a sample of programmes funded by the Exchequer and managed by local authorities in respect of their compliance with Circular 13/2014, and the disclosure requirements for local authorities' annual financial statements.

¹ The circular was published in September 2014.

² Section 107 Keeping of accounts of the 2001 Act specifies that local authorities are required to comply with any accounting code of practice issued by the Minister, or amendments to it, that the Minister may issue from time to time.

³ The Report on the Accounts of the Public Services 2014 included a chapter on the *Management of Government Grants* which examined the revised arrangements for the control and accountability of grants arising from Circular 13/2014.



























Circular 13/2014

- 4.8** Circular 13/2014 sets out the public financial management principles, procedures, and reporting requirements to be followed by grantors and grantees for Exchequer grant funding.³ Section 3 of the circular sets out certain requirements for the grantors of Exchequer funding, while section 5 sets out obligations that recipients of Exchequer funding are required to comply with.

4.9 The examination team reviewed the following three programmes for compliance with the main provisions of Circular 13/2014 (see Figure 4.1).

- **Creative Ireland** — an all-of-government culture and wellbeing programme, of which some of the programme's activities and initiatives are delivered through local authorities.¹ The programme is administered by the Department of Tourism, Culture, Arts, Gaeltacht, Sport and Media (DTCAGSM) and is part-funded by the Local Government Fund. Local authorities received around €8.3 million in 2022 of which €1 million originated from the Local Government Fund. Payments of around €550,000 to seven local authorities were reviewed for this examination.
- **Energy efficiency retrofitting** — a programme run by the DHLGH to upgrade the energy efficiency of local authority housing stock. Local authorities received €54.2 million under the programme in 2022. Payments to eight local authorities were reviewed for this examination. This involved the review of funding for the retrofitting of eight dwellings that formed part of a batch of payments totalling just over €4 million.
- **Active travel** — a programme funded by the National Transport Authority (NTA) for local authorities to build bicycle and footpath infrastructure. Local authorities received around €300 million under the programme in 2022. Payments of €41.4 million to ten local authorities were reviewed for this examination.

Figure 4.1 Compliance with the main provisions of Circular 13/2014^{a,b}

Circular provision	Creative Ireland	Energy efficiency retrofitting	Active travel
<i>Required of grantors</i>			
Objectives of funding			
Terms and conditions			
Service level agreement		N/A	N/A
Monitoring and reporting			
Inspection			
Vouched expenditure			
Advance payment	N/A	N/A	
Administrative and control requirements			
Multiple funding sources	N/A	N/A	N/A
<i>Required of grantees</i>			
Disclosure in financial statements			
 In compliance  Partial compliance  Not in compliance			

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

- Notes:
- a The provisions in the figure relate to the general conditions for grantors' management of grant funding (section 3) and grantee responsibilities (section 5) of the circular.
 - b Each programme was deemed to be in compliance where the relevant circular provision was substantively or fully met.

¹ The programme's ambition is to inspire and transform people, places and communities through creativity. Culture-based activities include art exhibitions, workshops, panel discussions by artists and authors, film screenings and other public events, for example, open air plays.

Objectives, and terms and conditions, of grant funding

- 4.10** Funding bodies are required to clearly set out the purpose of the grants being provided, and to notify grantees of the terms and conditions of the funding so that they are fully aware of their responsibilities.
- 4.11** The purpose of the grants and their terms and conditions were communicated for all three programmes. However, the grant agreement issued by the DHLGH to local authorities for the energy efficiency retrofitting programme did not reference the need to comply with Circular 13/2014. The agreements in the case of the other schemes did refer to the need to comply with the circular.
- 4.12** The DHLGH stated that for 2023, local authorities are required to confirm that claims submitted are in accordance with Circular 13/2014 and that the requirement will be included in the 2024 departmental circular underpinning the energy efficiency retrofitting programme.

Service level agreements (SLAs)

- 4.13** Only the Creative Ireland programme had service level agreements (SLAs) in place between the DTCAGSM as grantor and the recipient local authorities.
- 4.14** In situations where the terms of service, standards expected and responsibilities can be clearly set out in the grant agreement, a separate full SLA may not be necessary. For the active travel and the energy efficiency retrofitting programmes, local authorities receive funding for specific projects (e.g. a particular cycle route, or an individual home) that must be completed to a clearly defined standard or design, so a SLA setting out service levels and performance indicators is not necessary.

Monitoring and reporting

- 4.15** Grantors are required to put appropriate financial and performance reporting arrangements in place. Reports should be accompanied by a certificate of assurance signed by two officials at senior management level, certifying that the public money granted was used in accordance with the terms and conditions of the grant.
- 4.16** While all three grantors received information on the outturn of the programmes they had funded, it was not evident in the case of the energy efficiency retrofitting programme that a certificate of assurance signed by two persons at the appropriate level was provided by the grantee. The examination team noted that the template used by the programme does not include a field for a second sign-off.
- 4.17** The DHLGH stated that the certificate of assurance is signed by the local authority's Director of Services and that separately the administration staff tasked with compiling the information and ensuring its accuracy are considered a second signatory. It stated that this level of signing is considered appropriate with regard to receiving grant funding.
- 4.18** The DHLGH requires pre-work and post-work building energy rating (BER) certificates to be provided to confirm that each home was upgraded to the required standard, and also for post-completion of work photographs to be available. While pre-work and post-work BER certificates were obtained and were on file, post-completion of work photographs were not on the files provided to the examination team.

- 4.19** The DHLGH stated that it does not retain post-completion photographs on file but that photographic evidence must be retained by the local authorities and provided to the Department, on request.

Inspection

- 4.20** Grantors are required to inform grantees, *inter alia*, of the grantors' right of inspection of grantees' records. This requirement was not set out in the DHLGH terms and conditions for the local authority energy efficiency retrofitting programme. The DHLGH has stated that this will be addressed in the next iteration of the programme.

Vouching of expenditure

- 4.21** In general, grant funding is provided to grantees on a reimbursement basis. Prior to reimbursement, grantors should obtain
- supporting invoices
 - evidence that the invoices have been paid, and
 - confirmation that the same invoices will not be used to seek reimbursements from other funders.
- 4.22** Payments under the energy efficiency retrofitting and Creative Ireland programmes are based on vouched expenditure and relevant supporting evidence received. However, the DTCAGSM did not obtain original invoices in all instances prior to reimbursing local authorities for Creative Ireland projects. The grant claim form requires proof of payment by the local authority by way of a financial management system print out or similar. The form notes that invoices and receipts are not required to be uploaded unless requested. In effect, the DTCAGSM is relying on the local authorities' own invoice retention policies for evidence to support grant payments.
- 4.23** The DTCAGSM stated that the SLA in place for the Creative Ireland programme sets out the default position regarding vouched expenditure i.e. that grant funding will only be paid on the basis of vouched expenditure. It stated that a recoupment form certified correct by appropriate local authority officers accompanies every drawdown request to the Department. The DTCAGSM also stated that, to address the need to verify expenditure, it undertakes annual spot checks of local authority payments, randomly selecting one full event or initiative per local authority for audit on a vouched expenditure basis.

Advance payment

- 4.24** In instances where a department wishes to prefund a programme, it must obtain prior approval from DPENDPDR, setting out the rationale and monitoring arrangements.
- 4.25** The NTA provides active travel programme funding to a local authority on completion of the contracted work to the local authority's satisfaction and after the payment falls due to be paid to the contractor i.e. the liability has matured. This funding is provided prior to the local authority's submission of the relevant vouched documentation to the NTA. The NTA stated that as the grant payment is made after the liability has matured, it does not consider it prefunding.

- 4.26** DPENDPDR's prior approval to pay on the basis of a matured liability rather than on the receipt of vouched documentation was not obtained. In December 2022, the NTA wrote to the Department of Transport setting out, *inter alia*, that the requirement for claims to be made on the basis of vouched expenditure was impractical and would cause significant difficulties in the delivery of the NTA's capital programme; and that the NTA operates on the basis of providing funding for local authority liabilities that have matured. The NTA asked the Department to clarify the application of Circular 13/2014 with DPENDPDR.¹ In April 2023, DPENDPDR acknowledged that the NTA's arrangement was in compliance with the circular and that it could provide funding on this basis.

Administrative and control requirements

- 4.27** Grantors should be satisfied that grantees have adequate accounting and organisational arrangements to ensure proper administration of the grant funding.
- 4.28** The three funding bodies had undertaken recent internal audit (IA) reviews of the respective programmes they fund.
- 4.29** No significant issues were identified by the IA reviews carried out by the respective Departments of either the Creative Ireland programme or the energy efficiency retrofitting programme.
- 4.30** However, the NTA's IA reviews of the active travel programme identified a number of instances of poor administrative procedures and controls.² In 2022, IA reviewed capital grants paid to ten local authorities under the programme.³
- For two local authorities, IA audit only gave limited assurance on the adequacy of the overall procedures and controls in place for the active travel programme funding. The IA reports identified some fundamental control weaknesses in the authorities' procurement processes that needed to be addressed as soon as possible.
 - In five other local authorities, IA identified poor procurement practices that were categorised as important, requiring rectification within three months.
- 4.31** The procurement issues identified by the IA reviews included a lack of evidence that competitive procurement took place; contracts not on file; incorrect procurement processes undertaken; conflict of interest forms not evident on file; instances where e-tenders were not used; and unsuccessful tenderers not being informed of the outcome of the procurement process.

1 The onus is on the NTA's parent department as original grantor to engage with DPENDPDR on the NTA's behalf.

2 The IA function is undertaken by a third party audit firm.

3 The reviews were undertaken to assess the adequacy and effectiveness of the internal controls in place, in each of the ten authorities, for capital grants paid in 2021 under the programme.

- 4.32** The NTA stated that it will work with local authorities to ensure the implementation of relevant findings identified through its internal audit programme. This will include additional scrutiny on various aspects of procurement and follow-up monitoring to ensure that appropriate actions have been taken.

Confirmation of no duplication of funding

- 4.33** For multiple co-funding arrangements, grantees are required to make an annual declaration to each grantor on the source, amount and purpose of all other funding including that there is no duplication of funding for the same activity. The declaration should also state if the Exchequer funding from all sources exceeds 50% of the total income.

- 4.34** For the three programmes examined, the grantees confirmed that no other funding parties were involved.

Disclosure in financial statements

- 4.35** As set out in section five (grantee responsibilities) of the circular, grantees are required to disclose specific information about State grant funding received in their financial statements, and other information as a condition of funding. This information includes: the name of the grantor and the grant; the purpose of the grant and how it is accounted for; certain detail on capital grants; whether the grant is for a restricted purpose; confirmation of compliance with tax clearance procedures; and specified employee remuneration (e.g. CEO) details.

- 4.36** Grantees are also required to disclose the number of employees, in bands of €10,000, whose total employee benefits (excluding employer pension costs) for the reporting period exceeded €60,000; and an overall figure for total employer pension contributions. The disclosure is required even if salaries are not being funded by the Exchequer.

- 4.37** Local authorities do not disclose any of the specified information in their annual financial statements as the current format of local authority financial statements does not facilitate such disclosure. In December 2020, the DHLGH sought derogation from DPENDPDR on the application of the section 5 reporting requirements, citing difficulties with implementing such disclosures.¹ It noted, *inter alia*, that if the requirements were to be strictly applied, a change in the current format of the annual financial statements of local authorities would be required.

1 The DTCAGSM stated that the Creative Ireland programme does not request submission of local authorities' audited accounts. It proposes to seek an exemption from the Circular 13/2014 submission requirements.

- 4.38** DPENDPDR did not provide the requested derogation. In its response, DPENDPDR noted that it was not intended that the circular would impose disproportionate obligations on grantees and that it was ultimately a matter for the DHLGH to determine what was appropriate in the circumstances, once satisfied that effective management of, and accountability for, public money was ensured.

2 The GAWG comprises representatives from the DHLGH, the Local Government Audit Service, heads of finance from the local authorities and other representatives from the local government sector. It is chaired by the DHLGH.

- 4.39** Subsequently, in June 2021, the Department issued a departmental circular to local authorities stating that the General Accounts Working Group (GAWG), having reviewed and considered the above advice from DPENDPDR, are satisfied that the current format of the annual financial statements complies with the requirements in relation to the effective management of and accountability for public money, and that no additional disclosure is needed.^{2,3}

3 DHLGH Circular Fin 13/2021 Clarification in relation to the reporting requirement of Circular 13/2014 Management of and Accountability for Grants from Exchequer Funds.

4 The Code replaced the previous code of practice published in 2009.

5 The guide was published in November 2017 and can be found [here](#).

Governance and disclosure requirements in the public sector

- 4.40** Following the publication of an updated *Code of Practice for the Governance of State Bodies* in 2016 (2016 Code), DPENDPDR published an associated *Guide to the Implications for the Annual Financial Statements and the Annual Report*. This clarified the definition and location of certain additional disclosures in State bodies' financial statements and annual report (see Figure 4.2).^{4,5} A number of the requirements of the Code have since been extended to the appropriation accounts of government departments e.g. pay band and chief officer remuneration disclosures.

- 4.41** The 2016 Code does not apply to local authorities. Instead, the framework for corporate governance in local authorities is set out in the *Governance Principles and Governance Framework for the Local Government Sector*.¹ The framework is principles-based, and does not require local authorities to include the standard 2016 Code disclosures.² Local authorities are also required to apply the policies outlined in the current *Accounting Code of Practice and Accounting Regulations* (ACOP) for local authorities, published in July 2019, in the preparation of their annual financial statements. The ACOP also prescribes the format of the financial statements.³

Figure 4.2 Financial statement and annual report disclosure requirements set out in *Code of Practice for the Government of State Bodies 2016*

Disclosures	Key disclosure requirements
Statement on internal control ^a	<ul style="list-style-type: none"> sets out the approach to, and responsibility for, risk management, internal control and corporate governance explains how control assurance is obtained and the ongoing monitoring and review arrangements specific disclosure on compliance with Office of Government Procurement procurement rules and guidelines or discloses instances of non-compliance confirms the Board's annual review of the effectiveness of internal controls discloses material weaknesses in internal controls and the action (to be) taken to address the weaknesses
Governance statement and Board members' report	<ul style="list-style-type: none"> sets out how the entity and the Board were established, how the Board operates, decisions reserved for the Board, decisions delegated to the Executive, the reporting mechanism between the Board and the Executive discloses the Board's responsibilities, membership, meetings held, attended, standing agenda items, fees and expenses paid, internal/external review of the Board's effectiveness disclosures in relation to certain categories of expenditure including the breakdown of short-term employee benefits, legal costs and settlements, travel and subsistence, consultancy costs, hospitality expenditure^b statement on compliance with the 2016 Code requirements or explain areas of non-compliance
Remuneration	<ul style="list-style-type: none"> discloses aggregate employee benefits (covering staff short-term benefits, termination benefits, retirement benefit costs, employer's contribution to social protection) discloses the total value of employee benefits for key management personnel separate disclosure on Chief Executive Officer's salary and benefits

Source: *Code of Practice for the Governance of State Bodies 2016 — A Guide to the Implications for the Annual Financial Statements and the Annual Report*, November 2017. Analysis by the Office of the Comptroller and Auditor General.

- Notes:
- a Replaces the previous statement on internal financial control.
 - b In accordance with Circular 13/2014, short-term employee benefits should be presented in the remuneration note in the financial statements for entities covered by the circular.

1 The framework, published in 2015, was developed by the City and County Management Association and the Association of Irish Local Government, in conjunction with the Institute of Public Administration.

2 The framework is based on six governance principles and associated supporting principles.

3 The GAWG is responsible for developing new accounting policies, providing guidance in their implementation, reviewing existing policies requiring amendment, addressing all issues in relation to accounting policy in the local authority sector, updating the annual financial statements/budget documents as and when needed and updating the accounting code of practice.

- 4.42** The DHLGH has stated that a process involving local government stakeholders to introduce a new code of governance for local authorities is nearing completion. It stated that this will build on the local authority sector's existing governance framework by introducing similar governance compliance arrangements to those in place for the rest of the public sector and that roll out of the new code is planned from the 2023 financial year. It further stated that given that this will be a new initiative with certain capacity implications for local authorities, all compliance elements of the new code are unlikely to be fully implemented in every local authority for 2023, but that it is planned that all authorities will include a statement on internal control in their 2023 annual reports.

Conclusions

- 4.43** Central government departments and bodies under their aegis that provide funding to local authorities are required to apply Circular 13/2014 *Management of and Accountability for Grants from Exchequer Funds* to ensure that appropriate financial controls are in place and that value for money is achieved.
- 4.44** The examination team's review of three programmes — Creative Ireland (DTCAGSM); energy efficiency retrofitting (DHLGH); and active travel (NTA) — found that, in general, the grantors largely complied with the conditions of Circular 13/2014. However, there were a number of areas where the conditions of the circular had not been sufficiently applied.
- 4.45** Circular 13/2014 requires that if a department wishes to prefund a programme, prior approval from DPENDPDR must be obtained. The NTA provides funding to the local authorities prior to the receipt of vouched documentation, on the basis that the related liabilities have matured and are due for payment. While not in line with the stated provisions of Circular 13/2014, DPENDPDR acknowledged in April 2023 that the NTA could provide funding on a matured liability basis.

Disclosures in financial statements

- 4.46** Grantees are required under Circular 13/2014 (section 5) to include adequate disclosures in their annual financial statements to provide public assurance over the central government funding they receive and the related expenditure. In December 2020, the DHLGH sought derogation from DPENDPDR on the required disclosure requirements for the funding it provides to the local authority sector.
- 4.47** Although DPENDPDR did not provide the requested derogation, it set out in its response that it was not intended that the circular would impose disproportionate obligations on grantees and that ultimately it was a matter for the DHLGH to determine what was appropriate in the circumstances, once effective management of, and accountability for, public money was ensured.
- 4.48** Subsequently, in June 2021, the DHLGH issued a departmental circular to local authorities permitting them to omit the disclosures required under the circular from their annual financial statements.

Code of Practice for the Governance of State Bodies 2016

- 4.49** Unlike most State bodies, local authorities are not required to present a statement on internal control or a governance statement with their annual financial statements, nor to include what are standard public sector remuneration disclosures within their financial statements.

- 4.50** A process involving local government stakeholders is nearing completion to introduce a new code of governance for local authorities. This will build on the local authority sector's existing governance framework by introducing similar governance compliance requirements to those already in place for the rest of the public sector.
- 4.51** It is planned that all local authorities will include a statement on internal control in their 2023 annual reports.

Voted Expenditure

5 Vote accounting and budget management

- 5.1** Government departments and offices receive annual funding from the Exchequer to carry out their statutory functions. Expenditure is provided for under 'votes' approved by Dáil Éireann, with one or more covering the functions of each department or office. Final legal effect is given to the votes in the annual Appropriation Act.
- 5.2** The head of each department or office is appointed as the 'accounting officer' for the relevant vote(s), with a statutory obligation to prepare an annual appropriation account for each relevant voted service, showing how the outturn for the year compared with the amount provided by Dáil Éireann. These accounts are subject to audit by the Comptroller and Auditor General.
- 5.3** The Appropriation Act 2022 provided for spending on voted services (appropriations) totalling €78.1 billion. This was to be funded by the issuing to the votes of €75.1 billion from the Central Fund of the Exchequer (referred to as supply grants), and the use of certain expected vote receipts (referred to as appropriations-in-aid) of €3 billion. In addition, unused capital funding totalling €819.3 million was carried over from 2021 for spending in 2022, bringing the total available vote funding to €78.9 billion.¹

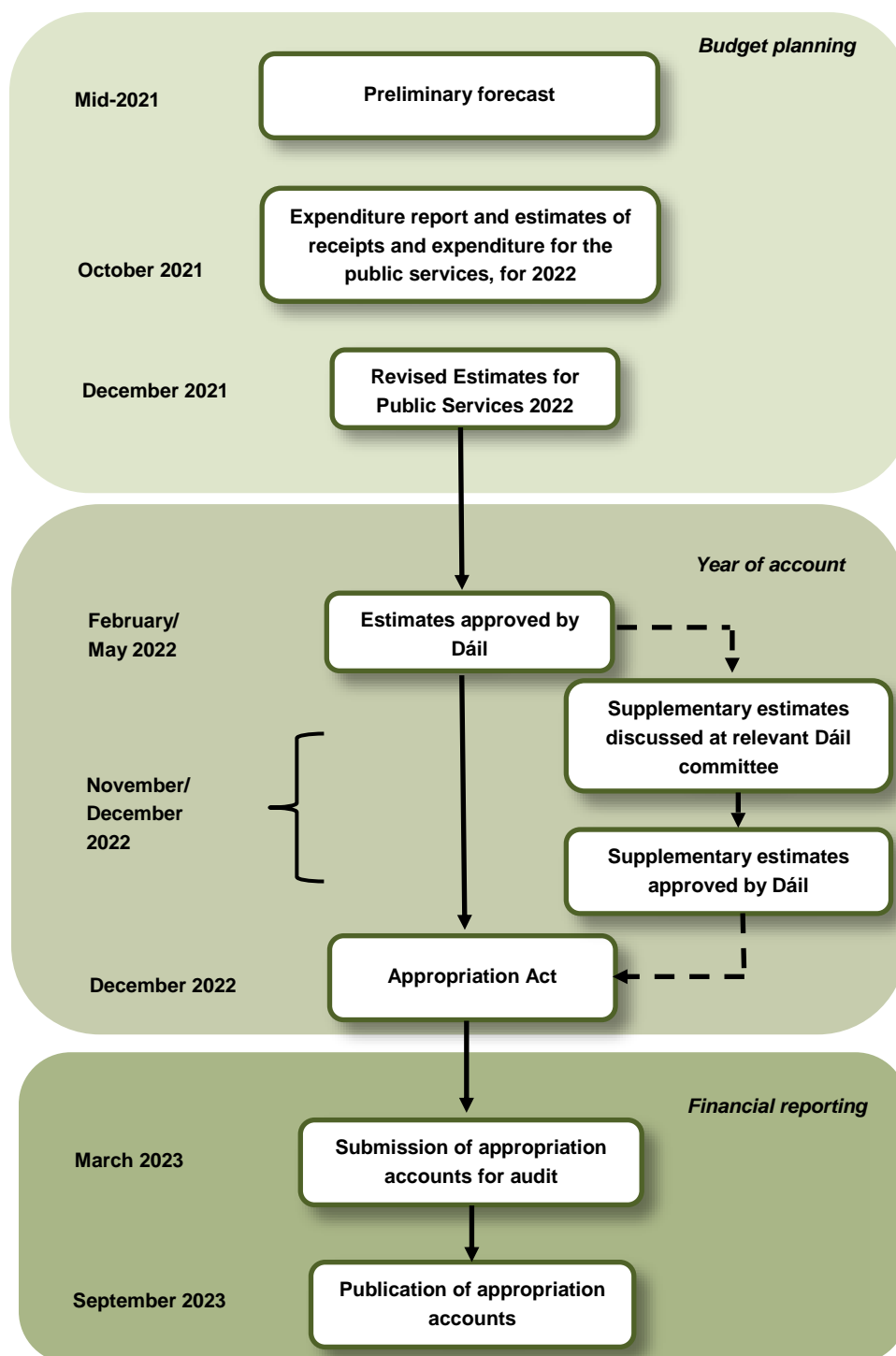
Results of 2022 audits of appropriation accounts

- 5.4** Audits of the 2022 appropriation accounts for all votes have been completed. Each account, together with the related audit report, is being presented to Dáil Éireann with this report.

Annual voted expenditure cycle

- 5.5** The estimates of expenditure presented to the Dáil for approval should reasonably represent the amount that it is expected will be spent on each departmental service. They also effectively serve as cash limits.
- 5.6** If, as the year progresses, large funding adjustments are required after Dáil approval of the estimates, formal approval for these adjustments must be sought from the Dáil. This is done through the supplementary estimate process (see Figure 5.1). This process may also be used to move funds between programmes and subheads, if required. Details of supplementary estimates requested are discussed at the relevant Dáil committees (typically in the final quarter of the year) before approval is sought from the Dáil itself.

¹ In presenting estimates and reports on voted expenditure, the Department of Public Expenditure, National Development Plan Delivery and Reform generally includes the Social Insurance Fund and the National Training Fund in total gross voted expenditure. These are not voted appropriations, but the Department considers that their inclusion in those circumstances provides a more complete picture of overall Government expenditure.

Figure 5.1 Sequence and timing of the 2022 estimates process^a

Source: Office of the Comptroller and Auditor General

Note: a Further details on the estimates and appropriation account process are set out in the Public Financial Procedures, published by the Department of Public Expenditure, National Development Plan Delivery and Reform.

Evolution of vote estimates in 2022

- 5.7** The *Revised Estimates for Public Services 2022*, published in December 2021, provided for total net voted funding of almost €68.1 billion across 45 votes.
- 5.8** Approved supplementary estimates provided a further €7 billion, resulting in an aggregate provision of €75.1 billion (net) for voted services in 2022. Funding approved via supplementary estimates in 2022 was more than five times that in 2021 (€1.3 billion).

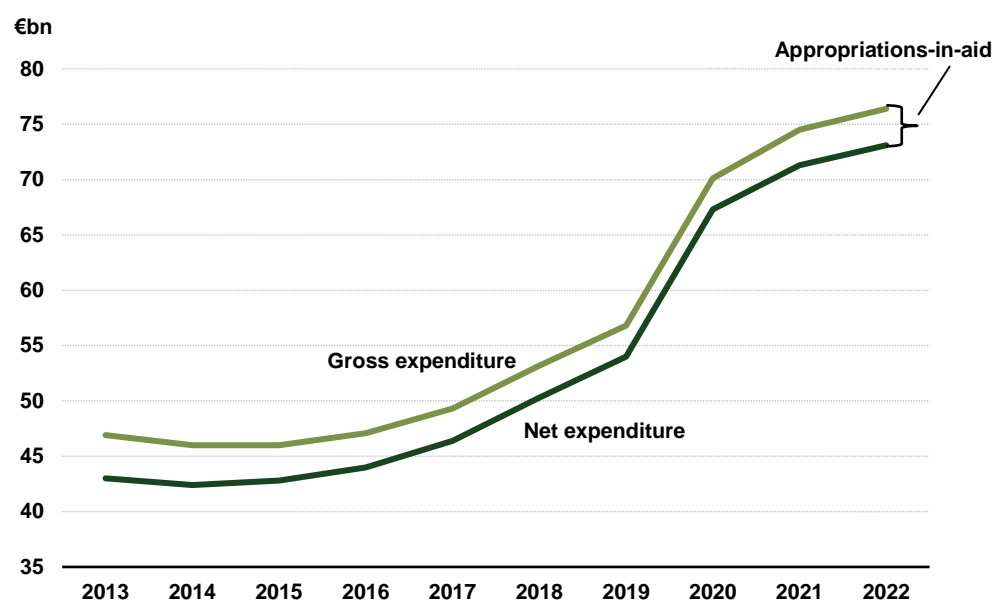
Appropriations

- 5.9** A summary of the amounts appropriated in 2022 for voted public services is included in Annex 5A (Figure 5A.1). The outturn for the year is also shown, together with the surpluses of appropriations over expenditure.

Vote outturn

- 5.10** The total amount spent by departments and offices in 2022 was €76.4 billion (see Figure 5.2). After deduction of realised appropriations-in-aid totalling €3.3 billion, the net expenditure in the year was €73.1 billion.

Figure 5.2 Voted expenditure outturn, 2013 – 2022



Source: Reports on the Accounts of the Public Services, 2013 to 2022, Annex 5A Figure 5A.1

Virement of voted funds for housing

- 5.11** Subhead A.8 of Vote 34 Housing, Local Government and Heritage provides funding for a capital loans and subsidy scheme operated by the Department of Housing, Local Government and Heritage (DHLGH). The funding is provided to local authorities for the repayment of capital loan charges to the Housing Finance Agency, and to provide funding to approved housing bodies for the management and maintenance of the units provided under the scheme.
- 5.12** The 2022 estimate provided €54.5 million for the scheme. The outturn for the year was €62.7 million i.e. an overspend of €8.2 million. The appropriation account states that the expenditure under subhead A.8 was higher than the estimate provision ‘...*mainly due to a reallocation of €8 million of the application of local property tax (LPT) self-funding to the four Dublin local authorities.*’
- 5.13** Under a long-standing arrangement, Dublin Fire Brigade — a division of Dublin City Council — provides an ambulance service in the greater Dublin area as agents of the Health Service Executive (HSE). The cost of providing the service for 2022 was €28 million (2021: €26 million). The HSE provided €9.2 million towards the cost of the service in 2022 (2021: €9.2 million). The balance had to be met by the four Dublin local authorities.
- 5.14** The four local authorities sought additional funding from the DHLGH to defray the costs associated with Dublin Fire Brigade ambulance service. However, DHLGH has no role or function in respect of public health provision and, therefore, was not legally in a position to contribute any direct Exchequer funding towards these costs.
- 5.15** In order to ease the financial burden on the local authorities, DHLGH sought and received the agreement of the Department of Public Expenditure, National Development Plan Delivery and Reform (DPENDPDR) to reduce the amount that the four local authorities would normally be required to commit from their LPT receipts to housing services by €8 million, thereby increasing their discretionary spending by an equivalent amount. This enabled the Dublin local authorities to use their unrestricted funds to meet some of the ambulance service costs not provided by the HSE. DPENDPDR’s sanction for this funding reallocation was granted on a one-off basis, applicable to 2022 only.
- 5.16** DHLGH increased its payments to the four local authorities from subhead A.8, to replace the LPT funding previously intended for housing. To do this, DHLGH vired unspent moneys from subhead A.6 (Housing assistance payment scheme) to subhead A.8, also with DPENDPDR sanction.¹

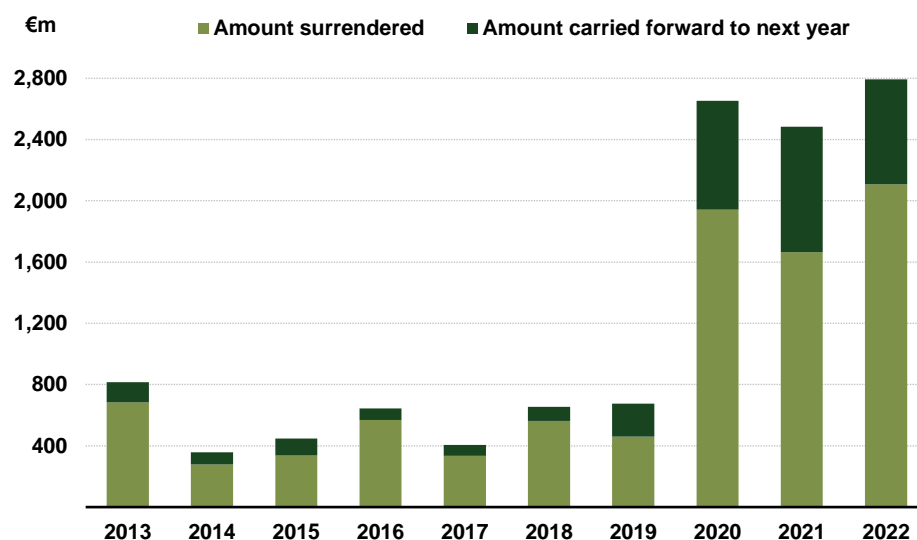
¹ Report on the accounts of the public services 2021, chapter 4 [Re-allocation of voted funding](#) provides more detail on virement and the re-allocation of funding between subheads.

Management of vote surpluses

- 5.17** Departments and offices are not permitted to spend more than the amount appropriated for each vote. When the net expenditure in the year is less than the amount provided, the surplus is liable to be surrendered to the Exchequer.
- 5.18** Surpluses were recorded by all votes in 2022. The 2022 surpluses totalled €2,794 million (see Figure 5.3). Of that amount, a total of €687 million was approved for carry over to 2023. The balance of €2,107 million was due for surrender.
- 5.19** From 2020 to 2022, substantial resourcing made available by Dáil Éireann was not used by the votes in the year of accounts (see Figure 5.3).
- 5.20** In 2022, unusually large surrenders were recorded as a percentage of the estimate provision by two votes.
- The Office of the Attorney General (Vote 3) surrendered €13.5 million or just under 40% of the total appropriation.
 - The Department of Enterprise, Trade and Employment (Vote 32) had a surplus of €769 million (47% of the total appropriation), of which it deferred €54.5 million to 2023 and surrendered €715 million.

The reasons for the underspends recorded by each vote are disclosed in the notes to the relevant appropriation accounts.

Figure 5.3 Surplus appropriations, 2013 – 2022



Source: Reports on the Accounts of the Public Services, 2013 to 2022, Annex 5A Figure 5A.2

Energy Efficiency National Fund

- 5.21** The Energy Efficiency National Fund (EENF) was created in 2014 to provide loan financing to both private and public organisations to support the delivery of energy efficiency improvement programmes and other energy efficiency measures, and to promote the development of a market for energy efficiency improvement measures.¹ Following use of the EENF for a number of years, it was planned for closure, with the transfer of remaining balances to the Climate Action Fund.

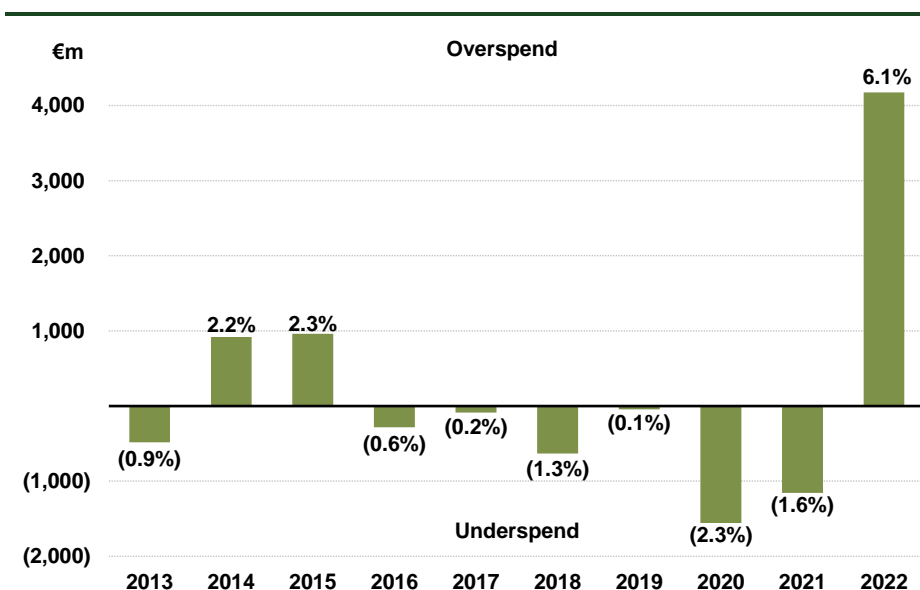
¹ Report on the accounts of the public services 2017, chapter 9 [The Energy Efficiency National Fund](#) provides more detail.

- 5.22** In 2021, €160 million of unspent funds was transferred from Vote 29 Environment, Climate and Communications to the EENF to avoid surrender of the funds back to the Exchequer at the year end, as required under normal vote management rules. DPENDPDR approved this transfer to the EENF on the conditions that
- it was a once-off arrangement that would not be repeated for future capital underspends
 - the funds would be spent in 2022 only, and
 - the funding would be used for specified objectives.
- 5.23** In compliance with the 'specified objectives' condition, €100 million was allocated to residential and community retrofit programmes, and €60 million was allocated to a residential retrofit loan guarantee scheme. However, development of the loan scheme was delayed and no expenditure was incurred in 2022.
- 5.24** Of the €100 million allocated for residential and community retrofit support schemes, €49 million was spent by way of a transfer to the Sustainable Energy Authority of Ireland in 2022.¹
- 5.25** Sanction was provided by DPENDPDR to carry forward the balance of €111 million remaining within the EENF at the end of 2022 (€60 million for the loan guarantee scheme, and €51 million for the SEAI retrofit programmes) for expenditure in 2023.

Budget variance

- 5.26** The estimated amounts approved by Dáil Éireann for 2022 represent the forecast of the amount required to meet the cost of the services to be provided from each vote. The budget variance is the difference between these estimates of net expenditure and the actual outturn in a year.² In 2022, net expenditure was €4.2 billion greater than the original forecast. This was the first time since 2015 that aggregate net expenditure exceeded the original forecast (see Figure 5.4).

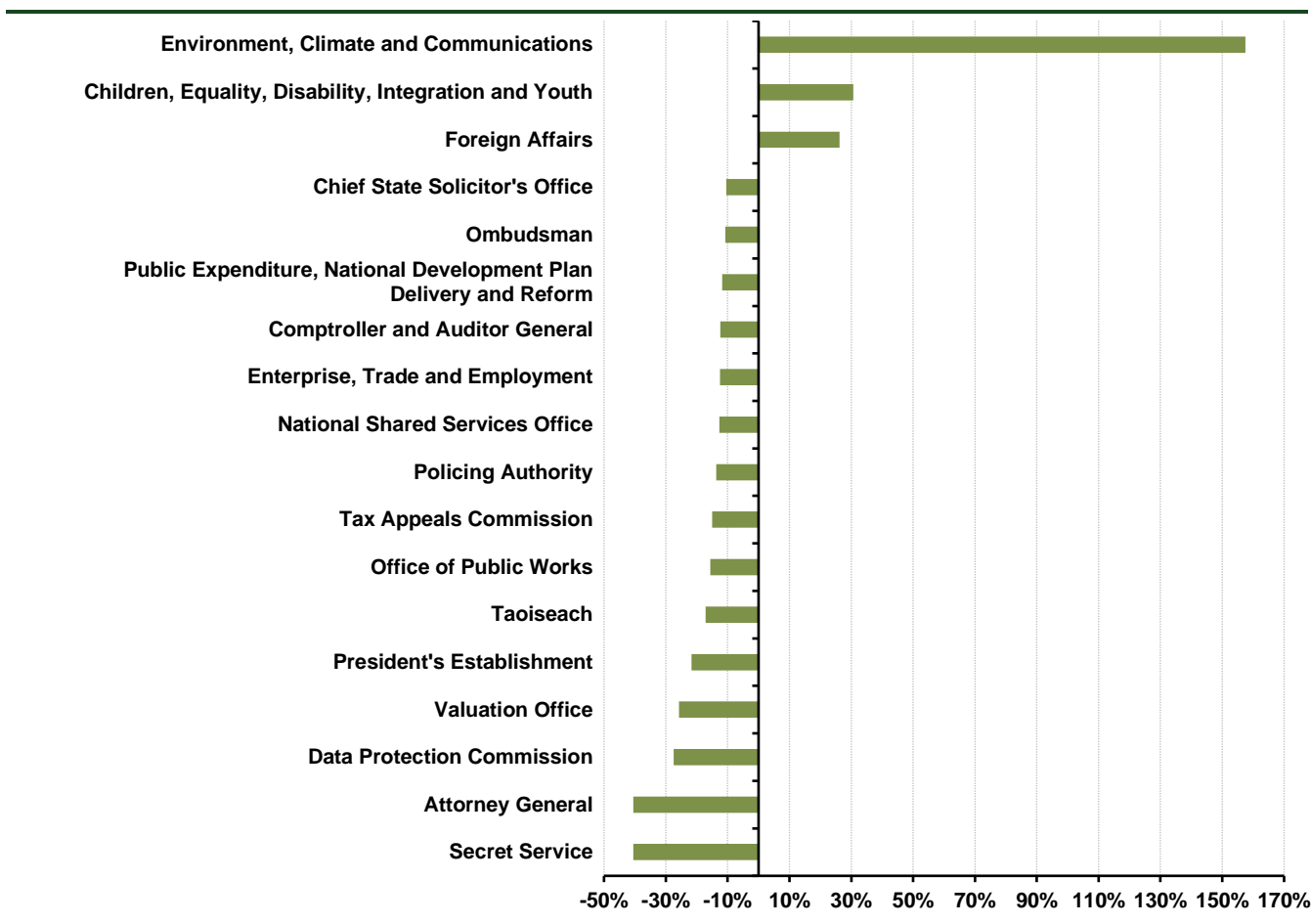
Figure 5.4 Net expenditure variance from budget, all votes, 2013 – 2022



¹ Chapter 8 Performance of certain residential retrofit schemes includes further information.

² There is a statutory provision to allow unspent capital allocations to be carried over to the following year for use for the same purpose, with DPENDPDR agreement. In this report, such carryover amounts are treated as part of the (following year's) annual appropriations.

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

Figure 5.5 Net expenditure variance, as a proportion of the original budget, selected votes 2022

Source: Office of the Comptroller and Auditor General

- 5.27** For 13 votes, the net expenditure outturn was greater than the original estimate. Figure 5.5 sets out the proportionate variance between actual expenditure and the original estimate in 2022, for those votes with a variance of over or under ten percent.

Budget variance in the Department of the Environment, Climate and Communications

- 5.28** Vote 29 Environment, Climate and Communications had the largest percentage overspend compared with its original estimate (157%). This was mainly due to emergency measures introduced in response to the increased energy prices. The cost of electricity credits applied to domestic accounts (€1.588 billion) was not included in the original estimate but was provided through supplementary estimates.
- 5.29** Of the €1.588 billion expenditure incurred on the electricity costs emergency benefits schemes in 2022, €793 million related to electricity credits that were applied to domestic accounts in 2023. This amount is recorded as a prepayment and is disclosed in the statement of financial position in the relevant appropriation account.

Changes in vote structure in 2022

- 5.30** The structure of government departments may change from year to year to reflect the allocation of functions of individual Ministers, the creation of new departments or departmental mergers. These changes generally occur in the period immediately after a general election, but may be instigated by the Taoiseach at any other time during his/her term.
- 5.31** With effect from 1 January 2022, responsibility for the Valuation Tribunal was transferred from the Valuation Office to the Department of Housing, Local Government and Heritage.
- 5.32** On 1 February 2023, the Public Expenditure and Reform Order 2023 came into operation to give legal effect to a name change announced by the Taoiseach on 17 December 2022. This changed the name of the Department of Public Expenditure and Reform to the Department of Public Expenditure, National Development Plan Delivery and Reform.
- 5.33** During 2022, a number of votes created new subheads to account for supplementary funding provided in response to events that emerged during 2022.
- The Department of Children, Equality, Disability, Integration and Youth incurred expenditure of €515 million on a new subhead in Vote 40 to record costs associated with the increased number of beneficiaries of temporary protection as a result of the conflict in Ukraine.
 - The Department of the Environment, Climate and Communications created a new subhead in Vote 29 and incurred expenditure of €151 million in respect of emergency measures to increase electricity generation capacity and offset a potential shortfall of electricity.
 - The Department of Enterprise, Trade and Employment created a new subhead in Vote 32 for a temporary scheme to support businesses with inflated energy prices. A supplementary estimate of €650 million was provided for in December 2022. However, the outturn on the subhead was only €5.5 million.
- 5.34** Further information is available in the relevant appropriation account.

Exchequer receipts

- 5.35** All receipts of central government departments and offices are liable for lodgement to the Exchequer, unless Dáil Éireann decides that they may be applied as appropriations-in-aid.
- 5.36** Examples of receipts that are not treated as appropriations-in-aid include Ireland's receipts from the EU Emissions Trading System, Property Registration Authority fees, Data Protection Commission fines and court fine receipts. These are transferred to the Central Fund, and are referred to as Exchequer 'extra' receipts. Windfall receipts are also usually brought to account in this way, including proceeds of significant sales of property, receipts on foot of surplus income or profits of State companies, interest, dividends or capital repayments and compensation.
- 5.37** Exchequer extra receipts realised in 2022 are shown in the notes to the relevant appropriation accounts. Exchequer extra receipts recorded by departments and offices in 2022 totalled €394 million (2021: €370 million). The aggregate amount of those receipts reported in each account is set out in Annex 5A (Figure 5A.3).

Impact of inflation on public private partnership contracts

- 5.38** Public Private Partnership (PPP) is an arrangement between the public and the private sector with clear agreement on shared objectives for the delivery of public infrastructure and/or public services by the private sector that would otherwise have been provided through traditional public sector procurement.
- 5.39** Details of all PPP contracts exceeding €10 million in value are separately disclosed in the notes to the relevant appropriation accounts. The value of PPP contracts recorded by departments and offices in 2022 totalled €5.9 billion (2021: €5.1 billion). In addition to new contracts entered into, all contract values increased from 2021 to 2022 due to higher than projected inflation. The estimated total impact of inflation on contracts which existed as at year end 2021 is €88 million. For further details of PPP contracts, see Annex 5A (Figure 5A.4).

Annex 5A Vote financial outturn

Dáil Éireann provides money for the ordinary services of government departments and offices by approving estimates of the amounts required for those services in the course of each year, and giving statutory effect to those estimates in the annual Appropriation Act. The expenditure is provided for under a series of 'votes'. By law, an appropriation account must be produced for each vote. The account must provide details of the outturn for the year against the amount provided by Dáil Éireann.

Figure 5A.1 provides a summary of appropriations for public services in 2022, by vote.

Figure 5A.2 shows how surplus appropriations in 2022 were applied — either through deferral of expenditure to 2023, or by surrender to the Exchequer.

Figure 5A.3 shows the Exchequer extra receipts recorded against each vote in 2022.

Explanations of some of the terms used in the tables are given below.

Supply grant	The money granted (or voted) by Dáil Éireann for each of the public services.
Deferred from 2021	Amount of capital funding not spent in 2021 and carried over for expenditure on capital services in 2022. The carry-over of these sums was approved by Dáil Éireann.
Appropriations-in-aid	Departmental receipts which, with the agreement of Dáil Éireann, may be retained to defray the expenses of the vote to which they relate.
Total appropriations	Sum of the supply grant, deferred 2021 capital moneys (if any) and appropriations-in-aid.
Surplus for the year	The excess of total appropriations by Dáil Éireann over the gross expenditure together with any surplus on appropriations-in-aid. The surplus for the year is liable for surrender back to the Exchequer.
Deferred surrender	Amount of capital funding not spent in 2022 which was carried over for expenditure in 2023. These carry overs were approved by Dáil Éireann.
Surplus to be surrendered	Amount of money appropriated in 2022 but not spent in the year or deferred to 2023, and so required to be surrendered to the Exchequer.
Exchequer extra receipts	Departmental receipts that are not appropriated-in-aid of the vote, but are transferred to the Exchequer.

Figure 5A.1 Summary of appropriations for public services in 2022, by vote

Vote	Service	Amount appropriated				Outturn		Surplus/deficit			
		Supply grants	Deferred from 2021	Appropriations-in-aid	Total	Gross expenditure	Appropriations-in-aid	Net expenditure	Gross surplus (deficit)	Excess/(deficit) in receipts	Net surplus for the year ^a
		€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
1	President's Establishment	4,750	—	83	4,833	3,829	110	3,719	1,004	27	1,031
2	Department of the Taoiseach	38,025	—	909	38,934	32,367	864	31,503	6,567	(45)	6,522
3	Office of the Attorney General	33,286	—	705	33,991	20,445	631	19,814	13,546	(74)	13,472
4	Central Statistics Office	103,485	—	2,120	105,605	102,071	2,531	99,540	3,534	411	3,945
5	Office of the Director of Public Prosecutions	51,277	—	820	52,097	50,878	831	50,047	1,219	11	1,230
6	Office of the Chief State Solicitor	49,658	—	850	50,508	45,442	996	44,446	5,066	146	5,212
7	Office of the Minister for Finance	42,900	—	1,080	43,980	40,390	1,038	39,352	3,590	(42)	3,548
8	Office of the Comptroller and Auditor General	9,365	—	6,685	16,050	15,874	7,665	8,209	176	980	1,156
9	Office of the Revenue Commissioners	441,102	493	55,322	496,917	491,699	64,152	427,547	5,218	8,830	14,048
10	Tax Appeals Commission	3,443	—	79	3,522	2,989	62	2,927	533	(17)	516
11	Office of the Minister for Public Expenditure, National Development Plan Delivery and Reform	46,525	—	2,905	49,430	44,902	3,852	41,050	4,528	947	5,475
12	Superannuation and Retired Allowances	353,428	—	433,192	786,620	762,551	509,226	253,325	24,069	76,034	100,103
13	Office of Public Works	581,481	20,700	15,444	617,625	541,848	33,551	508,297	75,777	18,107	93,884
14	State Laboratory	11,056	—	1,096	12,152	11,725	1,070	10,655	427	(26)	401
15	Secret Service	2,000	—	—	2,000	1,189	—	1,189	811	—	811

Vote	Service	Amount appropriated				Outturn		Surplus/deficit			
		Supply grants	Deferred from 2021	Appropriations-in-aid	Total	Gross expenditure	Appropriations-in-aid	Net expenditure	Gross surplus (deficit)	Excess/(deficit) in receipts	Net surplus for the year ^a
		€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
16	Valuation Office	19,441	325	785	20,551	15,163	492	14,671	5,388	(293)	5,095
17	Public Appointments Service	19,963	—	270	20,233	19,578	301	19,277	655	31	686
18	National Shared Services Office	67,092	—	6,358	73,450	65,203	6,634	58,569	8,247	276	8,523
19	Office of the Ombudsman	12,288	—	505	12,793	11,434	470	10,964	1,359	(35)	1,324
20	Garda Síochána	2,035,325	—	124,795	2,160,120	2,153,194	130,515	2,022,679	6,926	5,720	12,646
21	Prisons	403,697	3,601	10,409	417,707	412,631	11,142	401,489	5,076	733	5,809
22	Courts Service	129,334	3,648	36,133	169,115	163,564	35,836	127,728	5,551	(297)	5,254
23	Property Registration Authority	34,471	100	660	35,231	32,095	692	31,403	3,136	32	3,168
24	Justice	422,891	5,122	100,446	528,459	501,840	103,485	398,355	26,619	3,039	29,658
25	Irish Human Rights and Equality Commission	7,533	—	81	7,614	7,610	101	7,509	4	20	24
26	Education	9,816,335	—	391,216	10,207,551	10,176,293	408,847	9,767,446	31,258	17,631	48,889
27	International Co-operation	633,902	—	1,030	634,932	632,022	1,676	630,346	2,910	646	3,556
28	Foreign Affairs	335,395	—	65,000	400,395	396,179	78,872	317,307	4,216	13,872	18,088
29	Environment, Climate and Communications	2,601,391	57,917	10,486	2,669,794	2,365,624	7,398	2,358,226	304,170	(3,088)	301,082
30	Agriculture, Food and the Marine	1,577,222	29,900	407,429	2,014,551	1,893,409	408,796	1,484,613	121,142	1,367	122,509
31	Transport	3,523,893	161,100	23,462	3,708,455	3,531,089	20,846	3,510,243	177,366	(2,616)	174,750
32	Enterprise Trade and Employment	1,495,929	79,660	62,396	1,637,985	884,674	78,577	806,097	753,311	16,181	769,492
33	Tourism, Culture, Arts, Gaeltacht, Sport and Media	1,023,424	18,400	252,606	1,294,430	1,227,785	237,455	990,330	66,645	(15,151)	51,494

Vote	Service	Amount appropriated				Outturn		Surplus/deficit			
		Supply grants	Deferred from 2021	Appropriations-in-aid	Total	Gross expenditure	Appropriations-in-aid	Net expenditure	Gross surplus (deficit)	Excess/(deficit) in receipts	Net surplus for the year ^a
		€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
34	Housing, Local Government and Heritage	5,872,039	275,800	61,089	6,208,928	5,632,481	71,378	5,561,103	576,447	10,289	586,736
35	Army Pensions	274,974	—	4,963	279,937	278,353	5,064	273,289	1,584	101	1,685
36	Defence	812,211	—	24,220	836,431	835,922	33,659	802,263	509	9,439	9,948
37	Social Protection	12,615,148	1,200	291,085	12,907,433	12,817,407	352,730	12,464,677	90,026	61,645	151,671
38	Health	23,144,408	104,000	440,920	23,689,328	23,664,752	458,409	23,206,343	24,576	17,489	42,065
39	Office of Government Procurement	19,429	35	400	19,864	18,293	471	17,822	1,571	71	1,642
40	Children, Equality, Disability, Integration and Youth	2,778,430	3,200	34,660	2,816,290	2,729,967	35,055	2,694,912	86,323	395	86,718
41	Policing Authority	3,856	—	70	3,926	3,399	72	3,327	527	2	529
42	Rural and Community Development	335,448	16,860	53,250	405,558	389,242	55,667	333,575	16,316	2,417	18,733
43	Office of the Government Chief Information Officer	43,302	—	165	43,467	43,154	220	42,934	313	55	368
44	Data Protection Commission	22,949	—	285	23,234	16,876	233	16,643	6,358	(52)	6,306
45	Further and Higher Education, Research, Innovation and Science	3,228,179	37,200	80,804	3,346,183	3,283,629	92,361	3,191,268	62,554	11,557	74,111
Total		75,081,680	819,261	3,007,268	78,908,209	76,371,061	3,264,033	73,107,028	2,537,148	256,765	2,793,913

Source: 2022 Appropriation Accounts. Any apparent differences in totals are due to rounding.

Note: a The net surplus is comprised of the excess of total appropriations by Dáil Éireann over the gross expenditure together with the excess (deficit) on appropriations-in-aid.

Figure 5A.2 Application of surplus 2022 appropriations, by vote

Vote	Service	Surplus for the year	Deferred surrender (to 2023)	Surplus for surrender	Surplus surrendered % of the total appropriation
		€000	€000	€000	
1	President's Establishment	1,031	—	1,031	21%
2	Department of the Taoiseach	6,522	—	6,522	17%
3	Office of the Attorney General	13,472	—	13,472	40%
4	Central Statistics Office	3,945	—	3,945	4%
5	Office of the Director of Public Prosecutions	1,230	—	1,230	2%
6	Office of the Chief State Solicitor	5,212	—	5,212	10%
7	Office of the Minister for Finance	3,548	100	3,448	8%
8	Office of the Comptroller and Auditor General	1,156	—	1,156	7%
9	Office of the Revenue Commissioners	14,048	—	14,048	3%
10	Tax Appeals Commission	516	—	516	15%
11	Office of the Minister for Public Expenditure, National Development Plan Delivery and Reform	5,475	—	5,475	11%
12	Superannuation and Retired Allowances	100,103	—	100,103	13%
13	Office of Public Works	93,884	27,000	66,884	11%
14	State Laboratory	401	—	401	3%
15	Secret Service	811	—	811	41%
16	Valuation Office	5,095	590	4,505	22%
17	Public Appointments Service	686	—	686	3%
18	National Shared Services Office	8,523	1,200	7,323	10%
19	Office of the Ombudsman	1,324	—	1,324	10%
20	Garda Síochána	12,646	—	12,646	1%
21	Prisons	5,809	3,205	2,604	1%
22	Courts Service	5,254	1,850	3,404	2%
23	Property Registration Authority	3,168	—	3,168	9%
24	Justice	29,658	—	29,658	6%
25	Irish Human Rights and Equality Commission	24	—	24	0%
26	Education	48,889	—	48,889	0%
27	International Co-operation	3,556	—	3,556	1%
28	Foreign Affairs	18,088	2,250	15,838	4%
29	Environment, Climate and Communications	301,082	—	301,082	11%
30	Agriculture, Food and the Marine	122,509	27,500	95,009	5%

Vote	Service	Surplus for the year	Deferred surrender (to 2023)	Surplus for surrender	Surplus surrendered % of the total appropriation
		€000	€000	€000	
31	Transport	174,751	137,956	36,795	1%
32	Enterprise Trade and Employment	769,492	54,500	714,992	44%
33	Tourism, Culture, Arts, Gaeltacht, Sport and Media	51,494	20,000	31,494	2%
34	Housing, Local Government and Heritage	586,736	340,000	246,736	4%
35	Army Pensions	1,685	—	1,685	1%
36	Defence	9,948	—	9,948	1%
37	Social Protection	151,671	1,390	150,281	1%
38	Health	42,065	—	42,065	0%
39	Office of Government Procurement	1,642	35	1,607	8%
40	Children Equality, Disability, Integration and Youth	86,718	—	86,718	3%
41	Policing Authority	529	—	529	13%
42	Rural and Community Development	18,733	14,500	4,233	1%
43	Office of the Government Chief Information Officer	368	—	368	1%
44	Data Protection Commission	6,306	—	6,306	27%
45	Further and Higher Education, Research, Innovation and Science	74,111	55,169	18,942	1%
Total		2,793,914	687,245	2,106,669	3%

Source: 2022 Appropriation Accounts. Analysis by the Office of the Comptroller and Auditor General.

Figure 5A.3 Exchequer 'extra' receipts 2022, by vote

Vote	Service	Receipts realised
		€000
1	President's Establishment	—
2	Department of the Taoiseach	96
3	Office of the Attorney General	—
4	Central Statistics Office	—
5	Office of the Director of Public Prosecutions	—
6	Office of the Chief State Solicitor	50
7	Office of the Minister for Finance	—
8	Office of the Comptroller and Auditor General	—
9	Office of the Revenue Commissioners	856
10	Tax Appeals Commission	—
11	Office of the Minister for Public Expenditure, National Development Plan Delivery and Reform	37
12	Superannuation and Retired Allowances	—
13	Office of Public Works	—
14	State Laboratory	—
15	Secret Service	—
16	Valuation Office	—
17	Public Appointments Service	—
18	National Shared Services Office	—
19	Office of the Ombudsman	—
20	An Garda Síochána	4,950
21	Prisons	—
22	Courts Service	10,041
23	Property Registration Authority	75,309
24	Justice	37
25	Irish Human Rights and Equality Commission	—
26	Education	30
27	International Co-operation	—
28	Foreign Affairs	—
29	Environment, Climate and Communications	260,195
30	Agriculture, Food and the Marine	—
31	Transport	9,726

Vote	Service	Receipts realised
		€000
32	Enterprise, Trade and Employment	1,654
33	Tourism, Culture, Arts, Gaeltacht, Sports and Media	21
34	Housing, Local Government and Heritage	564
35	Army Pensions	—
36	Defence	—
37	Social Protection	11
38	Health	53
39	Office of Government Procurement	61
40	Children Equality, Disability, Integration and Youth Affairs	8,851
41	Policing Authority	—
42	Rural and Community Development	16
43	Office of the Government Chief Information Officer	—
44	Data Protection Commission	17,640
45	Further and Higher Education, Research, Innovation and Science	3,349
Total		393,547

Source: 2022 Appropriation Accounts. Analysis by the Office of the Comptroller and Auditor General.

Note: a The receipts stated are net figures.

Figure 5A.4 Public private partnership (PPP) projects, 2021 and 2022

Vote	Service	PPP project	2021 expected project total	2022 expected project total	Impact of inflation
			€000	€000	€000
13	Office of Public Works	Convention Centre Dublin	763,251	765,550	2,299
22	Courts Service	Criminal Courts Complex	588,709	598,247	9,538
		PPP bundle	404,679	411,040	6,361
26	Education	Five pilot schools	282,616	283,701	1,085
		1st bundle	243,583	248,555	4,972
		2nd bundle	330,016	339,557	9,541
		3rd bundle	409,257	416,870	7,613
		4th bundle	209,094	213,999	4,905
		5th bundle	255,917	261,284	5,367
34	Housing, Local Government and Heritage	Housing bundle 1	339,726	344,847	5,121
		Housing bundle 2	292,211	294,267	2,056
45	Further and Higher Education, Research, Innovation and Science	Cork School of Music	219,140	224,223	5,083
		Grangegorman quads	590,098	605,836	15,738
		HEIPPP bundle I ^a	—	717,667	—
		National Maritime College of Ireland	187,694	196,275	8,581
Total			5,115,991	5,921,918	88,260

Source: 2022 Appropriation Accounts. Analysis by the Office of the Comptroller and Auditor General.

Note: a Higher Education Infrastructure PPP (HEIPPP) bundle includes the construction of six new buildings across multiple higher education campuses.

6 Financial management shared services: implementation progress

- 6.1** In February 2012, the Government decided to implement a shared services model for certain administration functions in the Irish public sector.¹ The National Shared Services Office (NSSO) was set up in 2014 as an administrative office within the Department of Public Expenditure, National Development Plan Delivery and Reform (the Department), but with its own vote (Vote 18). In January 2018, the NSSO officially became a new separate civil service office with its own accounting officer.
- 6.2** There are three strands to the rollout of the shared services model managed by the NSSO — human resources, payroll and financial management. The first two services are operating across a broad range of departments and offices.
- 6.3** The Government approved the business case for the financial management shared services (FMSS) programme in January 2016. The FMSS programme aims to replace 31 different financial management and reporting systems, in use across 52 central government departments and offices, with a single IT system supported by a new finance shared services centre.
- 6.4** Deployment of the FMSS system is currently scheduled to take place across four ‘waves’ of client public service bodies (see Annex 6A). The system went live for wave 1 client bodies in April 2022.
- 6.5** As client public service bodies migrate to the FMSS system, the NSSO will provide a number of finance services to them, including
- support with preparation of financial statements and audit processes
 - accounts payable and receivable
 - master data management
 - fixed asset accounting and asset management
 - general ledger accounting and taxation
 - inventory accounting.
- 6.6** The Comptroller and Auditor General published a report on the implementation of FMSS in September 2020.² The report outlined how the FMSS programme had encountered significant delays and had incurred project cost overruns of €10.3 million by the end of 2019.
- 6.7** Also in September 2020, the Government agreed to a proposal from the Minister for Public Expenditure, National Development Plan Delivery and Reform for the continued deployment of the FMSS system
- over an extended timeline to 2025 and
 - with an expanded project budget of up to €115 million including VAT.

¹ A 2008 review by the Organisation for Economic Co-operation and Development (OECD) recommended that the Irish public service should prioritise the development of integrated and shared services. *Ireland: Towards an Integrated Public Service*, OECD public management review, June 2008. The implementation of shared services was a key element of the 2011 Public Service Reform Plan.

² *Report on the Accounts of the Public Services 2019*, chapter 5 Implementation of financial management shared services.

Focus of this examination

- 6.8** This examination was undertaken to review the progress made by the NSSO in the rollout of the FMSS system under the revised investment plan and extended timeline.
- 6.9** This involved the review of documentation, budget and cost analyses, interviews with relevant staff in the NSSO and the Department, and onsite walkthroughs of the FMSS Oracle financial reporting system and support desk (JitBit) system.¹
- 6.10** The submission to Government of the original business case for the FMSS noted that the proposed budget excluded VAT. In order to allow for comparison with the business case and with the Comptroller and Auditor General's previous report, the amounts presented here are VAT exclusive unless otherwise noted.

Timeframe and progress

- 6.11** The original business case for the FMSS programme approved in January 2016 included a plan to deploy the FMSS system to client public service bodies in five waves, to reach full delivery by June 2020 (see Figure 6.1). This was not achieved, and by September 2020 the project was running three years and nine months behind the original schedule, and deployment of the system to wave 1 bodies had not commenced.
- 6.12** While the September 2020 memorandum for Government contained an indicative timeline of the funding requirement per annum over the period 2020 – 2025, it did not include any detailed timeline or key milestones for deployment of the system to each of the waves of client public service bodies by 2025.
- 6.13** The ministerial observations included in the memorandum noted that no timeline of actions was available to public service bodies for the migration to FMSS and recommended that the FMSS programme team should coordinate with the Government Accounting Unit in the Department to provide a single coherent timeline to public sector bodies for
- the implementation of FMSS and
 - the related financial and accounting reforms.

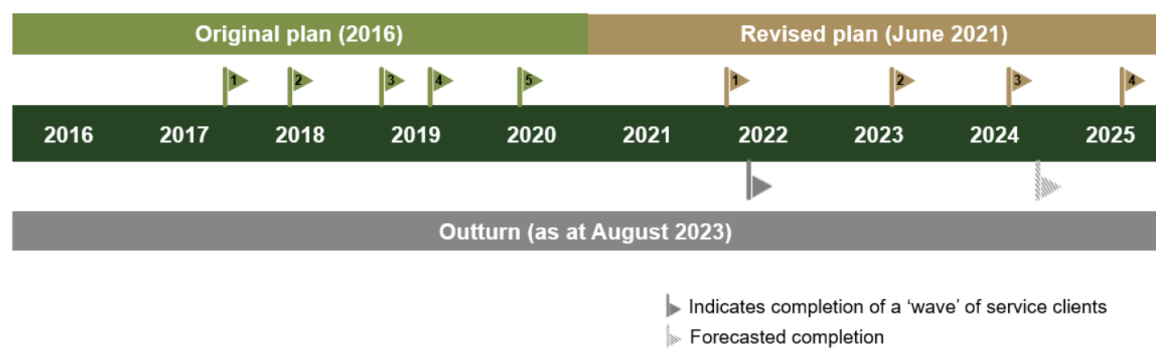
1 The NSSO's FMSS customer service operates via a ticketing system called JitBit.

2 The FMSS Programme Board oversees key decision making and provides advice and support in relation to the programme. FMSS Programme Board members include representatives of government departments and offices at secretary general, assistant secretary and director level.

3 The system implementation partner is responsible for providing the single financial management system to operate in the FMSS centre and across client public service bodies. This also includes the provision of a managed service for support of the system.

Programme Board oversight of timeline

- 6.14** The minutes of the FMSS Programme Board meetings indicate that, from February 2020, the Board regularly asked for a detailed timeline for the deployment of the FMSS system beyond wave 1.² The NSSO stated on each occasion that discussions with the system implementation partner were exclusively focused on wave 1 rollout.³
- 6.15** In June 2021, the Head of the FMSS programme presented three scenarios (see Annex 6B) for future wave deployment to the NSSO Management Board. She recommended consideration of consolidation of the original five waves of deployment into four reconfigured waves to be rolled out between Q4 2020 and Q4 2025, with options to conduct system architecture upgrades in parallel.

Figure 6.1 Comparison of projected and actual timelines, 2016 – 2025

Source: National Shared Services Office. Analysis by the Office of the Comptroller and Auditor General.

- 6.16** In November 2021, the FMSS Programme Board again asked for an update on the plan for future waves. Despite the Management Board's consideration of scenarios in June 2021, there is no record that a revised plan for all waves was provided to the Programme Board.
- 6.17** In February 2023, the NSSO provided a high level update on wave 2 to the FMSS Programme Board. An indicative critical path and timeline for deployment of the system to wave 2 was presented to the FMSS Programme Board in July 2023. This update noted the earliest indicative 'go-live' date for wave 2 as the end of 2024; and it did not provide an indicative completion date for the remaining waves.
- 6.18** The Accounting Officer has stated that the FMSS Programme Board was kept informed of project progress at all times, and that the focus was on the delivery of wave 1. The NSSO's best endeavours were applied to provide updates on the planning for future waves, but the project implementation team and the FMSS Programme Board both recognised the priority focus was to 'go live' on wave 1. The available resources were therefore prioritised to focus on the wave 1 rollout and its subsequent stabilisation.

Planned to actual delivery timeline

- 6.19** Relative to the delivery scenario outlined to the Management Board in June 2021, it appears that the FMSS project is again significantly behind target. While it was envisaged then that wave 2 rollout would be completed by September 2023, the NSSO now forecasts that this will be achieved by end 2024 i.e. a delay of 15 months.

Wave 1 deployment

- 6.20** The NSSO's agreement with the system implementation partner set out a timeframe of 13.5 months for full deployment of the FMSS system to wave 1 public service bodies from a start date expected to be no later than 9 November 2020.¹ The rollout of the system was organised over thirteen phases, a number of which were scheduled to run parallel to each other. The system was expected to go live in Q4 2021.
- 6.21** While the deployment process started on schedule, the programme ran into some delays that impacted its overall delivery.

¹ The NSSO formally agreed the Project Initiation Document (PID) for deployment of the FMSS system to wave 1 client bodies with the system implementation partner on 9 October 2020.

- 6.22** The FMSS system went live for wave 1 client public service bodies on 19 April 2022, some four months later than planned. Operational support (after 'go-live') was originally planned to last six weeks, but this was extended to eight weeks, ending in June 2022.
- 6.23** All the 2022 appropriation accounts of the eight departments and offices involved in the wave 1 move were produced by the statutory date for submission of the accounts for audit.

Views of the Accounting Officer

- 6.24** The FMSS programme experienced some implementation delays, which is not unexpected in a programme of this scale. Wave 1 remobilisation, implementation and deployment were conducted during the Covid-19 pandemic. All meetings and engagements with wave 1 clients were conducted in a fully remote environment as a result. The lack of in-person engagement had a significant impact on the deployment and transition experience of all the public service bodies involved. The time taken to stabilise the service was longer than planned but deemed necessary and appropriate to be able to then move onto wave 2 mobilisation.
- 6.25** The NSSO has achieved ISAE Type I accreditation for the FMSS system. The NSSO is now working towards achieving ISAE Type II accreditation.¹

Wave 1 user experience

- 6.26** On 13 July 2022, the Secretaries General of the Department of Finance and of the Department of Public Expenditure, National Development Plan Delivery and Reform issued a joint letter to the NSSO's Accounting Officer reporting that FMSS users within the Departments were dissatisfied with the system's performance and functionality. Two areas of concern, deemed separate from the expected teething problems when launching a new system, were identified

- the new system's reporting ability
- the reduction in staff productivity resulting from the process involved in raising purchase orders and the use of smart forms.

An attachment to the letter set out eleven actions required from the NSSO to address the issues identified by system users.²

- 6.27** The Accounting Officer stated in a reply on 19 July 2022 that the FMSS system go-live was a success from a delivery standpoint and that some of the issues raised by the two Departments were encountered in the opening weeks of operations and had since been resolved.
- 6.28** The Accounting Officer noted that the remaining issues raised were either already being looked at and progress was being made to resolve them, or involved changes to the design that was formally ratified by the Process Design Authority Group in 2019 and would require a costly rebuild of the system.³ She provided assurance that the NSSO would consider how to further support system users by providing additional, targeted training.

¹ An ISAE Type I report describes the controls in operation in relation to a service at a point in time. A Type II report describes the controls in operation and tests their operating effectiveness over a specified period.

² In October 2022, the finance officers and procurement administrators of six of the eight wave 1 client departments and offices also wrote to the NSSO, expressing similar concerns.

³ The Process Design Authority Group has decision-making authority in relation to the functional and process design of the system rolled out to FMSS client public service bodies.

- 6.29** The Department of Finance manages the Central Fund of the Exchequer (the Exchequer). The Exchequer was part of the planned wave 1 deployment. It was decided that the Exchequer would run both the FMSS system and its existing system in parallel from April 2022 to prove the functionality and reliability of the new FMSS system. While the parallel-run was planned to take place for three months, with an Exchequer go-live date of July 2022, it continued for five months. In September 2022, the Department of Finance made the decision to pause the Exchequer's transfer to FMSS, in particular due to concerns regarding the system's ability to meet its specific reporting requirements.¹ Engagement with the Department of Finance took place to resolve the issues, but the transfer remains suspended.
- 6.30** The NSSO carried out forty updates of existing reports and deployed five new reports between August 2022 and April 2023 in response to issues raised by system users. A number of 'Lunch and Learn' sessions were facilitated by the NSSO between September 2022 and February 2023.
- 6.31** The NSSO commissioned an independent post-implementation review of the first wave of the FMSS programme in September 2022. The review comprised
- the organisation of a series of workshops with key stakeholders and each of the eight wave 1 client public services bodies
 - the production of a written report (the review report) on key actions emanating from the lessons learned from wave 1, including suggestions for organisational design and governance changes or enhancements, for application in future deployments.
- 6.32** Workshops were conducted in Q4 2022. A post-implementation review joint session with wave 1 public service bodies was scheduled to take place on 28 April 2023 and was expected to be the final engagement prior to the finalisation of the review report. Wave 1 clients requested to postpone the session until a draft of the review report was made available to them. As at the end of July 2023, this meeting had not taken place nor been rescheduled and the review report had not been shared or finalised. The NSSO has stated that it met with the reviewer in mid-July 2023 to discuss the draft findings and that the reviewer is in the process of finalising the report.

Deployment of the remaining waves

- 6.33** In September 2020, the Government approved a revised plan for completion of the FMSS project by end 2025. The NSSO now expects the timeline for full delivery of the FMSS programme to go beyond that date. The NSSO has been engaging with wave 2 clients since late 2022 and expects a formal implementation plan to be in place by end September 2023, and is planning for completion of the wave rollout by end December 2024. The NSSO teams also intends to begin workshops with wave 2 clients from September 2023.

¹ Monthly Exchequer returns are published on the second working day of the subsequent month.

- 6.34** The preparation and finalisation of a PID and implementation plan for wave 2 will take place in parallel with two other work streams.
- Because the contract with the current system implementation partner is due to conclude in September 2024, the NSSO is planning to tender on the open market for a replacement contract.¹ The procurement process is expected to be completed by the end of 2023.
 - The NSSO has made the decision to upgrade the FMSS hardware infrastructure with an anticipated completion timeline of June 2024.
- 6.35** The Accounting Officer has stated that development of wave 1 delivered the majority of the common functionality that will be used by all FMSS client public service bodies, and that the remaining functionality will be substantially delivered in wave 2. As a result, waves 3 and 4 will focus on external system interfaces rather than on core functional build, and consequently deployment of the FMSS system to the latter two waves is expected within shorter timeframes. A planning exercise is underway for waves 3 and 4.

System upgrade

- 6.36** An Oracle-based infrastructure platform for the FMSS system was agreed by the NSSO and the system implementation partner in September 2016. Guaranteed support for the platform expired in December 2022, with limited support available thereafter.
- 6.37** In April 2023, Oracle submitted a proposal to the NSSO for the supply, installation and configuration of a new version of the platform at a cost of €4.2 million. A note prepared for the NSSO Management Board recommended proceeding with the Oracle upgrade indicating that the limited support being provided by Oracle on the existing hardware infrastructure after December 2022 would have an impact on security patching, add additional cost annually and add risk to the NSSO. The purchase of the upgrade was approved by the Accounting Officer in April 2023.

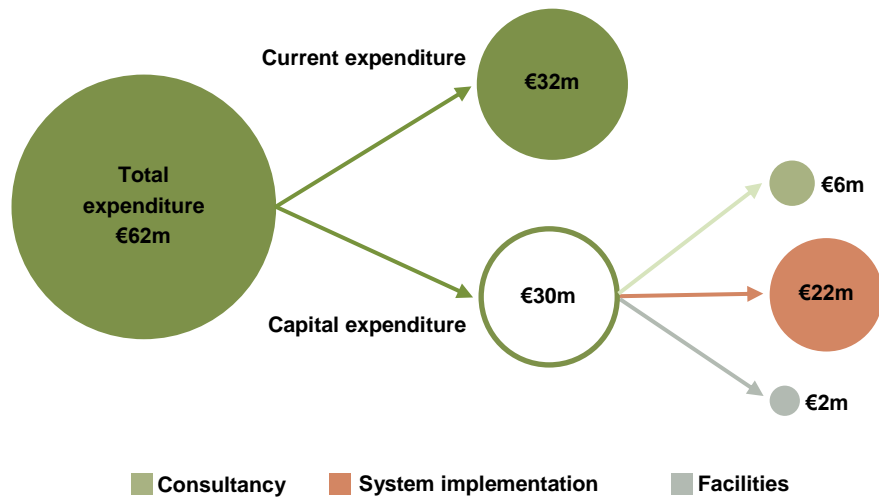
Project costs and savings

- 6.38** The original business case approved by Government in January 2016 proposed a total investment of €47.4 million to support the full deployment of the new FMSS system by mid-2020. This included
- €3.8 million already spent on a baseline exercise, feasibility study and tender process for the FMSS programme
 - €40 million in capital costs
 - a contingency provision of €3.6 million in respect of project risks and the risk of delays.
- 6.39** Total expenditure on the FMSS project to end 2019 was €38.4 million. Following significant delays experienced by the project and the need to develop a new system design, improve governance structures and bridge programme capability gaps, a revised investment plan approved by Government in September 2020 increased the total approved project budget to approximately €95 million.²

¹ The original system implementation partner contract included a provision for managed service of the technology platform as well as the technical build of the FMSS system. The NSSO took the decision to separate these two elements and will procure them separately.

² The memorandum for Government proposed a revised budget of €115 million, including VAT.

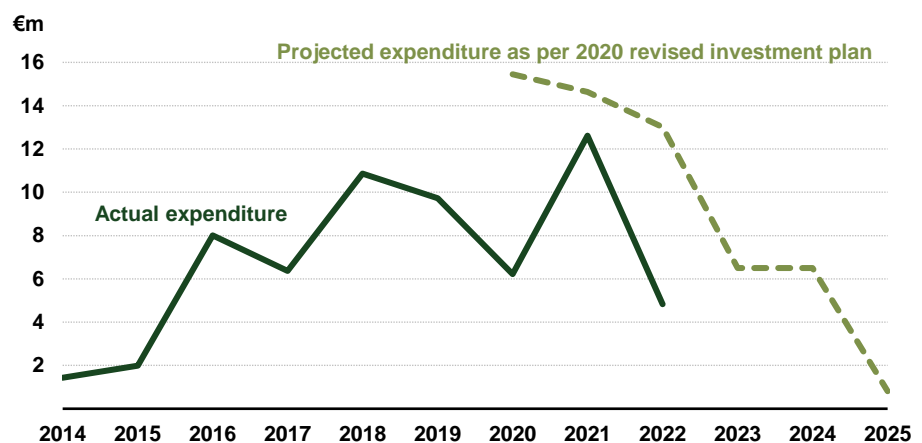
Figure 6.2 Breakdown of FMSS project costs, 2014 – 2022



Source: National Shared Services Office. Analysis by the Office of the Comptroller and Auditor General.

- 6.40** As at end 2022, the NSSO had spent €62 million on the programme, comprising €30 million of capital development costs, and €32 million in current spending (see Figure 6.2). Main system maintenance costs paid to Oracle amounting to €1.6 million are not included in the total costs.
- 6.41** Spending on the FMSS project is currently within the allocated budget, although expenditure has been incurred on a later timeline than anticipated in the revised investment plan as a result of delays in the rolling out of the FMSS system to wave 1 client bodies (see Figure 6.3).

Figure 6.3 Total expenditure on the FMSS programme per annum, 2014 – 2025



Source: National Shared Services Office; 2020 Memorandum for the Government, Integrated Financial Management and Reporting System for Central Government ("FMSSP"). Analysis by the Office of the Comptroller and Auditor General.

Projected costs

- 6.42** Expenditure by end 2022 was within the allocated budget, with 35% remaining. In July 2023, the NSSO presented a programme finance update to the FMSS Programme Board including an estimated cost to complete wave 2. There is currently no projected cost for the wave 3 and 4 deployments.

Anticipated savings and payback

- 6.43** The original business case for the FMSS programme in January 2016 anticipated savings of €15.4 million per annum once the programme was fully operational. This was anticipated to arise through reduced staffing levels in the FMSS system client bodies' finance units, and lower system costs.
- 6.44** The 2020 memorandum for Government noted that the savings figure had not been revalidated since 2016 but remained relevant. It stated that the savings would be revalidated and tracked as the system was deployed to each wave.
- 6.45** No formal cost benefit analysis was conducted by the NSSO, either to inform the drafting of the 2020 memorandum or since the memorandum was approved by Government in September 2020.
- 6.46** While only wave 1 has been deployed and approximately 65% of the budget has been spent, there is no calculation of savings that have been delivered on the project as at the end of September 2023.
- 6.47** The original business case also set out a projected payback period of 7.1 years based on the original budget. However, by March 2021, the NSSO reported that recouping expenditure on the FMSS programme would take ten years or more.

Planned migration to accrual accounting

- 6.48** A 2019 report by the OECD recommended the implementation of public financial reporting and accounting reforms, and in particular of accrual government accounting, in Ireland.¹ The report emphasised the critical importance of delivering the FMSS programme — to scope and on schedule — for the implementation of accrual accounting.
- 6.49** In October 2019, the Government agreed to the transition of central government departments and offices to a new accrual accounting framework based on International Public Sector Accounting Standards (IPSAS).² The roadmap approved by Government set out the development and adoption of the new framework over four phases between 2019 and 2025.
- 6.50** The Department considers the adoption of accrual accounting by central government departments and offices as having the potential to contribute to a longer-term project that proposes wider financial reporting and accounting reforms to achieve 'whole of government' accounts from 2030. The Department set out an indicative timeframe of how this could operate (see Figure 6.4).

¹ *Financial Reporting in Ireland*, OECD journal on budgeting, volume 1, 2019.

² The European Commission is encouraging member states to implement accrual accounting for public sector bodies, using IPSAS; a suitable reference framework for the development of European Public Sector Accounting Standards.

Figure 6.4 Proposed phasing of wider financial reporting and accounting reforms



Source: Department of Public Expenditure, National Development Plan Delivery and Reform (2019)

- 6.51** The adoption of the accrual accounting project is running significantly behind schedule. Figure 6.5 details the progress made in developing and implementing the new financial reporting and accounting framework. As at the end of April 2023, the Department was working on completing Phase 2 of the project. This was originally planned to conclude in 2020.
- 6.52** The planned 29 accounting standards have been divided into a group of twelve priority standards for early implementation, and 17 'non-priority' standards (see Annex 6C). The Department is planning to introduce nine of the twelve priority standards with effect from 1 January 2024.¹ The remaining standards will come into effect on a phased basis from 1 January 2025 onwards.
- 6.53** The Department has stated that detailed work and extensive consultation will take at least a couple of years for the remaining standards to come into effect. The timeline will be reviewed in 2024 following the introduction of the first nine standards.

¹ The standard on employee benefits (CGAS 39) has been split into two: non-pension benefits, and pension benefits. The element relating to pensions is set to be introduced with the remaining standards from 1 January 2025.

Figure 6.5 Implementation of financial reporting and accounting reforms: adoption of accrual accounting

Phase	Original timeline	Action	Status
1	2019: Project inception and set-up	▪ Document reform objectives, outcomes and estimated costs.	●
		▪ Define governance arrangements and finalise project organisation and road map.	●
		▪ Establish project governance arrangements/standing group/working groups.	●
		▪ Survey financial maturity and accounting capability across government departments.	●
		▪ Redefine accounting gap assessment/finalise project organisation and road map.	●
2	2019 – 2020: Definition of new framework	▪ Develop a conceptual framework for accounting reform.	●
		▪ Adopt first set of accounting standards (priority standards only).	●
		▪ Identify changes to internal financial controls and develop instructions.	●
		▪ Determine new audit arrangements.	●
		▪ Assess FMSS current chart of accounts.	●
		▪ Pilot the first stage of the new framework in a small number of government departments.	●
		▪ Deliver training on the new accounting standards.	●
		▪ Identify legislative changes required.	●
3	2021 – 2024: Implement new framework	▪ Prepare accounts using accrual accounting standards.	●
		▪ Prepare opening balance sheets using accrual accounting standards.	●
4	2023 – 2024: Intermediary project assessment	▪ Realise a formal post-implementation review.	●
		▪ Review progress to date and validate, or revise plan for completion of the reforms if necessary.	●
5	2025: Finalise implementation	▪ Implement the remaining accounting standards.	●
		▪ Prepare opening balance sheets for all central government entities using the new framework.	●

● Completed ● In progress ● Not commenced

Source: Department of Public Expenditure, National Development Plan Delivery and Reform. Analysis by the Office of the Comptroller and Auditor General.

Independent review

- 6.54** Once the FMSS has been implemented, the NSSO will be responsible for the provision of standardised finance and accounting processing services to central government. It will therefore act as a key enabler for the move to accrual accounting rather than be the accounting standard setter. The European Commission — through its structural reform support service — contracted an external consultant to review the FMSS chart of accounts in 2021.
- 6.55** The review concluded that the FMSS system, once implemented, will be capable of accommodating a multi-dimensional chart of accounts for use with both cash-based and accrual-based accounting systems. It also confirmed that the system has sufficient capacity to cater for an IPSAS-style accounting framework based on International Financial Reporting Standards.

Standing advisory group on government accounting and financial reporting

- 6.56** The NSSO is part of the standing advisory group on government accounting and financial reporting established by the Department in 2020. The group was set up to provide expert advice on the Department's programme of financial reporting and accounting reforms.
- 6.57** The NSSO stated that its representation on the standing advisory group aims to ensure continued alignment between the FMSS programme and the Department's programme of reforms in relation to all reporting developments.
- 6.58** The standing advisory group consists of academics, accounting experts and key stakeholders, including finance officers from relevant departments. The group met six times between September 2020 and July 2021 to
- review and sign off the *Conceptual Framework for General Purpose Financial Reporting by the Irish Central Government*
 - assist in the development of a financial capacity survey of government departments
 - provide advice and guidance on 29 new Central Government Accounting Standards (CGAS), and associated accounting manuals.
- 6.59** No meetings took place between August 2021 and February 2023. The Department explained that an extensive consultation and preparation process took place during that time, which informed the development of CGAS and accounting manuals that were subsequently presented to the standing advisory group for final review. Meetings resumed in March 2023.

Stakeholder group

- 6.60** In 2021, the Department set up a stakeholder group consisting of representatives from its own Government Accounting Unit, the NSSO and the Office of the Comptroller and Auditor General. The purpose of the group was to consider the accounting manuals for the CGAS.
- 6.61** The stakeholder group met on four occasions between October 2021 and March 2022 to review the accounting manuals accompanying the priority CGAS. In addition, regular informal communication is taking place between Government Accounting and the NSSO.

Conclusions and recommendations

- 6.62** The FMSS programme was launched in 2016 with a proposed budget of €47.4 million (excluding VAT) and a four-year timeframe. In 2020, following Government approval, the budget was increased to approximately €95 million and the timeline for completion of the project was extended to 2025. The NSSO was recommended to coordinate with the Department's Government Accounting Unit to provide a single coherent timeline to client public sector bodies for the implementation of FMSS and implementation of financial and accounting reforms.

Implementation progress

- 6.63** The memorandum underpinning the Government decision to increase funding and extend the timeline of implementation of FMSS did not include a detailed schedule of how the NSSO would achieve the delivery of the programme by 2025. It did however include an indicative timeline of the funding requirements per year.
- 6.64** The FMSS Programme Board overseeing the project has repeatedly sought a full project timeline, but the NSSO has not succeeded in presenting one. Its focus was primarily on wave 1 of the rollout, to a small group of client bodies with less complex functionality requirements. That rollout commenced in November 2021 and was completed by April 2022 — about four months after the scheduled completion.
- 6.65** An indicative critical path and timeline for deployment of the system to wave 2 was presented to the Programme Board in July 2023, along with an update on the structure of waves 3 and 4 and their expected timeframes.
- 6.66** The NSSO has stated that it now expects the timeline for full delivery of the FMSS programme to go beyond 2025, with the rollout to wave 2 clients scheduled to be completed by the end of 2024.

Recommendation 6.1

The NSSO should document and formally agree a timeline for the remainder of the FMSS project and share it with relevant stakeholders.

NSSO Accounting Officer's response

Agreed.

The NSSO presented the timeline and key phases of wave 2 to the Programme Board in July 2023. These timelines and the key phases of work were also shared with wave 2 clients as part of ongoing engagements. The NSSO will continue to progress high level planning for waves 3 and 4 as wave 2 progresses and the detailed timelines for these waves will be communicated as they become definitive. All timelines will be shared with Government Accounting. Learnings from previous government shared service programmes show that programme timelines should be adjusted as required while still remaining within budget.

Timeline for implementation

Indicative timelines will be shared with waves 3 and 4 clients in Quarter 1 2024 and will be updated as wave 2 progresses.

User concerns with operation of FMSS

- 6.67** The wave 1 client bodies and accounts required development of the majority of the planned common functionality of the system. The remaining common functionality is planned for implementation as part of the wave 2 rollout. Waves 3 and 4 will require development of additional, bespoke functionality for some of the financial management tasks of the target public bodies.
- 6.68** In the six months after rollout of wave 1 of the FMSS, most of the users formally expressed to the NSSO their dissatisfaction with elements of the system's performance and functionality, especially in regard to reporting functionality and system performance. In September 2022, the Department of Finance paused the transfer of financial management of the Central Fund of the Exchequer to the FMSS due to concerns regarding the system's capacity to meet the Department of Finance's specific reporting requirements for the Exchequer. The transfer remains suspended.
- 6.69** The NSSO acknowledged the users' comments, but noted that some of the issues raised by users were resolved quickly, with the remaining issues either being looked at or involving design changes that would require a costly rebuild of the FMSS system.
- 6.70** In addition to introducing new reports, redesign of existing reports and extensive learning sessions to assist wave 1 clients, the NSSO commissioned an independent post-implementation review of the first wave in September 2022. The reviewer was tasked to set out lessons learned to inform improvements for the rest of the programme.
- 6.71** A final engagement session scheduled in April 2023 between the reviewer and wave 1 users did not take place because the users were not provided with a copy of the draft report. The NSSO only met with the reviewer to discuss the draft findings in July 2023, and the review report has not yet (in September 2023) been finalised.
- 6.72** The commissioning of an independent review of the operation of the FMSS following wave 1 was an important learning opportunity in advance of the planned rollout of the system to other users. However, the delay in finalising that report and in incorporating the lessons learned into future plans is of concern.

Project costs and savings

- 6.73** The original business case for the FMSS programme anticipated average annual savings of €15.4 million, and a payback period of around 7.5 years. When seeking approval for additional funding and an extended timeline for the project in 2020, the estimated savings were not revalidated. The NSSO has not conducted any formal cost benefit analysis in the light of the experience with wave 1.

Recommendation 6.2

The NSSO should recalculate the 2016 estimated savings anticipated from the project, taking account of the experience from the wave 1 rollout.

Accounting Officer's response

Agreed.

The NSSO intends to commence a process of revalidating the prevailing central government finance full-time equivalents and non-pay costs in an exercise that will be completed in parallel with the wave 2 engagement. This will be an inclusive exercise with a significant number of stakeholders. As part of this process, the NSSO will also define a framework for benchmarking and tracking the benefits accruing to this strategic programme.

The benefits will be recorded under distinct categories.

- Commercial: straightforward cost savings in terms of headcount, technology costs, etc.
- Strategic: enabling enhanced accrual accounting; supporting fiscal transparency through application of IPSAS accounting principles consistently across central government; supporting agility and responsiveness to emerging reporting requirements; facilitating compliance with eProcurement directives; providing access to centralised data; etc.
- Operational/user experience benefits: efficiencies in operations e.g. shared supplier accounts; easier reporting of spend by supplier/cost type; user experience improvements such as easier approval process; etc.

Timeline for implementation

The framework for benchmarking and tracking the benefits, including savings, will be developed in 2024 to enable benefits realisation tracking post wave 2 go-live.

6.74 At the end of 2022, total expenditure on the FMSS programme amounted to €62 million. This represents almost two-thirds of the budget allocated under the revised investment plan. While spending is behind the planned profile, delivery is also behind schedule, and less comprehensive in scope. The NSSO does not have a revised expenditure projection for the complete project. A finance update to the FMSS Programme Board in July 2023 projected costs to complete wave 2 yet contained no projections for waves 3 and 4. However, the Accounting Officer has stated that it is expected the project will remain in budget.

6.75 The current contract with the system implementation partner is due to conclude in 2024. The NSSO noted that, due to the need to procure and put in place a new system implementation contract, related project development costs may be impacted.

Recommendation 6.3

The NSSO should estimate the expected costs to completion for all waves of the FMSS project. Any future proposal the NSSO may make to extend its timeline and/or budget should be accompanied by up to date costings and a cost benefit analysis.

Accounting Officer's response

Agreed.

The NSSO regularly updates the projected costs to complete wave 2, which includes any impact on the contingency in the budget to determine if the contingency will be sufficient to cover the timeline. These projected costs are presented to all governance fora on a regular basis including the FMSS Programme Board, Audit and Risk Committee and Advisory Board. Once the procurement is concluded for the system implementation vendor, a revision of costings will be made. The NSSO will continue to make every effort to deliver this programme within budget.

Timeline for implementation

The expected costs to complete will continue to be part of ongoing reviews, including an overall review post wave 2 go-live.

Delivery of the parallel accrual accounting project

- 6.76** A 2019 OECD report recommended the migration of Irish central government accounting systems from the current cash-based system to an accruals basis. The recommendation was accepted by the Government, which in October 2019 directed the development of a new accrual accounting framework based on International Public Sector Accounting Standards (IPSAS), on a phased basis between 2019 and 2025.
- 6.77** The development of the FMSS is a central enabler for delivery of the transition of central government departments and offices to accrual accounting. An independent review of the FMSS system commissioned by the European Commission concluded that the design of the FMSS should be capable of accommodating the planned move to an IPSAS-style accounting framework.
- 6.78** The Department of Public Expenditure, National Development Plan Delivery and Reform is responsible for the setting of the relevant accounting standards. While the standards setting project is behind schedule, the Department has signalled the introduction of nine of the twelve priority accounting standards for all central government departments and offices for the accounting years commencing 1 January 2024. The current plan is that the remaining standards will come into effect on a phased basis from 1 January 2025.

Recommendation 6.4

The Department should document and formally agree a timeline for the remainder of the financial and accounting reforms project and share it with relevant stakeholders.

Department Accounting Officer's response

Agreed.

The Department is broadly in line to deliver on the Government's decision to bring International Public Sector Accounting Standard (IPSAS) based standards into force for the 46 central government votes by the end of 2025.

The chart shown in Figure 6.5 is based on the original timetable proposed in the 2019 memorandum for Government. However, a number of activities across the phases had to happen concurrently and not in distinct phases as envisaged at the time. The outcome of these activities sees the Department in a position to bring into effect in 2024 nine of the priority Central Government Accounting Standards (CGAS) recommended by the OECD. The Minister for Public Expenditure, National Development Plan Delivery and Reform will be updating Government on the timeline for the phased introduction of CGAS.

Timeline for implementation

The Department will provide an updated timeframe on the rollout of the financial reporting and accounting reforms for central government votes after the Minister updates Government in Q4 2023.

Annex 6A FMSS client waves

Figure 6A.1 Composition of FMSS client waves

Wave 1	Wave 2	Wave 3 ^b	Wave 4 ^b
<ul style="list-style-type: none"> Department of Finance Exchequer^a Office of the Ombudsman President's Establishment Department of Public Expenditure, National Development Plan Delivery and Reform Office of the Government Chief Information Officer National Shared Services Office Office of Government Procurement Office of the Comptroller and Auditor General 	<ul style="list-style-type: none"> Táilte Éireann National Museum of Ireland Department of the Taoiseach Department of Justice An Garda Síochána Garda Síochána Ombudsman Commission Irish Prison Service Courts Service Policing and Community Safety Authority Department of Tourism, Culture, Arts, Gaeltacht, Sport and Media Department of Rural and Community Development Data Protection Commission Department of Transport 	<ul style="list-style-type: none"> Department of Foreign Affairs Department of Housing, Local Government and Heritage Office of Public Works Office of the Director of Public Prosecutions Oireachtas Central Statistics Office Department of Health Legal Aid Board Competition and Consumer Protection Commission Revenue Tax Appeals Commission National Council for Special Education Law Reform Commission National Library of Ireland State Examinations Commission Irish Human Rights and Equality Commission 	<ul style="list-style-type: none"> Department of the Environment, Climate and Communications Office of the Attorney General Office of the Chief State Solicitor Department of Children, Equality, Disability, Integration and Youth Public Appointments Service Department of Education Department of Enterprise, Trade and Employment Department of Social Protection Department of Defence State Laboratory Department of Agriculture, Food and the Marine National Gallery of Ireland Irish Auditing & Accounting Supervisory Authority Department of Further and Higher Education, Research, Innovation and Science

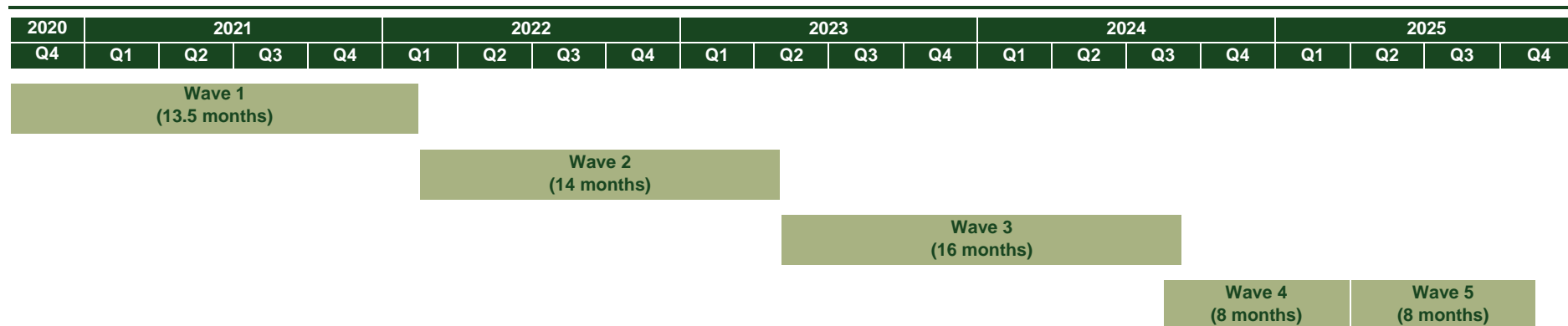
Source: National Shared Services Office

Notes: a The Department of Finance took the decision to pause the Central Fund of the Exchequer's involvement in FMSS in September 2022. This transfer remains suspended.

b The composition of waves 3 and 4 is still subject to change and will be confirmed at the start of the mobilisation process for each wave.

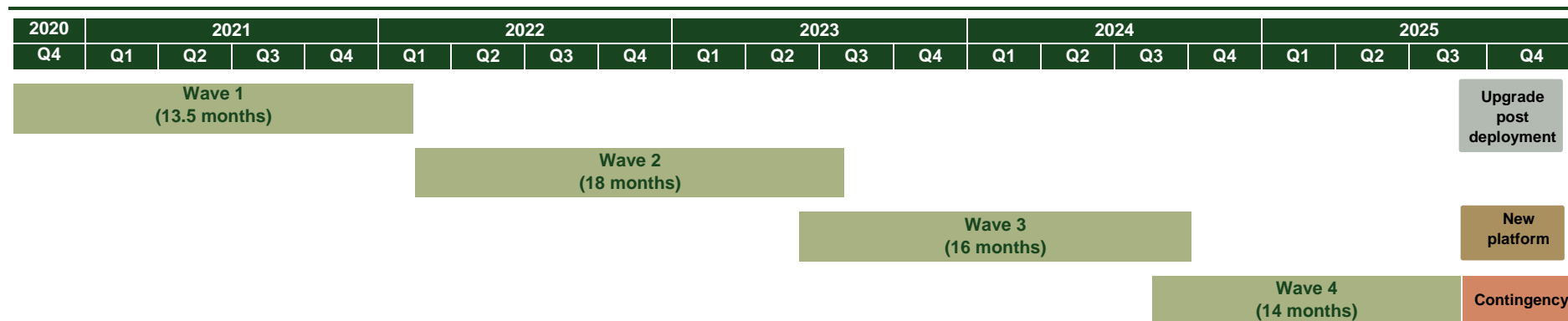
Annex 6B Scenarios for future waves deployment presented to the NSSO Management Board on 17 June 2021

Figure 6B.1 Scenario 1: full deployment in five waves and no consideration for system architecture upgrade



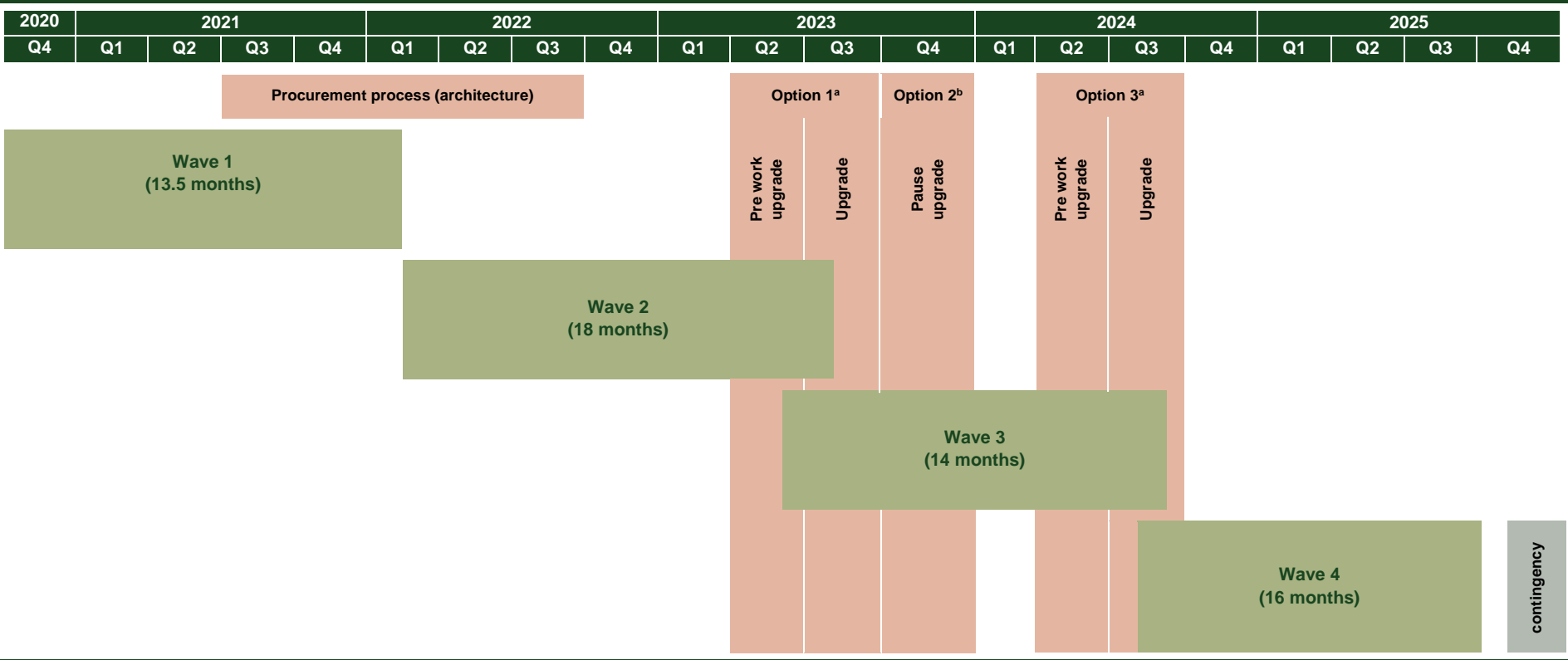
Source: National Shared Services Office

Figure 6B.2 Scenario 2: four waves and system architecture upgrade post full deployment



Source: National Shared Services Office

Figure 6B.3 Scenario 3: four waves and system architecture upgrade in parallel



Source: National Shared Services Office

Notes:

- a Options 1 and 3 involve running the design phase of either wave 3 or wave 4 in parallel to the system architecture upgrade.
- b Option 2 is based on the assumption that the build phase for wave 3 will take place on the new platform in Q1 2024.

Annex 6C Central Government Accounting Standards

CGAS number	Priority standards ^a
1	Presentation of financial statements
2	Cash flow statements
3	Accounting policies, changes in accounting estimate and errors
12	Inventories
13	Leases
17	Property, plant and equipment
19	Provisions, contingent liabilities and contingent assets
21	Impairment of non-cash-generating assets
26	Impairment of cash-generating assets
31	Intangible assets
32	Service concession arrangements: grantor
39	Employee benefits ^b

CGAS number	Non-priority standards
4	The effects of changes in foreign exchange rates
5	Borrowing costs
9	Revenue from exchange transactions
11	Construction contracts
14	Events after the reporting date
20	Related party disclosures
22	Disclosure of financial information about the General Government sector
23	Revenue from non-exchange transactions (taxes and transfers)
24	Presentation of budget information in financial statements
27	Agriculture
28	Financial instruments: presentation
30	Financial instruments: disclosures
34	Separate financial statements
35	Consolidated financial statements
38	Disclosure of interests in other entities
41	Financial instruments
42	Social benefits

Source: Department of Public Expenditure, National Development Plan Delivery and Reform

Notes: a Standards highlighted in green will be implemented by the Department with effect from 1 January 2024.

b Matters relating to pensions are only set to be brought in with effect from 1 January 2025.

7 Transforming the passport service

- 7.1** The Passports Act 2008, as amended (the Act), sets out the legislative basis for issuing Irish passports.¹ The Department of Foreign Affairs (the Department), on behalf of the Minister for Foreign Affairs, is responsible for the provision of passports through the passport service. The passport service's primary responsibility is to process passport applications and issue passports to Irish citizens living in Ireland and abroad.²
- 7.2** In 2020 and 2021, the passport service was impacted by restrictions imposed in response to the Covid-19 pandemic, until designated as an essential service on 29 April 2021. Routine passport operations were paused on a number of occasions throughout 2020 and 2021 — approximately eight months in total.³ In 2022, the passport service experienced an unprecedented demand for passports due to a pent-up demand for travel.
- 7.3** This examination was undertaken to assess the systems in place for the timely issuance of passports, with a particular focus on performance monitoring and reporting arrangements, including performance metrics for the issuance of passports.

Managing the delivery of passports

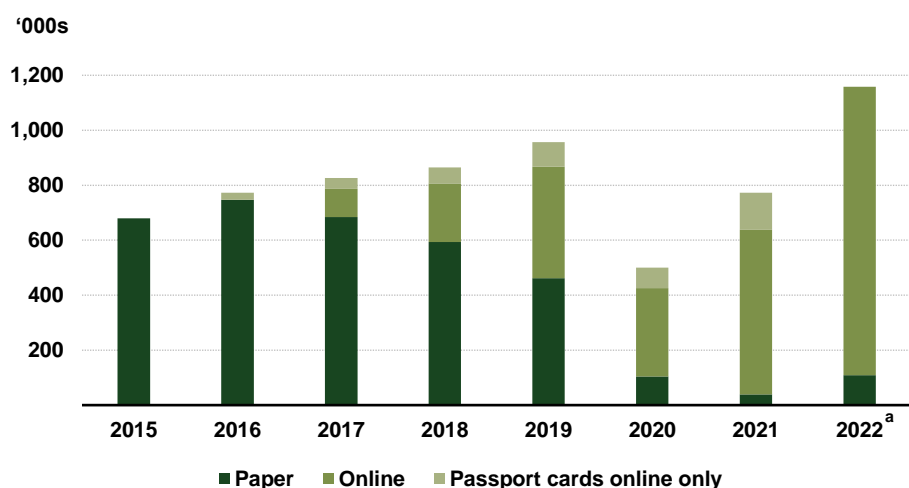
- 7.4** In 2022, the passport service received over one million passport applications. This represented a significant increase of around 21% when compared with 2019, the previous highest year for applications. However, in addition to increased numbers of applications, there was also a rapid and significant change in the method of application: online applications (including online passport cards) increased from 52% of the total in 2019 to 91% of all applications received in 2022 (see Figure 7.1).

¹ The Act sets out who may apply for passports; the types and validity of passports; identity and citizenship requirements; the requirements for issuing passports for children; the grounds on which a passport can be refused, revoked or cancelled, and a decision appealed; and various offences under the Act.

² Since 2019, the passport service is also responsible for granting Irish citizenship in respect of persons born outside of Ireland, as provided for in section 7(3) of the Irish Nationality and Citizenship Act 1956 (as amended).

³ Routine operations were paused between 27 March 2020 and 8 June 2020; 21 October 2020 and 1 December 2020; and 26 December 2020 and 4 May 2021.

Figure 7.1 Number of passport applications received, 2015 – 2022



Source: Department of Foreign Affairs. Analysis by the Office of the Comptroller and Auditor General.

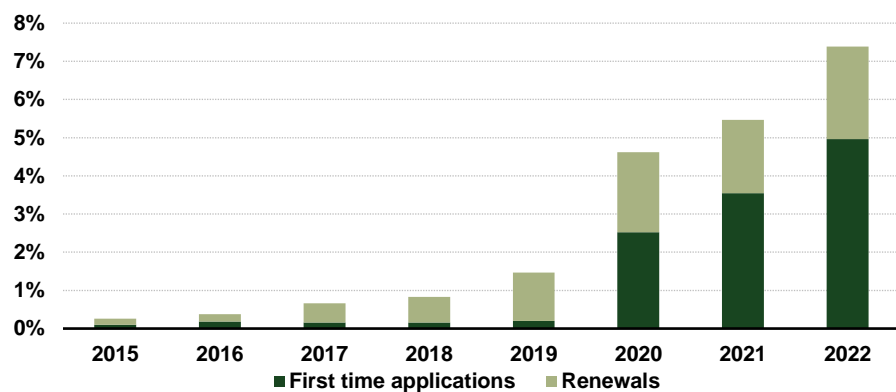
Note: a In March 2017, online application for adult renewals was launched and the option to apply for a passport book and card as a bundle was introduced. To end 2021, the bundle application was counted as two applications. In 2022, bundle applications are counted as one application.

- 7.5** The passport service is a demand-led service. A forecasting and planning system, introduced in 2021, is used to project the demand for passports. Prior to Covid-19, demand for passports was generally predictable, increasing by on average 9% a year between 2015 and 2019. Applications fell back significantly due to Covid-19 travel restrictions, but by 2022, were at about the long term trend level i.e. continued growth of 9% per year would have resulted in around 1.25 million applications in 2022, just marginally above the 1.2 million received.

Cancellation of passport applications

- 7.6** The passport service's internal procedures set out that a passport application can be cancelled for either of two reasons
- the applicant requests the cancellation of the application
 - the application cannot be progressed after six months from receipt, primarily due to insufficient or no documentation submitted.
- 7.7** The cancellation of applications is not provided for in the Passports Act. However, section 12 of the Act sets out the circumstances whereby a passport may be refused. The Department stated that it does not monitor the number of refusals, and that applications refused are included in the numbers for cancelled applications.
- 7.8** Since 2015, the cancellation rate of passport applications has increased year on year. There was a significant increase in cancellations between 2019 and 2022 — from 1.5% of all applications received in 2019, to over 7% in 2022. Cancelled first time applications accounted for just over one-third of all cancellations in 2015; by 2022, this had increased to over two-thirds of all cancellations (see Figure 7.2).

Figure 7.2 Applications (including passport cards) cancelled as a percentage of all applications received, 2015 – 2022



Source: Department of Foreign Affairs

- 7.9** The Department stated that throughout 2020 and 2021, applicants continued to apply online but more complex applications could not be processed because the passport service operated on a limited or emergency basis and staff could not attend the workplace.¹ Many of these applications were not processed within the six-month timeframe and had to be subsequently cancelled and refunds issued. In the first half of 2022, when turnaround times were longer than normal, some applicants applied for passports using multiple channels i.e. applicants submitted both online and paper applications. This resulted in duplicate applications being cancelled and refunds issued.²
- 7.10** The Department has stated that the pattern of applicants' behaviour has changed with the development of the online system. It appears that some applicants apply online but fail to submit the required documentation. Three email reminders are issued, but if no documentation is received in response to these emails, the applications are considered as abandoned, are cancelled and refunds are issued to the applicants.
- 7.11** However, because the Department does not record the reasons for cancelled applications, it could not provide a breakdown of the number of cancellations which were due to applicant abandonment.

Issuance of passports

- 7.12** In 2022, the passport service issued 16% more passports than in 2019, pre Covid-19. While just under 1.2 million applications were received in 2022, around 1.09 million passports were issued.
- 7.13** When cancelled applications are taken into account, the passport service has managed to dispose of all applications received and, apart from extended processing times at periods of high demand, it does not have an embedded backlog of applications.
- 7.14** The issuance of passports was significantly delayed throughout 2020 and 2021, caused by the intermittent pausing of the majority of passport services under Covid-19 public health restrictions. During these times, the passport service operated on a limited or emergency basis.
- 7.15** The Department stated that, in 2020 and 2021, also due to Covid-19, there were significant global supply chain issues for raw material and this was most acute in the supply of the chips used in passports.³ The Department put mitigating measures in place in 2022 to ensure the supply of passports up to the end of 2024. In July 2023, the Department decided to purchase additional chips to cover projected passport supply needs to June 2025.
- 7.16** When the service fully reopened in May 2021, there was a backlog of passport applications. The Department stated that citizens continued to apply for passports while services were disrupted. A significant proportion of the backlog applications were received during the first four months of 2021, when they could not be processed. By the end of July 2021, substantial progress had been made in clearing the backlog and all backlog applications which had been completed correctly had been processed and passports issued to applicants. As of April 2023, there was no backlog and all processing times for online applications were in line with normal pre Covid-19 processing times.

¹ Complex applications include all first time applications and child renewal applications. They also include adult renewal applications where applicants are changing their family name.

² In early 2023, the Department identified an issue whereby duplicate refunds were made due to a system error for paper applications. Most of these overpayments occurred in 2022-2023. A small number occurred in 2019. See Vote 28 Foreign Affairs Appropriation Account 2022 at www.audit.gov.ie

³ The lead period for delivery of supplies of chips increased from 12 weeks (prior to Covid-19) to 18 months.

Passport turnaround times

- 7.17** The passport service calculates the target turnaround time (measured in working days) for processing applications using a forecasting and planning system with integrated statistical modelling and scenario analysis capabilities. The Department stated that target turnaround times are service delivery targets based on average turnaround times, agreed at management board level and published on the Department's website.¹ It stated that target turnaround times are used as the basis for workforce and resource planning. It also stated that actual turnaround times reflect how long it takes to process the different types of applications in a given period.
- 7.18** The passport service commenced the calculation of average turnaround times for online applications for passport renewals in March 2017. This was extended to other types of online applications as the online service expanded to include, *inter alia*, child passport renewals and first time applications from other countries.
- 7.19** In 2021, the passport service recorded its longest ever average turnaround times: 40 working days for paper and online first-time applications. While the average turnaround time for first-time online applications reduced to 20 working days by September 2022, there was no change in the average turnaround time for paper applications. As the target turnaround times are based on actual average turnaround times, the Department consequently updated the respective target turnaround times to reflect what was being achieved.
- 7.20** The Department stated that the reasons for the delays in processing passport applications in 2022 included
- a surge in demand post the easing of Covid-19 related travel restrictions
 - increased demand from United Kingdom (UK) residents as a result of Brexit
 - insufficient resources in place at the time to deal with the increased demand.

Oireachtas phone line

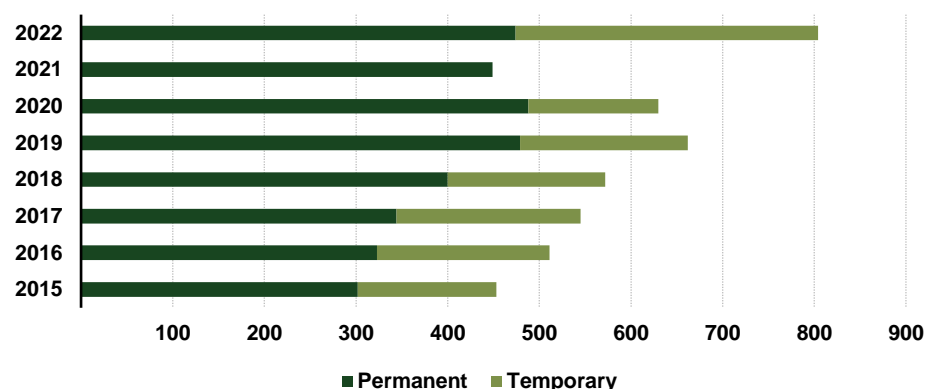
- 7.21** In October 2021, the Department introduced a dedicated phone line for members of the Oireachtas, whereby members can obtain a status update on constituents' passport applications.²
- 7.22** The Department stated that passports are not issued based on representations from politicians, and that the Oireachtas phone line is not a facility for expediting applications out of turn.

Staffing levels

- 7.23** The passport service experiences particular service delivery demands in the first half of the year, with the highest recent levels of demand experienced in February (2022), April (2018, 2019) and May (2016, 2017). The lowest demand for passports is usually experienced in December. To address the seasonality of the demand for passports, the Department employs additional temporary staff for the busier periods (see Figure 7.3).

¹ The target turnaround times differ according to type of application.

² The Department stated that members of the Oireachtas using the Oireachtas telephone line are limited to 20 enquiries per week.

Figure 7.3 Passport service staff numbers 2015 – 2022 as at 1 July annually

Source: Department of Foreign Affairs

7.24 At the end of June 2022, 41% of the passport service's staff were employed on a temporary basis compared with 33% in 2015 and 28% in 2019. The Department stated that in order to meet the projected continued high demand for 2023, it took the unprecedented step to retain all temporary staff through contract extensions to ensure expertise is retained and staffing levels maintained. It also expects the passport service's staff numbers to increase to 874 staff in 2023.

7.25 Since 2019, passport service staff are also involved in processing foreign birth registration (FBR) applications and the issuance of foreign birth certificates. While the overall number of applications received (for both passports and FBRs) between 2015 and 2022 increased by 74% — of which 70% related to passport applications — staff numbers increased by 77% over the same period.¹

7.26 The Department stated that staff employed by the passport service have increased in response to, *inter alia*, the increased level of passport applications received, the establishment of a team to support the transformation from a paper-based system to an online system, the provision of additional services including FBR, an enhanced customer service, data protection team, expansion of integrity team and establishment of an in-house HR and training unit.²

1 The increase in passport applications over the period to end 2021 includes passport cards as a separate application.

2 Major developments in the passport service over the period 2015 to 2022 are set out in Annex 7A.

3 The remaining income is generated from fees for foreign birth certificates issued.

4 Apart from this reduction, there have been no major changes to passport fees since 2013.

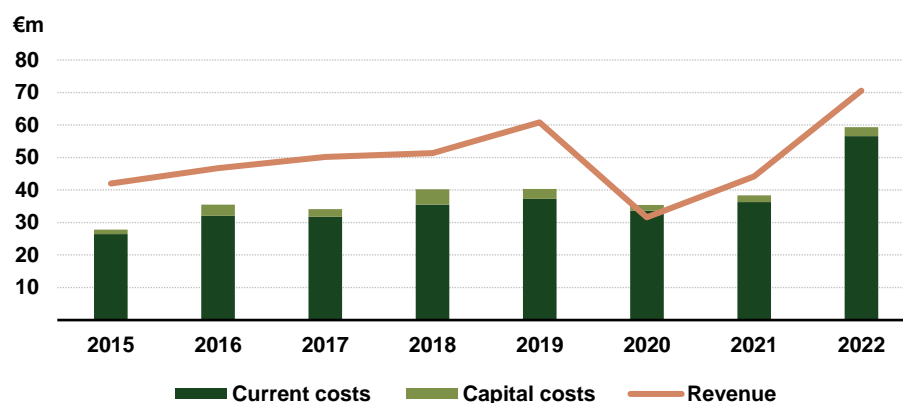
5 By comparison, the passport service in the UK is required to be self-financing.

Cost of passport service delivery

7.27 The passport service generates approximately 90% of its revenue from fees charged to citizens for passports issued — the fee charged depends on the application type.³ The current fees for passport paper applications are €80 for an adult and €30 for a child. The fees for online applications for adults and children were reduced by €5, to €75 and €25 respectively, in 2019.⁴

7.28 The Department does not have a formal self-financing policy i.e. whereby sufficient revenue is generated from passport fees to cover the costs of providing the service.⁵

7.29 While total revenue (for passports and FBRs) increased by 68% between 2015 and 2022, total direct costs increased by 113% over the same period (see Figure 7.4).

Figure 7.4 Passport service revenue and direct costs, 2015 – 2022^a

Source: Department of Foreign Affairs

Note: a Direct costs include current and capital costs.

- 7.30** Around 160 passport service staff were temporarily redeployed to the Health Service Executive and the Department of Social Protection to assist with Covid-19 related response measures during 2020 and 2021. Routine operations of the passport office were intermittently paused for approximately eight months in total from March 2020 to May 2021. The staff costs for the redeployment periods were borne by the Department.
- 7.31** The Department stated that as it is not possible to provide the actual periods of redeployment it could not identify the related costs. The Department stated this was due to the fluidity of the situation, including the varying levels of Covid-19 related restrictions.
- 7.32** The Department also stated that additional, enhanced customer services have been introduced since 2015 which resulted in additional costs.

Overhead costs

- 7.33** Costs incurred by the Department in respect of certain central administration functions are not allocated to the passport service. These include the costs of units such as ICT, HR, finance and other corporate services. These are allocated between the Department's five expenditure programmes for accounting purposes, but the passport service is not a stand-alone programme. As a result, the total cost of the passport service cannot be readily established.

Unit cost of passports

- 7.34** The unit cost of processing a passport application and producing a passport is a potential measure of the level of efficiency achieved by the Department. However, the unit cost of producing a passport could not be estimated by the examination team because direct costs are not apportioned by the passport service to its outputs (i.e. costs relating to the processing of passport applications and FBR applications are not separately identifiable). Indirect costs are also not apportioned to the service.

7.35 The Department stated that it does not monitor the unit cost of passports, and considers that the unit cost is not an appropriate measure of efficiency because it is too narrow a metric for a complex and detailed passport service. It also pointed out that the inherent value of the Irish passport in terms of the esteem in which it is held internationally and the benefits and protections it offers to citizens is challenging to quantify in cost and outturn terms.

Reporting the performance of the passport service

- 7.36** The Department’s strategic goal for the passport service, as set out in its Statement of Strategy 2021 – 2023, is to provide modernised and accessible passport services to citizens with optimum use of digital platforms.^{1,2} The Department’s key output objective for the passport service under this strategic goal is to *‘effectively meet the high demand for passports, through continued reform and digitisation whilst ensuring high levels of security and data protection requirements.’*
- 7.37** The Department has developed measures to monitor the performance of the passport service in achieving its strategic objective. These measures, together with the related targets to be achieved are published annually in the *Revised Estimates for Public Services* (estimates) by the Department of Public Expenditure, National Development Plan Delivery and Reform (DPENDPDR).
- 7.38** The 2023 estimates (published in December 2022) include three key high level performance metrics for the passport service (see Figure 7.5).

Figure 7.5 Passport service performance metrics 2023 estimates

Key output objective	Key high level metrics
Responsive and strengthened passport service for our citizens ^a	<ul style="list-style-type: none">▪ Percentage of paper-based applications within published processing times▪ Percentage of online applications processed within 20 working days▪ Rate of complaints to number of passports issued

Source: *Revised Estimates for Public Services 2023*, Department of Public Expenditure, National Development Plan Delivery and Reform

Note: a Reflects the objective included in the Department’s previous strategy 2017 – 2020.

1 This is set out in the 2021 – 2023 strategy under the Department’s high level Goal 1 – ‘Our People: To serve our people at home and abroad and to promote reconciliation and cooperation’.

2 The Department’s new statement of strategy for the period 2023 – 2025 was launched in early June 2023.

- 7.39** The current performance metrics are mainly focused on timeliness, and partially align with the passport service’s key output objective as set out in the Department’s *Statement of Strategy 2021 – 2023*. However, they do not address the security and data protection aspects of the stated objective.
- 7.40** The performance metrics included in the annual estimates have changed significantly over the period 2015 to 2023. The subsequent reporting on actual performance has been inconsistent and incomplete over the years (see Figure 7.6).

Figure 7.6 Development of metrics used in passport service performance framework 2015 – 2023^a

Key high level metrics	2015 ^b	2016 ^b	2017 ^b	2018	2019 ^d	2020	2021	2022	2023
Timeliness-focused									
% of passport express applications to have passports issued on or before 10 days	T: 83% O: Note c								
% of domestic renewal applications processed within 15 working days			T: 90% O: 95%	T: 90% O: Note c	T: 90% O: Note c				
% of domestic first time applications processed within 15 working days			T: 80% O: 80%	T: 85% O: Note c	T: 85% O: Note c				
% of online passport applications processed within 10 working days					T: 95% O: Note c				
% of online applications processed within 20 working days ^d					T: 95% O: 98%	T: 95% O: 88%	T: 95% O: 71%	T: 95%	T: 95%
% of paper-based applications processed within 30 working days ^d					T: 95% O: 88%	T: 95% O: 87%	T: 95% O: 33%	T: 95%	
% of paper-based applications within published processing times									T: 95%
Non-timeliness focused									
% of passport book applications rejected	T: 12% O: 9.7%	T: 10% O: 10.2%	T: 9% O: 10%	T: 5% O: Note c	T: 5% O: Note c				
Rate of complaints to number of passports issued ^d					T: 0.5% O: 0.01%	T: 0.3% O: 0.03%	T: 0.3% O: 0.06%	T: 0.15%	T: 0.15%
Overall customer satisfaction rate when using passport services				T: 85% O: 84%	T: 90% O: Note c	T: 90% O: Note c			

Source: Revised Estimates for Public Services 2015 – 2023. Analysis by the Office of the Comptroller and Auditor General.

Key: Green indicates that the actual outputs were reported against targets under the output metric in the relevant year.

Amber indicates that the actual outputs were not reported against targets as the metric had changed.

Notes: a T = target; O = Outturn.

b The estimates 2015, 2016 and 2017 also included qualitative indicators in relation to the passport service.

c The Department stated that the metric was updated and not repeated in the subsequent period. Therefore, the Department never publically reported the output outturn as this is not required by the estimates process.

d These metrics were not included in the 2019 revised estimates but were reported on in the 2020 (2019 output target) and 2021 (2019 output target and output outturn) revised estimates respectively.

- 7.41** For 2019, a new metric was introduced for the processing of online passport applications within ten working days with a target output of 95%. In 2020, this was revised to the processing of 95% of online applications within 20 working days. The Department stated that the main reason for revising the metric was the expansion of the online service to include child renewals in 2018 and first time applications from Ireland, the EU and EEA in 2019, which impacted the processing times for online applications.¹ The targets were not achieved in 2020 and 2021, mainly due to the impact of Covid-19.
- 7.42** In 2023, the performance metric for paper applications was further modified — whereby the processing time for 95% of applications was changed from ‘within 30 days’ to the more imprecise phrase ‘within published processing times’.² The Department had not achieved the target percentage within the time limit indicated in the previous three years.
- 7.43** The Department stated that the wording of the metric was changed because the published processing time for paper-based applications has been an average eight weeks since 2021.
- 7.44** The Department also stated that it holds historical data to support the calculation of the reported processing times for the purpose of the revised estimates, but that this data is difficult to extract from existing systems for verification purposes. The examination team was provided with the calculations for the outturns reported in the 2021 estimates.
- 7.45** The Department, since the commencement of this examination, ensures that supporting data on processing times is retained and readily accessible to facilitate the verification of the performance indicators and actual outturns.

Performance monitoring and reporting arrangements

- 7.46** The Department uses a real-time data visualisation application which is linked with the passport processing system to extract information for performance monitoring and reporting purposes.
- 7.47** The Department stated that the system satisfies the need for appropriate performance monitoring through various regular reporting and recurring meetings. Various performance reports are generated and circulated internally and externally (see Figure 7.7). The Department further stated that formal quarterly meetings are held to discuss demand, trends and lessons learned. However, minutes of these meetings are not kept.
- 7.48** The reports produced are mainly focused on the passport service’s activity statistics and trend analysis rather than desired passport service outcomes. However, since January 2023, the passport service compares target versus actual average turnaround times in its weekly passport operation reports. Scope exists to expand the range of information included in the performance reports by, for example, including detail together with relevant targets that seeks to monitor the
- cost of running the passport service
 - cost associated with processing passport applications
 - percentage reduction/increase in unit processing time
 - percentage of average unit cost recovered through fee income.

¹ The EEA is the European Economic Area.

² The processing times are based on the turnaround times and published on the Department’s website.

- 7.49** Also, since January 2023, there is a formal weekly meeting of the Department’s senior staff. However, the statistics analysed during the meetings are historic and not compared to targets.

Figure 7.7 Passport service's reporting arrangements^a

Type of report	Aim of the report	Focus of the report	Provided to
Daily statistics	Highlights immediately major increases and decreases	The number of applications received, applications on hand and the number of passports issued over the previous 24 hours	<ul style="list-style-type: none"> Deputy Secretary General/Chief Operating Officer (DSG/COO) Director General, Citizen Services Division Passport service management
Weekly statistics	Indicates bottlenecks and trends	Weekly number of applications received, applications on hand and the weekly number of passports issued	<ul style="list-style-type: none"> DSG/COO Director General, Citizen Services Division Passport service management
Weekly work in progress	Indicates potential bottlenecks using operational knowledge of the various processing stages	Details current status of passport applications by processing stage	<ul style="list-style-type: none"> Passport service management
Monthly statistics	Indicates trends Historic comparisons	Details monthly figures and trends Staffing levels	<ul style="list-style-type: none"> Management Board Secretary General DSG/COO Passport service management Director General, Citizen Services Division
Annual statistics	Indicates trends	Details annual figures and trends	<ul style="list-style-type: none"> Externally released in press release format To relevant members of the management board
Annual passport service operational plan	Includes current action plan, key updates and forecasting next year demand and workforce	Sets out current and forecasted demand, current and required workforce, key statistical update and planning for the year ahead	<ul style="list-style-type: none"> Management Board Secretary General DSG/COO

Source: Department of Foreign Affairs

Note a The Department noted that other operational level reports are also prepared. These are set out in Annex 7B.

Conclusions and recommendations

- 7.50** Covid-19 restrictions had a significant impact on the passport service. Until its designation as an essential service at the end of April 2021, passport production operations were paused for periods totalling approximately eight months overall. At the same time, the volume of passport applications fell significantly, because of reduced travel plans.
- 7.51** Following the removal of travel restrictions, the demand for passports peaked at almost 1.2 million in 2022, the highest ever number of passport applications received, representing an increase of 21% on 2019, the highest pre Covid-19 year for applications. This level of demand was in line with a continuation of the trend in the number of applications for passports over the period 2015 to 2019. However, there was also a strong shift in the way in which applications are received. Around 90% of all passport applications in 2022 were received online.

- 7.52** Prior to 2022, bundle applications — where applicants apply online for both a passport and a passport card — were counted by the Department as two applications. However, since 1 January 2022, to ensure more accurate reporting, a bundle application is now counted as one application.

Cancellation of passport applications

- 7.53** Over 7% of passport applications were cancelled in 2022. Two-thirds of the cancellations were first time applications.
- 7.54** The Department's procedures set out that a passport application can be cancelled by either the applicant requesting its cancellation or the non-progression of the application after six months from receipt, due mainly to non-submission of required documentation. The Department does not have a system in place to record reasons for cancellations. Similarly, the Department does not monitor instances where applications are refused in line with the provisions under the Passports Act 2008.

Recommendation 7.1

The Department of Foreign Affairs should introduce a process whereby the reasons for cancellation or refusal of passport applications are recorded and monitored to identify trends and to address possible shortcomings or difficulties in the application process.

Accounting Officer's response

Agreed

The passport service will introduce a process to track passport applications that are refused. A further breakdown of categories of passport applications that are cancelled is not possible with the current passport system. However, the introduction of the new passport operations system would facilitate this.

Timeline for implementation

Refusal tracker — end September 2023; cancellation tracker — end 2024.

Issuance of passports

- 7.55** The passport service issued almost 1.1 million passports in 2022. This was 16% more than in 2019 (pre Covid-19).
- 7.56** In 2021, the actual (and consequently target) average turnaround times increased, peaking at 40 days for paper applications and first time online applications. In September 2022, the average turnaround time for online first time applications reduced to 20 days. However, there was no change in the turnaround time for paper applications.
- 7.57** The turnaround times reported in the revised estimates relate to how long it takes to issue the majority of passports (e.g. 90% within 20 working days). While the Department stated that it holds historical data to support the calculation of the reported processing times included in the revised estimates, the data is not readily accessible prior to 2021.
- 7.58** Since the commencement of this examination, the Department ensures that supporting data on processing times is retained and readily accessible to facilitate the verification of the performance indicators and actual outturns.

Staffing levels

- 7.59** The demand for passports tends to be higher in the first half of the year. Additional temporary staff are employed to address this demand. At the end of June 2022, the passport service employed 804 staff of which 41% were employed on a temporary basis. The Department expects to increase the passport service's staff to 874 in 2023.
- 7.60** The Department stated that staff numbers employed by the passport service have increased mainly due to the increased level of passport and foreign birth registration applications being received, transformation from a paper-based system to an online system, the provision of additional services and a significantly enhanced customer service.

Cost of passport delivery

- 7.61** In overall terms, the level of cost efficiency achieved by the Department in providing the passport service is not known. The Department does not monitor the level of cost efficiency achieved in providing the passport service.
- 7.62** The Department does not formally require the passport service to be self-financing. Passport application fees are revised from time to time, but are not determined by formal analyses of unit costs of production of passports.
- 7.63** Indirect costs associated with the provision of the passport service have not been quantified and therefore are not currently allocated to the service. Consequently, the total costs of providing the passport service is not known.
- 7.64** Between 2015 and 2022, the passport service's direct costs increased by 113%. The number of passports and FBRs applied for over the same period increased by 74%, and fee receipts increased by 68%. The passport service commenced involvement in the processing of FBRs in 2019.
- 7.65** The Department does not monitor the unit cost of passports. This limits the Department's ability to assess and analyse the levels of cost efficiencies achieved by the service.
- 7.66** Although the Department considers that the unit cost of a passport is too narrow a metric for a complex and detailed passport service, monitoring changes in the unit cost would also enable the Department to assess the impact of rising costs on the fees charged to citizens.

Recommendation 7.2

The Department of Foreign Affairs should introduce a written policy which sets out the extent to which fee income generated should cover the passport service's overall costs.

Accounting Officer's response

Agreed

The Department has a policy that the passport service covers the cost of providing the service and contributes to the indirect costs of the Department for services provided centrally to the passport service. The Department will put in place a written policy now.

Timeline for implementation

October 2023

Recommendation 7.3

The Department of Foreign Affairs should introduce a cost allocation model to allocate indirect costs/central administration costs appropriately to the passport service. This will enable the Department to calculate the full unit cost of producing a passport and to monitor and assess changes in the unit cost over time, including the impact of rising costs on fees charged to citizens.

Accounting Officer's response

Agreed

The Department will develop a cost allocation model to allocate central headquarters costs, such as ICT, HR, finance, corporate services to the passport service. The Department will consider the appropriate cost allocation and other metrics to reflect the complexity of the services and operations of the passport service.

Timeline for implementation

March 2024

Reporting the performance of the passport service

- 7.67** The Department's key output objectives for the passport service as included in the *Revised Estimates for Public Services 2023* reflects the objectives included in the Department's previous statement of strategy covering the period 2017 – 2020.
- 7.68** Also, while the current performance metrics, included in the 2023 revised estimates partially align with the Department's main objective for the passport service, they do not refer to the accessibility and security of the passport service. None of the key performance metrics for the passport service focus on costs or unit costs.

Recommendation 7.4

The Department of Foreign Affairs should ensure that relevant information is included in the published annual estimates and that the performance metrics align with the passport service's core objectives. This should include cost efficiency metrics and targets.

Accounting Officer's response

Agreed

The Department will consider how to appropriately capture and report passport service performance metrics, especially as most of the metrics that would reflect the broad and overarching service provided, are qualitative in nature.

Timeline for implementation

March 2024

- 7.69** The passport service's performance metrics and related targets as included in the annual revised estimates have changed over the period 2015 to 2023. Where new metrics are introduced, the revised estimates procedures do not require 'retired' metrics to be reported upon. Consequently, the Department did not report on the performance achieved for the previous metrics.
- 7.70** Changing metrics and incomplete reporting on output means that the performance of the passport service over the years cannot be easily or meaningfully compared. This in turn, limits the usefulness of the metrics for decision makers within the Department and for external stakeholders.

Recommendation 7.5

The Department of Foreign Affairs should ensure that the performance information reported annually in the revised estimates volume is consistent, complete and useful in facilitating an assessment of the efficiency and effectiveness of the passport service.

Accounting Officer's response

Agreed

Since 2015, the passport service has gone through a transformational shift from a fully paper process to a global online, citizen-focused service. Accordingly, metrics had to change year to year as the service transformed and also added additional services. The revised estimates volume is a reflection of a point of time and as the service changed, the metrics were updated to reflect this. In the future, where metrics are changed, we will report the outcome of the previous metric in the revised estimates volume as well as introducing the new metrics.

Timeline for implementation

December 2023

Annex 7A Passport service major developments, 2015 – 2022

Year	Main development
2015	<ul style="list-style-type: none"> Passport card introduced
2016	<ul style="list-style-type: none"> Facial recognition system launched
2017	<ul style="list-style-type: none"> Online passport service launched for adult renewals (40% of applicants eligible for this service) Web Chat service launched
2018	<ul style="list-style-type: none"> Online passport service extended to include child renewal and complex adult renewals applications (70% of applicants eligible for this service)
2019	<ul style="list-style-type: none"> Online passport service for first time applicants in Ireland, the United Kingdom, the European Union and the European Economic Area launched (97% of applicants eligible for this service) Automated dispatch system for passports introduced The integration of Foreign Birth Registration into the passport service Customer Service Hub established
2020	<ul style="list-style-type: none"> Automated dispatch system for passport extended
2021	<ul style="list-style-type: none"> Online passport service extended to first time applicants in the USA, Canada, Australia, New Zealand, Peru, Colombia, Ecuador, Chile Urgent appointment system launched Dedicated phone line for Oireachtas members introduced
2022	<ul style="list-style-type: none"> Online passport service extended to first time applicants in Singapore, South Africa, Zimbabwe, Botswana, Lesotho, Mauritius, UAE, Qatar, Kuwait, Afghanistan

Source: Department of Foreign Affairs

Annex 7B Operational level reports

Type of report	Aim of the report	Focus of the report	Provided to
Daily report on phone operations	Shows operational statistics for call centre (by WhatsApp)	Daily analysis of total number of calls, calls answered, calls abandoned, percentage answered, number of staff in call centre.	<ul style="list-style-type: none"> Secretary General Deputy Secretary General/Chief Operating Officer (DSO/COO) Director General, Citizen Services Division Director of Passport Service Deputy Director Passport Service
Weekly passport staffing report	Highlights staffing figures and projections	Weekly review of permanent and temporary staff numbers, actual and projected staff numbers, new recruitments, vacancies and status of competitions.	<ul style="list-style-type: none"> Deputy Secretary General/Chief Operating Officer (DSG/COO) Director General, Citizen Services Division Director of Passport Service Director of HR Deputy Director Passport Service Deputy Director HR
Real-time call centre dashboard	Real-time status of call centre operations	Current information for the phone lines, number of staff logged in, number of staff handling a query, available staff, number of calls in the queue, calls abandoned, longest and current waiting time, total number of calls received	<ul style="list-style-type: none"> DSG/COO Director General, Citizen Service Division Director of Passport Service Deputy Director Passport Service Passport service's management Others as required

Source: Department of Foreign Affairs

8 Performance of certain residential retrofit schemes

- 8.1** The Climate Action and Low Carbon Development (Amendment) Act 2021 (the Act) provides for the setting of sectoral emissions ceilings, which aim to limit the total amounts of permitted greenhouse gas emissions that each sector of the economy can produce during a specified time period.
- 8.2** The Act commits Ireland to a legally binding target of a 51% reduction in emissions by 2030, compared to 2018 levels. Reductions in each sector of the economy are required, varying from a 25% reduction in agriculture emissions to a 75% reduction in electricity emissions.
- 8.3** The Department of the Environment, Climate and Communications (the Department) funds a range of sustainable energy programmes to support the achievement of reductions in emissions, the meeting of sectoral emissions ceilings targets and reducing energy poverty. In order to achieve the required emissions reductions, the Act requires the preparation of five-year carbon budgets. The preparation of the sectoral emission ceiling targets is based on the approved carbon budgets.
- 8.4** The climate action plan 2023, which forecasts that emissions from the residential sector will need to be reduced significantly, is supported by the national retrofit plan.¹ The residential target under that plan is to retrofit the equivalent of 500,000 dwellings to a building energy rating (BER) score of B2/cost-optimal (or carbon equivalent standard) by 2030.^{2,3} The national retrofit plan notes the need for an ‘all of Government’ approach for its implementation.
- 8.5** The Sustainable Energy Authority of Ireland (SEAI) has been designated as the national retrofit delivery body and is the lead agency in driving delivery of the majority of residential retrofit targets. The SEAI is funded from Vote 29 Environment, Climate and Communications, which included an estimate provision of €264 million for residential retrofit schemes in 2022.

1 The climate action plan 2023 is available [here](#) and the national retrofit plan is available [here](#).

2 The target of the equivalent of 500,000 B2/cost-optimal (or carbon equivalent) upgrades by 2030 was also included as a target in the climate action plan 2019.

3 The cost-optimal level is defined as either primary energy performance of less than 125 kWh per unit floor area per year (B2) or an upgrade of the wall insulation, ceiling insulating and heating system. The term cost optimal is part of the building regulations.

Focus of the examination

- 8.6** This examination was undertaken to assess the systems, procedures and practices in place to monitor the performance of two of the key residential sustainable energy schemes funded from the Vote. The report
- provides an overview of the BER-assessed housing stock in Ireland
 - examines the performance of two of the key residential retrofitting schemes within the sustainable energy programme — the ‘better energy warmer homes’ scheme and the ‘better energy homes’ scheme, and
 - examines how the effectiveness of the schemes is assessed against the targets set.

- 8.7** The examination team interviewed staff from the SEAI and the Department, observed retrofit inspections carried out by a managing agent on behalf of the SEAI, documented the key controls and conducted walk through testing on the application process for both schemes. A range of documentation relating to the sustainable energy programme performance was also provided to and reviewed by the examination team.

BER assessed housing stock in Ireland

- 8.8** A valid BER certificate, issued following an assessment by an SEAI registered assessor, is required for most homes available for rent or sale, for new buildings and for the receipt of SEAI home energy grants. The BER score of an individual building can change over time e.g. following improvement, or deterioration, in the fabric or heating system of the building. Current and projected BER scores can also be used to assess the adequacy of an intervention programme, and the extent to which progress has been achieved by an intervention.
- 8.9** The Department of Housing, Local Government and Heritage has responsibility for the BER system. The SEAI is designated as the statutory authority for issuing BER certificates.¹ This includes responsibility for
- the registrations of BER assessors
 - maintaining the register of BER assessments and certificates
 - quality assurance of the BER scheme
 - raising awareness and ongoing management of the BER scheme.
- 8.10** The BER is calculated based on the estimated amount of energy a dwelling would require for heating space and water, ventilation and lighting under notional occupancy. It is expressed as 'primary energy use per unit floor area per year' (kWh/m²/yr), on a scale between A1 and G. A1-rated buildings are the most energy efficient (using less than or equal to 25 kWh/m²/yr) while G-rated buildings are the least efficient (using over 450 kWh/m²/yr). The BER rating is not a measure of the amount of energy actually consumed in a defined period, which depends on whether the building is occupied and how it is used.

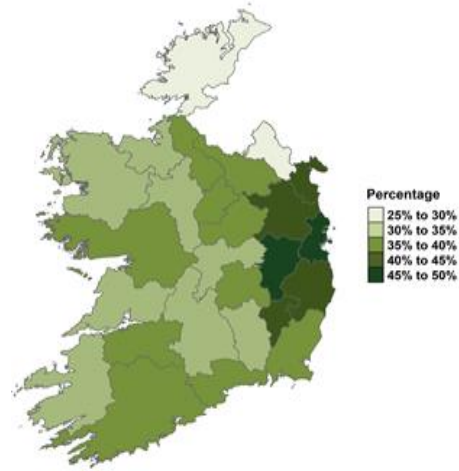
BER data analysis

- 8.11** At the end of 2022, 827,634 domestic houses had a valid BER certificate. With a total of approximately 2.1 million dwellings in the State, this accounts for just under 40% of the housing stock. The rate of testing for BER purposes varies between counties, with the highest rate of assessment in the greater Dublin region (see Figure 8.1).
- 8.12** Of the properties that have been BER assessed, only 19% had a rating of B2 or better (see Figure 8.2). The proportion of residential units receiving those ratings has been increasing, reflecting high-efficiency new house completions, as well as some upgrading of older stock.
- 8.13** Dwellings built since 2015 are considerably more energy efficient than prior constructions. A BER score of A was given to 99% of dwellings built between 2020 and 2022, and to 96% of dwellings built between 2015 and 2019. In contrast, only one third of dwellings built between 2010 and 2014 received an A rating.² The SEAI stated that this is reflective of the changes to the building regulations over subsequent years.

¹ Under Statutory Instrument 243 of 2012.

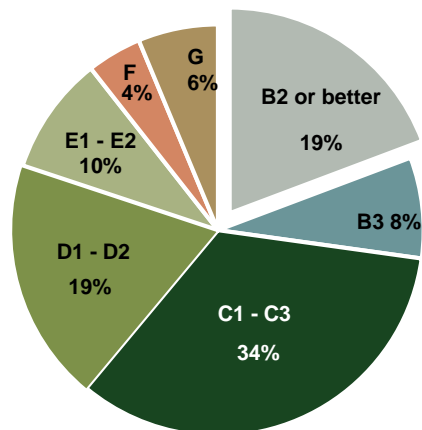
² Central Statistics Office (CSO) Domestic Building Energy Ratings, Quarter 4, 2022.

Figure 8.1 Percentage of Irish housing stock with a BER rating, by county

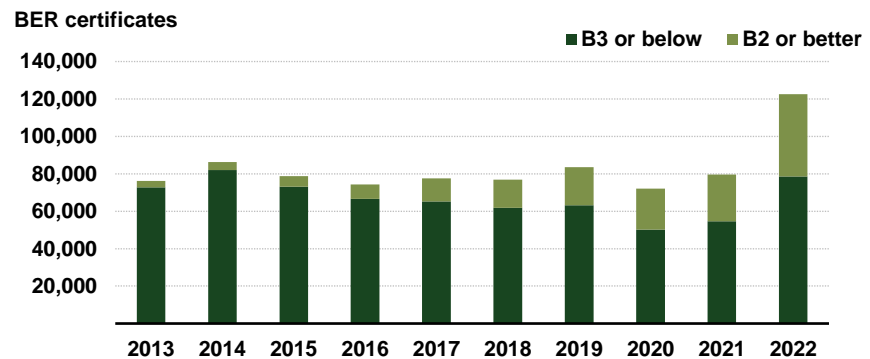


Source: SEAI and CSO. Analysis by the Office of the Comptroller and Auditor General.

Figure 8.2 Breakdown of the BER of domestic dwellings at the end of 2022



Age profile of BER certificates for domestic housing stock valid at end 2022



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

Trends in expenditure on sustainable energy programmes

Vote expenditure

- 8.14** In the ten-year period to the end of 2022, the Department has provided funding of around €1.2 billion for sustainable energy programmes (see Figure 8.3).¹ The majority of this funding — €1.1 billion — was provided directly to the SEAI.
- 8.15** The funding provision in the vote estimate for 2021 was significantly higher than prior years. However, there was a significant underspend across the better energy schemes as a result of Covid-19 and supply chain and labour limitations. To avoid surrender to the Exchequer of the unused voted funding at the end of 2021 (required under normal vote management rules), €160 million was transferred to the Energy Efficiency National Fund (EENF).² Around €49 million was transferred from the EENF to the SEAI in 2022.³
- 8.16** There was a further underspend in 2022 of €170 million relative to the estimate provision of €321 million. The Department spent €151 million (47%) of the provision on residential/community retrofit programmes. The Department noted that industry supply chain and workforce constraints and delays in the ramping up of activity under two schemes — the new national home energy upgrade scheme and the better energy communities scheme — contributed to the underspend. In addition, it took a number of months for the 'One Stop Shops' to complete the registration process.⁴ Two supplementary estimates were passed that diverted €168 million from the subhead to other subheads.⁵

1 Up to the end of 2021, the sustainable energy programmes subhead also included the funding allocations for the business schemes, the public sector energy efficiency scheme and electric vehicles (transferred to Department of Transport in 2021). In 2022, the programme subhead became the residential/community retrofit programme.

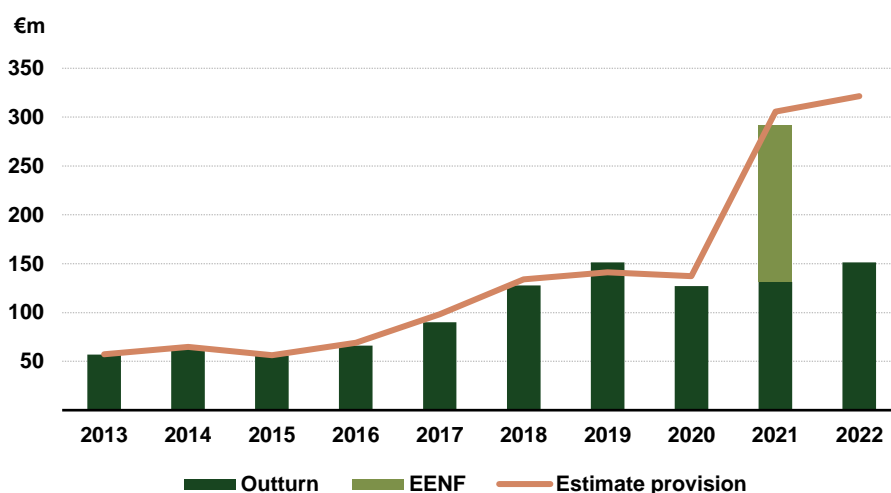
2 The transfer had the approval of the Minister for Public Expenditure, National Development Plan Delivery and Reform.

3 The balance in the EENF at the end of 2022 was €124 million. The fund is controlled directly by the Department, and accounted for in a note to the appropriation account.

4 One Stop Shops is a new delivery model that was launched in February 2022. Registered contractors will manage the entire process for homeowners. Energy upgrades must bring the home to at least a B2 BER.

5 More information on the variance and movements is available in Vote 29 appropriation account.

Figure 8.3 Voted issues on sustainable energy programmes, 2013 – 2022

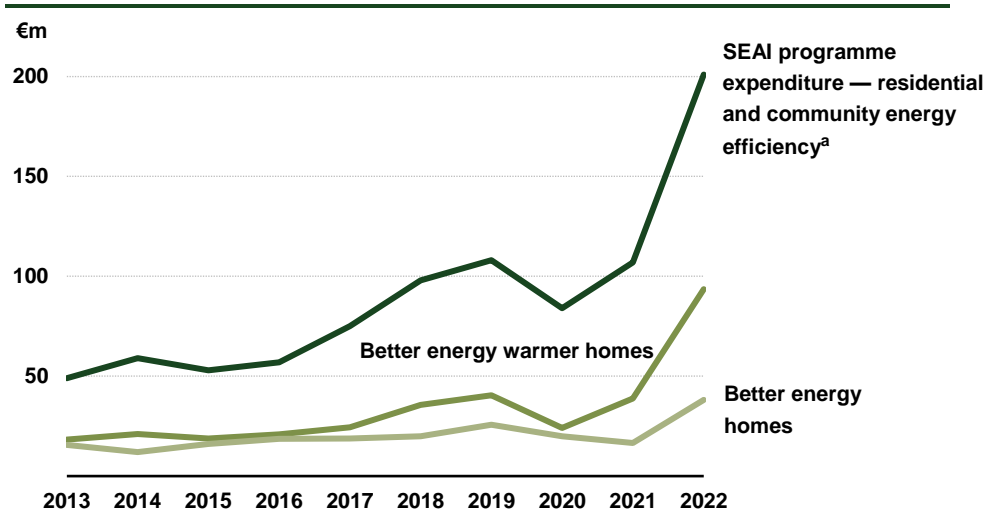


Source: Department Appropriation Accounts 2013 – 2022

SEAI expenditure

- 8.17** Programme expenditure by the SEAI increased fourfold from €50 million in 2013 to €200 million in 2022 (see Figure 8.4) with a near doubling of expenditure between 2021 and 2022. Expenditure on the better energy warmer homes and the better energy homes schemes over the last ten years amounted to €538 million in total. In each year, the two schemes accounted for an average of 60% of SEAI's total expenditure under residential and community energy efficiency. Conditions to qualify for the schemes and the upgrades supported under the schemes are detailed on the SEAI's website.¹

Figure 8.4 SEAI residential and community energy efficiency expenditure 2013 – 2022



Source: SEAI

Note: a In 2022, SEAI received funding of €49 million from the EENF.

Sustainable energy residential schemes

Better energy warmer homes

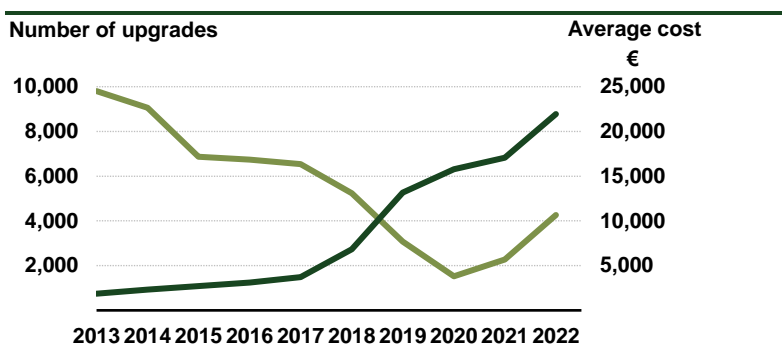
- 8.18** The better energy warmer homes scheme supports upgrading the energy efficiency of privately-owned homes at risk of energy poverty and is 100% grant funded. The objective of the scheme is to make eligible homes warmer, healthier and cheaper to run. The Department noted that as such, a reduction in emissions is not the sole objective of the scheme.² The scheme is restricted to those in receipt of certain welfare benefits.
- 8.19** Once an applicant is deemed eligible, an SEAI surveyor will survey their home and make upgrade recommendations as appropriate. Work is offered to contractors by the SEAI according to their placement in the procurement competition, contractor delivery capacity (in terms of volume) and contractor performance.
- 8.20** Over the last ten years, scheme expenditure amounted to €336 million on approximately 55,000 upgrades. The number of upgrades undertaken each year fell from 2013 until 2020, increasing again in 2021 and 2022.

¹ [Qualifying conditions and grants available](#)

² The Department noted that other SEAI schemes do target B2 retrofits.

- 8.21** Until 2018, the scheme mainly focused on delivering ‘shallow’ energy conservation measures such as attic and cavity wall insulation. In March 2018, the scheme expanded to include deeper measures such as internal and external wall insulation. Reflecting the greater depth of the average package of measures implemented, as well as general cost increases, the average cost per upgrade increased from €1,864 in 2013 to €21,942 in 2022 (see Figure 8.5).

Figure 8.5 Number and average cost of upgrades completed under the better energy warmer homes scheme 2013 – 2022



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

- 8.22** Despite the introduction of deeper retrofits in 2018, only 228 dwellings have achieved a post-retrofit BER B2 under the scheme in the period 2019 to 2022.
- 8.23** The Department has stated that the scheme does not target the delivery of B2 retrofits. However, a pilot strand of the scheme did target a limited number of B2 upgrades in 2022. This pilot is gathering evidence to inform the appropriate process and approach to increase the number of B2 upgrades and heat pump installations delivered under this scheme. The Department also noted that Covid-19 had a significant impact on SEAI schemes.
- 8.24** Of the €336 million paid out to end 2022, €306 million (91%) has been paid to contractors procured by the SEAI for works carried out.¹
- 8.25** There are a number of controls in relation to the scheme *inter alia*
- a requirement to have the application stamped by the Department of Social Protection proving eligibility
 - works undertaken are determined in advance via a survey of each home and
 - a post-works BER assessment (since 2022 a pre-works BER assessment is also required).

Better energy homes scheme

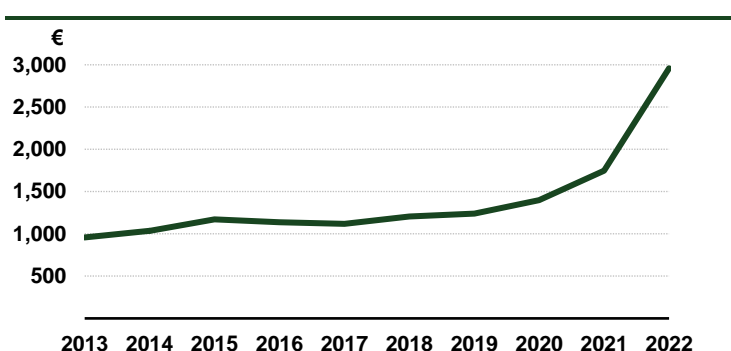
- 8.26** The better energy homes scheme is a national retrofitting programme available to all homeowners, including landlords, and is not means tested. The home must have been built and occupied before 2011 in order to qualify for insulation and heating control grants, and before 2021 for heat pump and renewable systems grants. The programme aims to incentivise homeowners to make their homes more energy efficient through the provision of grants.

¹ The €30 million balance related to technical services and operational costs.

8.27 Grant amounts for the scheme were last reviewed in 2021 by way of a cost analysis conducted by external consultants and updated in February 2022. Of the €202 million expenditure in the past ten years, €176 million related to approximately 130,000 grant payments.¹ The average value of the grants, per application, has increased since 2019 to approximately €3,000 per application approved (see Figure 8.6). The SEAI stated that this is reflective of the changes to the scheme over this period in order to

- harmonise grant schemes
- encourage uptake by providing additional incentives to homeowners to undertake retrofitting works and
- assist with increased cost of living and inflation.

Figure 8.6 Average grant value per application — better energy homes scheme, 2013 to 2022



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

¹ The €26 million balance related to technical services and operational costs.

² The BER assessor has to confirm a number of items including a) they have published the BER in full compliance with the BER Code of Practice b) that they have calculated the pre grant evaluation in line with SEAI guidance and c) that in undertaking the BER survey, they are satisfied that the grant aided works specified are in accordance with the contractor's indication on relevant declaration of works.

³ The penalty point performance of a contractor refers to points accrued when a contractor's performance in relation to a particular measure of work is deemed unsatisfactory. The more points a contractor accrues, the more inspections they are subject to.

⁴ **Corrected figure.** Inspection rate previously referenced was 39%. See Figure 8.7.

8.28 All works under the better energy homes scheme must be completed by a contractor from the SEAI's register, which lists around 1,300 contractors. Homeowners directly engage and pay their contractors, and the grant partially offsets this cost. The SEAI does not approve, guarantee or provide a warranty for work of the registered contractors nor has it any role in setting the price for works carried out.

8.29 There are a number of controls in relation to the scheme which include a declaration of works signed by the contractor, homeowner and BER assessor by which the contractor confirms all works are fully compliant with grant requirements under the better energy homes scheme and the homeowner confirms they are satisfied with works carried out. A post-work BER assessment is also required.²

Inspections carried out under the schemes

8.30 An inspection unit established in 2014 selects properties retrofitted under the schemes for inspection based on risks such as

- contractors' average penalty point performance over the previous three months³
- lack of evidence of the contractor implementing their own quality assurance
- health and safety issues etc.

8.31 In 2022, inspections were carried out on 1,751 properties that had been upgraded under the better energy warmer homes scheme, and on 2,104 properties that benefited under the better energy homes scheme (see Figure 8.7). This represented inspection rates of 41%⁴ and 18% respectively in 2022. These were slightly down from the inspection rates for the schemes in prior years.

Figure 8.7 Inspections under the schemes^a

	Year	Properties inspected ^c	Inspection rate	Pass rate	Reworks needed	Pass rate post reworks
Better energy warmer homes	2015	3,335	49%	87%	422	100%
	2016	1,938	29%	83%	331	100%
	2017	2,171	33%	77%	504	100%
	2018	2,073	40%	80%	429	100%
	2019	1,406	46%	71%	402	100%
	2020 ^b	656	43%	61%	257	100%
	2021 ^b	1,077	51% ^e	51%	529	100%
	2022	1,751	41% ^e	45%	971	98% ^d
Better energy homes	2014	1,957	20%	52%	944	93%
	2015	1,815	15%	54%	837	92%
	2016	3,179	21%	47%	1,700	91%
	2017	3,498	24%	41%	2,055	90%
	2018	3,696	26%	50%	1,841	90%
	2019	3,693	20%	54%	1,706	94%
	2020 ^b	2,710	22%	58%	1,137	95%
	2021 ^b	1,914	24%	54%	883	93%
	2022	2,104	18%	54%	970	95% ^d

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

- Notes:
- a Data in relation to the number of inspections prior to 2015 for the better energy warmer homes scheme and 2014 for the better energy homes scheme are not readily available due to changes in the information systems used by the SEAI.
 - b Due to Covid-19 restrictions, included in the 2020 and 2021 figures are desktop audits 100 and 102 respectively for the better energy warmer homes scheme and 270 and 231 respectively for the better energy homes scheme.
 - c A number of measures may be inspected at a property, with multiple inspection checks per measure. In the relevant periods, a total of 37,279 measures were inspected for the better energy warmer homes scheme and 33,675 measures were inspected for the better energy homes scheme. SEAI noted that in the period less than 1.1% of all inspection checks did not pass in the better energy warmer homes scheme and less than 2% in the better energy homes scheme.
 - d Due to the timing of the examination, not all reworks relating to 2022 had yet been completed.
 - e **Corrected.** Rates adjusted to exclude from the calculation retrofits carried out under the warmth and wellbeing scheme.

8.32 On both schemes, the initial pass rate on the work inspected is low, with around half of the projects inspected on the better energy homes scheme requiring some re-work. Because the inspections are carried out on a targeted basis, the results are probably not representative of the standard of works overall. Nevertheless, they do indicate that there is a substantial risk of non-compliant work being carried out under both schemes.

8.33 The SEAI stated that retrofit works inspected can fail on a minor issue, or on one measure only when a number of measures have been inspected at a dwelling. It has a number of controls in place in relation to inspection fails such as if re-works are not complete within six weeks, contractors are subject to de-registration until re-works are completed.

- 8.34** Even after re-works were completed following inspections for the better energy homes scheme, between 5% and 10% of the properties still did not pass. Depending on the seriousness of the issues involved, grants may be withheld from homeowners, or repayment requested in the case of post payment inspections.
- 8.35** The SEAI noted that key differences in how the two schemes operate are the principal cause of the differences in pass rates between the schemes. The large number of contractors on the better energy homes scheme (1,300 versus 33 on the better energy warmer homes scheme) may also be a contributing factor, as these contractors are on average unlikely to be as familiar with SEAI requirements.
- 8.36** The examination team attended and observed four inspections of retrofit works: two relating to the better energy warmer homes scheme and two related to the better energy homes scheme. The inspector noted re-works were required in one of the better energy warmer homes scheme dwellings inspected; and for both homes inspected under better energy homes. The costs of such reworks are borne by the contractor in the better energy warmer homes scheme. The SEAI has no direct involvement in rework costs for the better energy homes scheme.

Scheme effectiveness

- 8.37** The SEAI calculates a number of outputs and outcomes relating to the performance of the retrofit schemes (see Figure 8.8).¹ However, prior to 2022, there were no corresponding targets to facilitate an assessment of performance.
- 8.38** The annual estimate for the Vote, which funds the retrofit schemes, includes some high-level output targets. For example, in 2019, the Vote estimate included a target of providing energy efficiency measures to 4,609 low income homes. However, for most years, the targets included in the annual estimates did not correspond to the scheme outputs and outcomes that were being reported upon by SEAI as set out in Figure 8.8.
- 8.39** The calculation of savings obtained as a result of retrofitting measures is not based on actual data from each retrofit. The energy and CO₂ savings for both schemes are based on technical estimates with a number of assumptions involved in the calculations. This approach aligns with the options allowable under the Energy Efficiency Directive. The formulas used in the SEAI's calculations of outputs in 2022 for both schemes is outlined in Annex 8A.
- 8.40** The base data used in the calculation for the better energy warmer homes scheme is underpinned by a consultant's report on engineering estimates of savings for 2017. A similar study was conducted in 2019, but SEAI stated it was deemed appropriate to continue with the 2017 estimates which are more conservative. SEAI confirmed that evidence of its assessment of the 2019 exercise was not available as it was not formally documented.

¹ Scheme outputs are the number of homes retrofitted and the outcomes are the savings associated with the retrofits.

Figure 8.8 Outputs and outcomes from the schemes^a

	Year	Homes retrofitted	Estimated energy savings	Estimated CO ₂ savings	Estimated SEAI spend (lifetime) per tonne CO ₂ saved	Estimated SEAI spend in year per GWh saved
			GWh	kt	€	€m
Better energy warmer homes	2013	9,803	20.6	5.1	131	1.40
	2014	9,056	19.0	4.7	175	1.09
	2015	6,867	14.4	3.6	203	1.26
	2016	6,743	14.2	3.5	236	1.46
	2017	6,555	13.8	3.4	265	1.64
	2018	5,255	13.1	3.3	436	2.70
	2019	3,142	9.6	2.4	667	4.10
	2020	1,524	4.7 ^c	1.2	808	5.00
	2021	2,126	9.6	2.4	635	3.99
	2022	4,264	18.7	4.7	791	4.96
Better energy homes	2013	13,710	68.6	17.0	— ^b	— ^b
	2014	9,927	54.6	13.5	32	0.20
	2015	12,227	61.1	15.2	39	0.24
	2016	14,972	74.9	18.6	38	0.23
	2017	14,618	80.4	19.9	35	0.22
	2018	14,238	78.3	19.4	38	0.20
	2019	18,531	100.1	24.8	39	0.20
	2020	12,227	66.0	16.4	45	0.30
	2021	7,928	42.8	10.7	56	0.35
	2022	11,806	63.8	16.0	90	0.57

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

- Notes:
- a The methodology for calculating the figures is set out in Annex 8A.
 - b The SEAI noted the range of metrics/calculations has evolved over the years and for 2013 these metrics were not calculated
 - c **Corrected.** Previously stated as 4.4, due to a typographical error.

8.41 On the better energy homes scheme, the base data arises from analysis conducted in 2013 which compared energy use in retrofit recipient homes to a control group. This provided an estimated average saving figure that is applied to all scheme retrofits. In 2018, the SEAI increased the assumed saving from a scheme retrofit by 47%. The SEAI stated that the increase in assumed savings arises from the deeper retrofit measures being undertaken. However, it has not updated the 2013 analysis nor has it documented how it verified the accuracy of the uprating of 47%.

Availability of actual energy consumption data

- 8.42** In July 2023, the EU issued an energy efficiency directive that allows a number of methods for calculating energy savings including
- metered savings — recording the actual reduction in energy use in buildings
 - scaled savings — use of engineering estimates carried out by independent experts on the basis of nationally-established methodologies and benchmarks.
- 8.43** Actual data relating to residential electricity and gas consumption in Ireland is collected by utility providers as a matter of course. However, due to data protection obligations, detailed metered electricity consumption for household recipients of SEAI grant schemes has not been made available to the SEAI.
- 8.44** However, the SEAI noted that the Commission for Regulation of Utilities (CRU) is currently developing a smart meter data access code which will facilitate the transfer of domestic electricity consumption to them, under certain conditions with the consent of the electricity account holder.
- 8.45** The SEAI also noted they are in discussions with Gas Networks Ireland to establish a data sharing agreement, for a limited sample of 200 dwellings, and are discussing other data sharing agreements with CSO and Electricity Supply Board (ESB) respectively.

Assessing effectiveness against targets

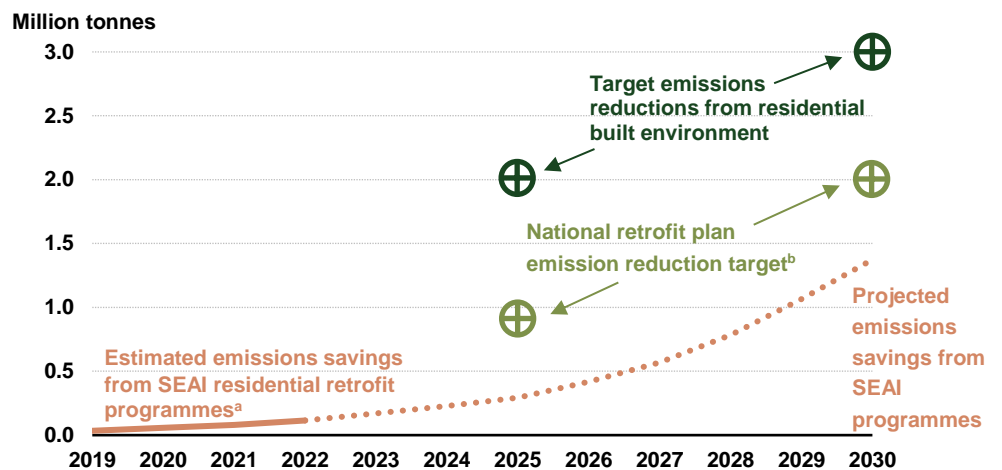
- 8.46** Ireland's overall climate target is to achieve a 51% reduction in greenhouse gas emissions by 2030. However, given current trends, this is unlikely to be achieved. In a report published in June 2023, the Environmental Protection Agency (EPA) projects that, based on current rates of progress, a reduction of only 29% in greenhouse gas emissions will be achieved by 2030.¹
- 8.47** The Department stated that sufficient data is not yet available to allow all actions in the climate action plan 2023 to be modelled and that, if these are factored into the EPA's calculations, the projected emissions reduction by 2030 would be 42%. The 2023 annual review of the Climate Change Advisory Council notes that in the scenario that the climate action plan 2023 is fully implemented, the residential built sector is projected to stay within its second sectoral ceiling.
- 8.48** In that context, it is vital to ensure that spending on greenhouse gas reduction is as effective as possible. This requires available resources to be directed to the activities and interventions that deliver the maximum reductions for every euro that is spent, and regular and timely reporting on what is being achieved relative to targets.
- 8.49** The key measure of emissions is MtCO₂eq i.e. million tonnes of carbon dioxide equivalent. As a benchmark, greenhouse gas emissions from the Irish residential sector in 2018 was an estimated 7 MtCO₂eq. The target is for this to fall to not more than 4 MtCO₂eq by 2030 (which is the final year of the second sectoral emission ceiling) — a target 40% reduction.² The June 2023 EPA report notes that with full implementation of the climate action plan 2023, emissions in the residential sector are projected to fall to 3.7 MtCO₂eq by 2030 which will meet the target.

¹ Ireland's Greenhouse Gas Emissions Projections 2022 – 2040, Environmental Protection Agency (2023).

² Table 3.2, climate action plan 2023.

- 8.50** The SEAI stated that on an annual basis climate action plans are developed to define pathways to achieving the sectoral emissions ceilings targets and that the actions set out in the annual climate action plan reflect the challenging and evolving nature of the journey to decarbonisation. Each year actions are formulated and/or adjusted in response to outcomes to date, building capacity, new and emerging policy initiatives and consumer sentiments and behaviours.
- 8.51** Figure 8.9 outlines the 2030 national target and the national retrofit target, and the SEAI's projected emissions reductions from all SEAI residential schemes to 2030. This indicates that spending in recent years on SEAI residential schemes has so far contributed very modestly to the required emissions reduction, and will deliver less than half of the overall residential target reduction of at least 3 MtCO₂eq by 2030. The Department and the SEAI have noted that other measures are also expected to contribute to reductions in emissions in the residential built environment, including district heating schemes and changes in consumer behaviour.

Figure 8.9 Target reduction in emissions in residential built environment sector and contributions made by SEAI residential/community retrofit programmes, 2019 to 2030



Source: Target emissions reductions from residential built environment – sectoral emissions ceilings September 2022; National retrofit plan emission reduction targets – climate action plan 2023 Table 14.5; Projected emissions savings from SEAI programmes – SEAI. Analysis by the Office of the Comptroller and Auditor General.

- Notes:
- a Details of how estimates are calculated in relation to the better energy warmer homes and better energy homes schemes is outlined in Annex 8A. The other main residential retrofit programmes include One Stop Shops and the Solar PV Scheme.
 - b The Department noted that both direct and indirect measures will contribute towards this target.

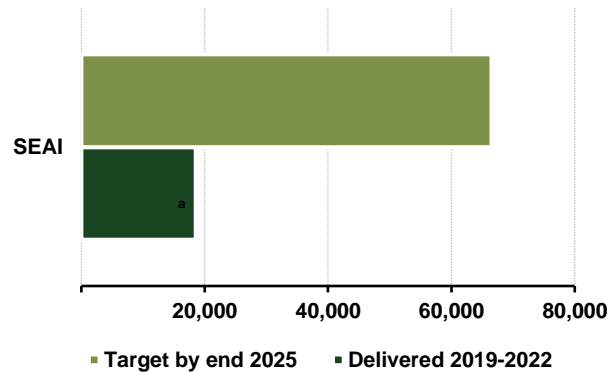
Retrofitting output target

- 8.52** The national retrofit plan includes a target of retrofitting the equivalent of 500,000 dwellings to BER B2 or cost optimal equivalent by 2030. An interim target is to retrofit the equivalent of 120,000 dwellings to B2 or cost optimal equivalent by the end of 2025. The aim is that this will be achieved through
- retrofits of 83,000 homes to B2 or cost optimal equivalent, and¹
 - retrofits of a further 102,000 homes to bring them to BER ratings of B3 or lower, to yield energy savings equivalent to retrofitting 37,000 homes to a level of B2 or cost optimal level.

¹ 66,500 of this is to be delivered by the SEAI by 2025.

- 8.53** As of end 2022, the SEAI had delivered 28% of its B2 or cost optimal target (see Figure 8.10). Achievement of the remainder of almost 48,000 upgrades by the SEAI will require a very significant increase in activity level.

Figure 8.10 2025 target and actual by end 2022 retrofitting of homes to BER B2



Source: National retrofit plan, Department of Environment, Climate and Communications and SEAI. Analysis by the Office of the Comptroller and Auditor General.

- 8.54** The SEAI publishes quarterly reports on its progress on delivering on the national retrofit plan. In its March 2023 report, it notes that achieving the targets will require a significant increase in delivery. The Department stated that the approach to achieving the retrofit targets is set out in the national retrofit plan and that the growth in the number of upgrades seen in 2022 has continued into 2023.
- 8.55** The Department of the Taoiseach regularly publishes progress reports on the climate action plan. The latest report published in July 2023, notes that for the KPI of 500,000 B2 retrofits by 2030, 28,661 was achieved, representing only 6% of the target.¹

Local Authorities

- 8.56** While the SEAI has been designated as the national retrofit delivery body, the target to retrofit homes to BER B2 or cost optimal equivalent is not the sole responsibility of the SEAI. The national retrofit plan states that 36,500 local authority homes will be retrofitted to B2 or cost optimal equivalent by 2030.²
- 8.57** The Department of Housing, Local Government and Heritage has noted that, since 2013, local authorities have upgraded 75,000 dwellings with shallow retrofits. All local authority upgrades prior to 2021 were shallow retrofits, and therefore did not reach B2 or cost optimal equivalent standard. In 2021 and 2022, local authorities delivered 3,321 retrofits to the B2 or cost optimal equivalent standard. This represents just over 9% of the total retrofits of social housing units required by 2030 under the climate action plan.

¹ An amendment was made to the originally published report to note that the 6% of the target achieved does not include the impact of non-B2 retrofits.

² The Department of Housing, Local Government and Heritage provides funding to local authorities to improve the energy efficiency of their housing stock through the energy efficiency retrofit programme.

SEAI scheme key performance indicators

- 8.58** A service level plan is one of the mechanisms used to ensure that there is clarity between a funding department and a funded agency on what is to be achieved and what budget is being made available for that purpose.

- 8.59** The Department and the SEAI agree an annual service plan. The plan submitted to the Department by the SEAI in February 2022 was the first to set detailed, scheme-specific KPI targets (see Figure 8.11). Higher-level — i.e. less detailed — output targets are set in the annual estimates for the Vote.

Figure 8.11 KPIs for SEAI retrofit schemes, 2022

Better energy warmer homes		
Measures	Target	Outturn
Number of homes retrofitted to BER B3 or less	4,500	4,118 ^a
Number of homes retrofitted to BER B2	300	146
Emission reduction (ktCO ₂ eq)	3.7	4.7
Energy saving (GWh)	14.7	18.7
Better energy homes		
Measures		
Number of homes retrofitted to BER B3 or less	9,570	9,457
Number of homes retrofitted to BER B2	2,580	2,349
Emission reduction (ktCO ₂ eq)	17.1	16.0
Energy saving (GWh)	68.0	63.8

Source: Service level plan 2022 and SEAI. Analysis by the Office of the Comptroller and Auditor General.

Note: a **Corrected**. Previous figure was the total number of upgrades in the year (4,264).

- 8.60** Comparison of the reported values for the two schemes indicate that performance was close to, or better than, the target values. Five of the eight metrics were within 90% of the targets, and two targets were exceeded. For the target KPIs that were met (on the better energy warmer homes scheme), the outturn was calculated using the 2017 report on engineering estimates of savings.
- 8.61** The targets set in 2022 for both schemes envisage that the majority of retrofitted homes would be brought to a BER level of B3 or less — 94% for retrofits under the better energy warmer homes, and 79% for the better energy homes scheme. The Department has stated that this reflects the fact that neither scheme has a requirement for the delivery of B2 upgrades.

Monitoring KPIs and evaluation of effectiveness

- 8.62** The scheme KPIs are monitored on a monthly basis through meetings between the Department and the SEAI. The SEAI provides the Department with reports showing the targets and outputs. Factors expected to impact the performance of the schemes were also included in the monthly reports submitted and were discussed at the monthly meetings. In a number of cases, actions were taken to deal with the issues. The examination team reviewed the minutes and while one reference was made in relation to an update on targets, there was no detail recorded of actual progress on annual targets. The Department stated that the minutes of the meeting should be read in conjunction with the detailed SEAI reports which set out progress against targets. In addition, no documentation was provided which outlines procedures, steps to be taken or what the consequences of missing targets are, if any.
- 8.63** The Department did however provide evidence of a range of challenges that were identified as part of this process and the steps taken to address them.

- 8.64** The SEAI stated that assessing the effectiveness of expenditure may initially achieve more emissions savings per euro spent, but focusing solely on this would ultimately not achieve the long-term climate targets of net zero by 2050. It noted evidence from reports such as the *National Heat Study*, the *Energy in Ireland* report and the analysis provided to support the climate action plan 2023 which suggest that all measures are required in order to achieve the long-term target (which is net zero emissions) rather than focusing only on the short-term.¹
- 8.65** The Department stated that it monitors the effectiveness of expenditure on the schemes on an ongoing basis through the monthly performance reports and meetings. The Department also noted that two external reviews were undertaken by the Irish Government Economic and Evaluation Service in the Department of Public Expenditure, National Development Plan Delivery and Reform
- Social impact assessment – SEAI programmes targeting energy poverty.
 - Grant schemes for energy efficiency: Better energy homes and better energy communities.
- 8.66** Furthermore, the Department stated that retrofitting homes and installing heat pumps were determined to be among the most cost effective measures to reduce emissions and more generally a range of measures are monitored that allows the Department to assess effectiveness.

Limitations of available data

- 8.67** The examination noted a number of limitations to the data captured and provided by the SEAI which meant that certain types of analysis to quantify the impact of different retrofit measures on the reduction in energy consumption, emissions and potential cost savings could not be undertaken.
- 8.68** While details of specifications and costs per measure is provided to the SEAI during the grant application process for both schemes, it is not captured on their internal database. In addition, no information is captured on the impact or quality of the measures. For example, dry lining wall insulation can have varying thicknesses which impacts on the heat loss from a house. Recording the thickness of the insulation (20mm, 100mm, etc.) would allow for better analysis on the potential energy savings and emissions reductions associated with the financial support provided.

¹ The *National Heat Study* is available [here](#) and the *Energy in Ireland* report is available [here](#).

Conclusions and recommendations

- 8.69** The development of sectoral emissions ceilings and the introduction of carbon budgets were provided for in the Climate Action and Low Carbon Development (Amendment) Act 2021. Ireland is committed to a legally-binding target of reducing greenhouse gas emissions by 51% (from a 2018 baseline) by 2030. This will necessitate reductions in each sector of the economy, including the residential sector. A target of reducing greenhouse gas emissions from the residential sector by 40% by 2030 has been set, notwithstanding the increase in the number of dwellings expected to occur over the same period. This target is to be achieved by a wide range of actions and interventions, including enforcement of high energy efficiency standards for new residential units, and retrofitting of existing housing stock.

Measuring the energy efficiency of residential property

- 8.70** The BER system provides a useful measure of the energy efficiency of individual buildings, although it does not measure actual energy consumed. It potentially provides a relevant and reliable measure of the energy efficiency of the overall stock of housing, and of how it is changing over time. It also provides a useful measure of the impact of retrofitting interventions on individual properties.
- 8.71** The current stock of housing is, in general, not energy efficient. At the end of 2022, only 39% of the housing stock had a valid energy efficiency (BER) rating, and of these, fewer than one in five dwellings had BER scores of B2 or above.

Funding for energy efficiency upgrades

- 8.72** In the ten-year period to the end of 2022, the Department of the Environment, Climate and Communications (the Department) has provided funding of around €1.2 billion for sustainable energy programmes. The majority of this funding — €1.1 billion — was provided to the SEAI for its programmes.
- 8.73** Up to end 2022, expenditure on two schemes — the better energy warmer homes scheme, and the better energy homes scheme — totalled €538 million, or almost half of the SEAI's expenditure on sustainable energy programmes in the period reviewed. This was utilised mainly for 'shallow' retrofitting work that had a limited impact on the energy efficiency of the properties in question.
- 8.74** The better energy warmer homes scheme supports the upgrade of the energy efficiency of homes for those experiencing energy poverty. Improvement works approved under the scheme are fully grant funded. Grants on energy efficiency works totalled €306 million between 2013 and 2022 in respect of 55,000 cases.
- 8.75** The better energy homes scheme provides fixed value grants to homeowners to incentivise them to increase the energy efficiency of their homes. In the period 2013 – 2022 approximately 130,000 grants with a value of €176 million were issued.
- 8.76** Significant steps have been taken to deepen the level of retrofitting interventions undertaken in grant-funded cases, so as to achieve greater energy efficiency impacts. This has contributed to a significant increase in the average level of expenditure per case.

Scheme inspections

- 8.77** As a quality control measure, a requirement of the retrofit schemes is that the works supported financially must be carried out by an SEAI procured contractor for the better energy warmer homes scheme and a registered contractor for the better energy homes scheme.
- 8.78** Inspections of retrofits carried out by contractors under the schemes are conducted by the SEAI. Year on year, the inspection rate fluctuated — between 29% and 49% of funded cases on the better energy warmer homes scheme, and between 15% and 26% on the better energy homes scheme. In general, cases for inspection were selected on a targeted basis e.g. based on risk factors.
- 8.79** The better energy warmer homes scheme uses contractors whose services are procured by the SEAI. In 2022, 41%¹ of the cases funded were inspected, and the work was found to be satisfactory in 45% of the cases examined. Following rectification, almost all cases were found to have been resolved.
- 8.80** On the better energy homes scheme, where the majority of the costs are borne by homeowners, a similarly high proportion of dwellings do not pass the inspection. Based on an inspection rate of 18% of cases in 2022, the pass rate was just 54%. Following rectification works, the pass rate increased to 95% (to date) with not all reworks yet completed.
- 8.81** The pattern of failure of retrofitting works inspected suggests that a higher rate of inspection may be required for these schemes, and especially for the better energy homes scheme. Grant cases not inspected may also be at risk of non-compliant work, which homeowners — and even BER assessors — may not be able to identify.

Recommendation 8.1

The SEAI should review its inspection practice. In addition to the existing risk-based selection of cases for inspection, a programme of inspection of randomly selected cases should be considered. A programme of structured feedback of lessons learned from inspections should be developed, to better inform contractors, BER assessors and homeowners on the quality of works required, and when re-work should be required.

Response of the Accounting Officer (SEAI)

Agreed. SEAI accepts the recommendation to increase random sampling. SEAI will review its inspection practices as schemes grow in depth and scope. SEAI has also recently set up a new quality management function. This will facilitate more structured feedback to contractors and continuous improvement.

Timeline for implementation

2023-2024

Scheme effectiveness

- 8.82** As well as helping those at risk of energy poverty, the intended outputs of both residential retrofitting schemes are reduced emissions of greenhouse gases and energy consumption savings. These form part of the SEAI's performance management and reporting system. This approach aligns with the options allowable under the Energy Efficiency Directive.

¹ **Corrected figure.** Inspection rate previously referenced was 39%. See Figure 8.7.

- 8.83** Currently, estimates of the outcomes are calculated using assumptions that are based on aged data sources which have not been updated since first introduced — for the better energy homes scheme, this was ten years ago and for the better energy warmer homes it was six years ago. While the assumptions may continue to be valid, the lack of periodic testing of their basis casts doubt over the reliability of the output estimates.

Recommendation 8.2

The Department and the SEAI should periodically (at least every three years) formally review the estimation techniques and data bases they use to calculate the energy consumption savings and emissions reductions attributable to the home retrofitting schemes.

Response of the Accounting Officer (SEAI)

Agreed. SEAI accepts this recommendation and will implement a formal review process of estimation techniques and data bases used to calculate the energy consumption savings and emissions reductions attributable to the home retrofitting schemes.

Response of the Accounting Officer (Department)

Agreed. The Department accepts this recommendation and will work with the SEAI in this regard.

Timeline for implementation

2024 and will follow three yearly cycles from that point onwards.

- 8.84** The actual reduction in energy consumption can be established using data showing annual energy consumption before and after a retrofit has taken place. This data is available to energy suppliers but is not currently available to the SEAI. Such data would facilitate an update of estimates used and confirm assumptions.

Recommendation 8.3

The Department and the SEAI should continue to explore opportunities for access to and use of actual energy consumption data at individual property level, to inform its measurement of the impact of retrofitting of homes.

Response of the Accounting Officer (SEAI)

Agreed. SEAI accepts this recommendation and will continue to explore all opportunities for access to and use of actual energy consumption data.

Response of the Accounting Officer (Department)

Agreed. DECC accepts the need to continue to explore opportunities for access to and use of actual energy consumption data.

Timeline for implementation

Ongoing.

Assessing effectiveness against targets

- 8.85** The Department and the SEAI implemented a service level plan in 2022 that was prepared on the basis of targets and budgets — essentially an agreed business plan for the SEAI. The 2022 plan is the first to incorporate detailed performance indicators that allow a deeper assessment of performance for all schemes.
- 8.86** For both residential retrofitting schemes examined for this report, actual performance against targets was reviewed for 2022. Five of the eight measures were within 90% of the target, and two targets were exceeded. For the two achieved targets, the outturn figures reported are estimates based on assumptions and modelling, rather than on measured values.
- 8.87** The level of progress in achieving B2 ratings from homes that receive grants for retrofits under the schemes considered in this review is limited. The Department stated the schemes considered do not specifically target B2 upgrades and that the reduction of emissions is not the sole objective of the schemes.
- 8.88** The SEAI has a target of supporting the retrofitting of 66,500 properties to achieve a BER of B2 by end 2025. It had achieved just over a quarter of the target level by end 2022. At that rate, it is not clear how or if the SEAI will deliver the balance of the targeted retrofits in the three years 2023-2025.
- 8.89** Progress reports on the climate action plan 2023 published by the Department of the Taoiseach report progress against 2030 targets, with only 6% of the 2030 B2 target being achieved as at July 2023. (This does not include the impact in terms of energy savings of non-B2 retrofits.)
- 8.90** Since 2022, detailed KPIs are agreed by the Department and the SEAI and are included as part of the SEAI's service level plan. The Department stated that these targets are reviewed monthly as part of progress meetings between the two bodies. The SEAI supplies monthly reports for these meetings and factors expected to impact the performance of the schemes are included in the monthly reports.
- 8.91** Factors that would affect progress towards meeting targets were noted in both the monthly reports and in the minutes, along with steps taken to address these issues. The minutes make one reference to an update on targets, but there was no detail recorded of actual progress on annual targets. In addition, no documentation was provided which outlines procedures, steps to be taken or what the consequences of missing targets are, if any. The Department did however note that challenges to the achievement of targets were discussed on a monthly basis with SEAI.

Annex 8A Calculation of scheme outcomes

Better energy warmer homes scheme 2022 calculations

Energy savings are based on engineering estimates of savings for 2017 scheme data carried out by consultants on behalf of the SEAI. Measures carried out were categorised as being either shallow or deep. Shallow measures included attic insulation only, cavity wall insulation only and attic and cavity wall, while deep measures included heating upgrades and insulation.

CO₂ savings are based on the total energy savings from homes in the scheme multiplied by the emission factor. An emission factor is a coefficient that describes the rate at which a given activity/fuel releases greenhouse gases. The CO₂ factor (weighted) was updated in March 2021 and is based on the 2020 national energy projections.

When calculating the SEAI spend per lifetime, the SEAI have assumed a 25-year lifetime for residential measures.

Average energy savings per home

% of homes with shallow measures: **35%**^a x savings per home with shallow measures: **3,867 kWh = 1,353 kWh**

plus

% of homes with deep measures: **65%**^a x savings per home with deep measures: **11,400 kWh = 7,410 kWh**

= total **8,763 kWh** (1,353 + 7,410) x comfort factor (**50%**) = **4,382 kWh**

Estimated energy savings^b

Number of homes upgraded: **4,264** x average energy savings per home (kWh): **4,382** = 18,684,848 / 1,000,000 (to bring to Gigawatt-hours) = **18.684 GWh**

Estimated CO₂ savings^b

Estimated energy savings: **18.684 GWh** (see above) x **0.251**: CO₂ emission factor weighted = **4.6896kt**

Estimated SEAI spend (lifetime) per tonne CO₂ saved^b

SEAI scheme spend 2022: **€92.7m** (excluding administrative costs) / **117,240 [4.6896 (estimated CO₂ savings) x 25 (estimated lifespan of works) x 1,000 (converting kilotonne to tonne)] = €791**

Estimated SEAI spend in year per GWh saved^b

SEAI scheme spend 2022: **€92.7m** (excluding administrative costs) / **18.684 GWh** (see above) = **€4.96 million**

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

Notes: a The 35% and the 65% split relate to 2022 only i.e. the number of homes that were deemed to have shallow and deep measures respectively which varies year on year.
b Figure 8.8 includes rounded figures, these figures have been unrounded for calculation purposes.

Better energy homes scheme 2022 calculations

The savings in the below calculation were based on an ex-post billing analysis conducted in 2013 which compared energy use in retrofit recipient homes to a control group. The savings from this analysis was 3,664 kWh per home with the SEAI now assuming savings of 5,400 kWh (47% uplift) per home to reflect deeper measures.

Estimated energy savings

Number of homes upgraded: **11,806** x average energy savings per home (kWh): **5,400** = 63,752,400/1,000,000 (to bring to Gigawatt-hours) = **63.8** GWh

Estimated CO₂ savings

Estimated energy savings: **63.8** GWh (see above) x **0.251**: CO₂ emissions factor weighted = **16**kt

Estimated SEAI spend (lifetime) per tonne CO₂ saved

SEAI scheme spend 2022: **€36.1m^a** (excluding administrative costs) / **400,000** [**16** kt (estimated CO₂ savings) x **25** (estimated lifespan of works) x 1,000 (converting kilotonne to tonne)] = **€90.25**

Estimated SEAI spend in year per GWh saved

SEAI scheme spend 2022: **€36.1m^a** (excluding administrative costs) / **63.8** GWh (see above) = **€0.565m**

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

Note: a The above calculation includes SEAI expenditure only and does not include the expenditure of the homeowner.

9 Assessing cyber security in the public sector

- 9.1** The term 'cyber security' refers to the full range of measures designed to protect information and communications technology (ICT) systems to ensure the confidentiality, integrity, authenticity and availability of networks, devices and data services.
- 9.2** Cyber security is critically important. The amount of data stored by public bodies is growing and digital technology is performing vital functions across public services. At the same time, public bodies are facing an ever-growing range of cyber threats, and as demonstrated by the significant ransomware cyber attack against the health services in 2021, these events can have a devastating impact.¹
- 9.3** The Department of the Environment, Climate and Communications (the Department) is responsible for cyber security policy in Ireland and for co-ordinating government's emergency response to any national-level cyber security incidents. The Department discharges these responsibilities through the National Cyber Security Centre (NCSC).²
- 9.4** In November 2021, the NCSC published public sector Cyber Security Baseline Standards (CSBS) which set out the measures that public sector bodies should implement in order to secure their networks.^{3,4} The standards are aligned with the US National Institute of Standards and Technology (NIST) framework and cover five key themes (see Figure 9.1).⁵

1 Chapter 12 '[Financial impact of cyber security attack](#)' of the *Report on the Accounts of the Public Services 2021* examined the impact of the cyber attack on the HSE and other bodies.

2 The NCSC was established in 2011 pursuant to Government decision S180/20/10/481.

3 Measure 8 of the National Cyber Security Strategy 2019 – 2024 states that the NCSC will develop a baseline security standard to be applied by all government departments and key agencies.

4 The baseline standards are subject to ongoing revision. They were last revised in November 2022 to enhance the clarity of some existing narrative.

5 The NIST cyber security framework is an internationally recognised framework offering voluntary guidance based on existing standards, guidelines and practices for organisations to better manage and reduce cyber security risk. The latest version of the framework was published in April 2018.

Figure 9.1 Themes underpinning the framework for cyber security measures

Theme	Description
Identify	Understand the structures, policies and processes required to manage cyber security risk to systems, assets, data and capabilities.
Protect	Develop and implement appropriate and proportionate cyber security measures to deliver and protect an organisation's essential services and systems.
Detect	Develop and implement appropriate capabilities to identify, detect and defend against a cyber security event that may have the potential to affect essential services and systems.
Respond	Develop and implement appropriate activities, prioritised through an organisation's risk management process to take action to contain and minimise the impacts related to a cyber security event.
Recover	Develop and implement appropriate capabilities, prioritised through an organisation's risk management process, to restore essential services affected by a security event.

Source: Department of the Environment, Climate and Communications, Public Sector Cyber Security Baseline Standards

9.5 Subsequently, in November 2022, the NCSC published a cyber security baseline standards self-assessment form. The form is a checklist (in excel format) that public sector bodies can use internally to assess their cyber security posture against the baseline standards.¹

9.6 This examination was undertaken to provide an overview of the cyber security self-assessment form developed and published by the NCSC and to share some user experience from its application. The examination was assisted by a consultant experienced in the area of cyber security to provide technical expertise.

An overview of the NCSC's self-assessment form

9.7 The self-assessment form describes the cyber security controls that an entity would be expected to have in place, where relevant to its operations, under 43 categories, split across the five key cyber security themes (see Annex 9A).² The form facilitates the assessment of each of the 43 categories against four control measures – control design, implementation, operation effectiveness and review (see Figure 9.2).

Figure 9.2 Cyber security control measures

Control measure assessment	Description
Cyber security policy management system i.e. control design objectives	<p>The correct practices and procedures are in place to ensure that</p> <ul style="list-style-type: none"> the relevant risks are addressed the scope is adequate the controls cannot be by-passed correct systems and processes are covered
Implementation	<p>The controls implemented</p> <ul style="list-style-type: none"> are operated by appropriate individuals operate at the adequate frequency allow the control operator to access reliable information allow issues identified to be adequately addressed
Operation effectiveness	<p>The controls continue to operate effectively and</p> <ul style="list-style-type: none"> are still valid have not been degraded over time non-compliance/control breaches have not increased
Review of controls	<p>The controls are reviewed regularly to ensure they continue to achieve the desired outcomes</p>

¹ The self-assessment form can be found at www.ncsc.gov.ie/guidance.

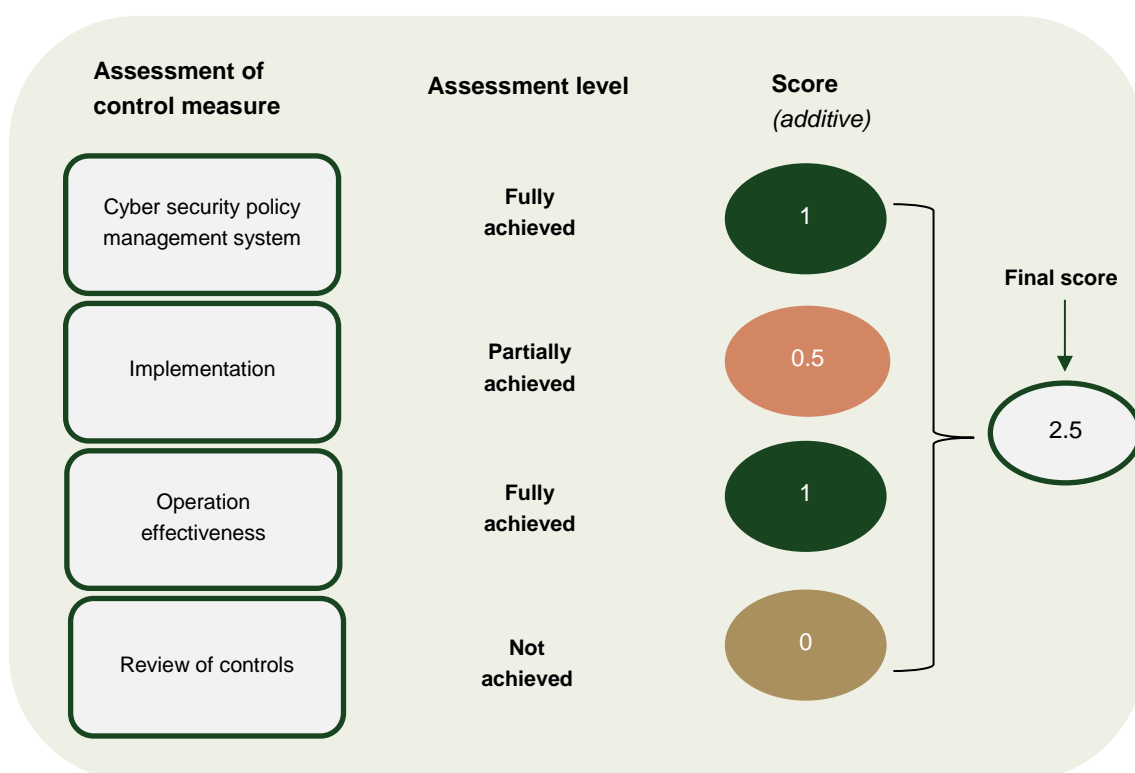
² Some categories are further divided into subcategories. There are around 100 subcategories in total, across the five themes.

Source: The National Cyber Security Centre, Cyber Security Baseline Standards self-assessment form

- 9.8** To facilitate the identification of cyber security gaps and risks in relation to cyber security, the self-assessment form defines three assessment levels of fully, partially or not achieved for each cyber security control across each of the control measures. A score is assigned for each level (see Figure 9.3). The overall score for each of the 43 categories can range from zero to four as the four control measure assessments in Figure 9.2 are applied to each of the categories and scored from zero to 1.

Figure 9.3 Assessment of cyber security controls

Assessment level	Overview of control level achieved	Score
Fully achieved	Defines an organisation fully achieving the implementation and operation of a comprehensive set of policies and practices. It is intended that all positive indicators would normally be present to support an assessment of 'fully achieved'. ^a	1
Partially achieved	Defines an organisation partially achieving the implementation and operation of a comprehensive set of policies and practices. It is also important that partial achievement is delivering specific worthwhile cyber security benefits. An assessment of 'partially achieved' should represent a significant effort has been made to implement and operate a set of practices and procedures for each relevant sub category.	0.5
Not achieved	Defines an organisation not achieving the implementation and operation of a comprehensive set of policies and practices. It is intended that the presence of any one indicator would normally be sufficient to justify a control review assessment of 'not achieved'.	0



Source: National Cyber Security Centre, Cyber Security Baseline Standards self-assessment form

Note: a All positive indicators refer to all elements of the relevant control being in place.

- 9.9** The appropriate level of cyber security controls and practices for an organisation is best determined by those charged with governance. The benefits of operating at a higher level must be balanced with the increased cost associated with moving to that level.¹ However, it is not appropriate for a public sector organisation to be operating at the 'not achieved' level, unless the control was deemed irrelevant for the organisation.
- 9.10** The NCSC has stated that it developed the form for self-assessment purposes, and therefore it is considered a compliance support rather than a compliance-driving tool.
- 9.11** Our review found that the form is well aligned with the cyber security baseline standards. It includes tabulated result calculations that should enable efficient reporting and dashboards for effective leadership for those public bodies that use it as intended to support the development of their ICT security regime. The ratings are straightforward and easy to apply based on the questions presented.
- 9.12** The assessment tool provides useful features beyond the main self-assessment excel spreadsheet, which include
- tabular results scorecard and summary reporting dashboard
 - self-assessment worksheets for each of the five baseline themes with detailed guidance
 - a corrective action plan worksheet with risk ratings and status tracking
 - a detailed statistical breakdown of results.
- 9.13** However, the example questions given to users to help them consider their organisation's cyber security level of maturity do not mention documentation or recording. In the absence of complete and robust documented and/or recorded policies and procedures, it is likely some controls are operating in an ad hoc environment. The self-assessment form may infer documentation/recording but it would benefit from stating explicitly that a good policy management system will have documented/recorded policies and procedures that are updated as any changes are introduced.
- 9.14** This review also found that the self-assessment form is detailed and lengthy, as would be expected. However, it requires a significant amount of effort to complete and will likely require a collaborative effort within any organisation to conduct the self-assessment.

User experience on the application of the self-assessment form

- 9.15** The Department of Foreign Affairs (DFA) was selected for the purpose of this examination as it is involved in direct and critical service provision to citizens. It has been actively reviewing its cyber security, and its Evaluation and Audit Unit (EAU) engaged a third party service provider in early 2022 to undertake an assessment of the DFA's cyber security preparedness against the NCSC's baseline standards — the NCSC's self-assessment tool was not available at that time.² For the purposes of this examination, the DFA agreed also to complete the NCSC's self-assessment form and to provide feedback on its use (see Figure 9.4).
- 9.16** The DFA stated that the assessment of an organisation using a tool like the self-assessment form should be carried out by the organisation itself, with testing of the findings conducted by a suitably qualified person to get the best value from the exercise; to ensure risks and gaps are correctly understood and noted; and to avoid the risk of false positives/negatives in the assessment.

¹ The benefits to an organisation of operating at a higher level of cyber security depend on its nature, complexity and activities. An organisation should assess whether the benefits outweigh the costs associated with operating at the higher standard.

² This assessment facilitated the DFA's subsequent completion of the NCSC's self-assessment tool requested by the examination team.

- 9.17** The internal audit report was finalised in September 2022 and included five high, 33 medium and eleven low risk recommendations, which broadly covered the areas of policies and procedures; logging and monitoring; and business continuity planning. The DFA developed a detailed implementation plan to address the recommendations. The DFA's management board is overseeing the progress on implementation and reports on the progress to the DFA audit committee.

Figure 9.4 Department of Foreign Affairs — feedback on use of the self-assessment form^a

Control	Description
About the self-assessment form	<ul style="list-style-type: none"> ▪ Straightforward ▪ Logical ▪ Aligned with the international NIST cyber security framework
Challenges	<ul style="list-style-type: none"> ▪ Sending sensitive information and security designs to external support partners — can be overcome by more on-site demonstrations, on-site evidence gathering and consultations with key technical staff^b ▪ Challenge around legacy software and replacement timelines to achieve some key standards — resulting in some recommendations being outstanding for long periods ▪ Challenge around business continuity standard outcomes – responsibility to implement recommendations may reside outside of the IT unit ▪ Due to some overlap between the baseline standards, where multiple outcomes can be addressed by implementing one recommendation, the failure of one large outcome in a particular standard could result in several standards not being achieved across a number of themes ▪ Results from the application of the self-assessment form become a very confidential output — usually in documented form — which needs to be appropriately stored, protected and access restricted ▪ Effort involved to complete the assessment — the DFA stated that the assessment took approximately two weeks to complete, while the testing and evidence gathering phase lasted approximately four months
What worked well	<ul style="list-style-type: none"> ▪ The form structure is aligned to the NIST cyber security framework but is designed with public bodies in mind i.e. not using an assessment purely designed for private entities ▪ When the assessment has been completed once, this allows the mapping of the baseline cyber security landscape, and therefore the exercise should be easy to repeat ▪ The implementation of the NCSC baseline standards in essence, ensures compliance with the NIST cyber security framework
Lessons learned	<ul style="list-style-type: none"> ▪ Giving a point in time measurement, it should be used to create a baseline that can be measured against subsequently ▪ It should not be seen as a measure of IT performance ▪ Gaps and risks identified should be used to roadmap future investment or any required implementation activities in ICT strategy/business plans ▪ Important to highlight any instances of good practice and what is being achieved

Source: Department of Foreign Affairs

- Notes:
- a The feedback also reflects the DFA's experience from the cyber security assessment undertaken in 2022.
 - b External support partners relate to any third party body utilised during the assessment.

- 9.18** The NCSC currently uses the provisions of the Network and Information System (NIS) Directive to frame the national effort to protect critical national infrastructure.¹ In December 2022, a revised Directive — NIS 2 — was published.² Under the NIS 2 Directive, there is a requirement for a national competent authority to check compliance of public administration with the provisions of the Directive.
- 9.19** Member states are required to adopt and publish the measures necessary to comply with the NIS 2 Directive by mid October 2024. The Department has stated that it plans to seek Government approval for the NIS 2 transposition model during 2023.

Conclusions and recommendations

- 9.20** Cyber security is a critical issue for most public bodies, who increasingly are relying on ICT to assist in providing public services. Those charged with governance and management of public bodies need to be able to provide assurance publicly to taxpayers and to service users that a high level of ICT security is in place. Such public assurance has to be achieved without providing assistance to malefactors who might seek to exploit weaknesses in public bodies' systems.
- 9.21** The NCSC has published cyber security standards that set out the baseline measures that public sector bodies should implement to secure their networks. It has also published a cyber security baseline standards self-assessment checklist to help public sector bodies assess their cyber security posture against the standards. The form was developed for self-assessment purposes rather than as a compliance-driving tool.
- 9.22** Our review of the guidance material indicates that the self-assessment form is well developed and comprehensive. It is well aligned with the cyber security baseline standards. It includes tabulated result calculations that should enable efficient reporting and dashboards for effective leadership for those public bodies that use it as intended to support the development of their ICT security regime. The ratings are straightforward and easy to apply based on the questions presented.
- 9.23** The self-assessment form is detailed and lengthy (as would be expected) and requires a significant amount of effort and collaboration to complete. It would benefit from stating explicitly that a good ICT management system will have documented/recorded policies and procedures that are updated as any changes are introduced.
- 9.24** The DFA completed the self-assessment form and found that it was straightforward and logical to use. While it identified a number of challenges with the self-assessment process, which included the significant effort involved in completing the assessment, it cited that once the assessment has been completed, facilitating the mapping of the baseline cyber security landscape, it should be easier to repeat. It recommended that following the self-assessment, testing of findings should be conducted by a suitably-qualified independent person to get the best value from the exercise.
- 9.25** Overall, the self-assessment checklist is a good model for public sector bodies to assess their cyber security practices and controls and such bodies are encouraged to build the self-assessment process into their existing cyber security review processes. There is also scope for the NCSC to work closely with users of the self-assessment form until it becomes embedded within public sector bodies' cyber security assessment practices.

¹ The Directive (EU) 2016/1148 was formally adopted by the EU in July 2016 and was transposed into national law in September 2018 under SI 360 of 2018. The main objective of the Directive is to ensure that there is a common high level of cyber security across member states.

² The NIS 2 Directive was published in the Official Journal of the European Union as Directive (EU) 2022/2555 on Measures for a high common level of cyber security across the Union.

Recommendation 9.1

The NCSC should promote compliance with the Public Sector Cyber Security Baseline Standards by actively promoting use of the self-assessment form through communications and outreach.

Accounting Officer's response

Agreed

The NCSC agrees with this finding and believes that widespread adoption of the cyber security baseline standards (CSBS) by public sector bodies will significantly enhance the security of Ireland's public services.

Timeline for implementation

The NCSC will promote the CSBS in a planned Cyber Security Month campaign in October 2023 in the context of the upcoming NIS 2 Directive which puts public administration in scope of regulation. Additionally, the NCSC will continue to raise awareness of the guidance and associated self-assessment tool in its public and private engagements on an ongoing basis.

Recommendation 9.2

The NCSC should introduce a feedback mechanism whereby public bodies can share any issues or challenges identified from using the self-assessment form that the NCSC can address in future iterations of the form.

Accounting Officer's response

Agreed

The NCSC agrees that feedback from users that have implemented the CSBS is useful to ensure continued improvement in order to keep abreast of technological change.

Timeline for implementation

The NCSC will establish a dedicated mailbox and invite users to submit feedback on their experience implementing the CSBS by Q4 2023. The NCSC will also undertake a review and update (as required) of the CSBS before Q4 2024, in particular ensuring that the guidance is in compliance with the Cybersecurity Risk Management measures outlined in the NIS 2 Directive.

9.26 The NIS 2 Directive places a range of cyber security requirements on entities and sectors covered by the Directive, including the requirement for a national competent authority to check public administration compliance with the provisions of the Directive.

9.27 As yet, no such authority has been appointed although the NCSC stated that the Department is currently drafting the necessary 'heads of bill' including provisions relating to the designation of a competent authority. The NCSC stated that the aim is to have the legislation to give effect to the NIS 2 Directive enacted in 2024.

Annex 9A Cyber security categories by theme



Source: Department of the Environment, Climate and Communications, Public Sector Cyber Security Baseline Standards

10 Estate management in the Department of Agriculture, Food and the Marine

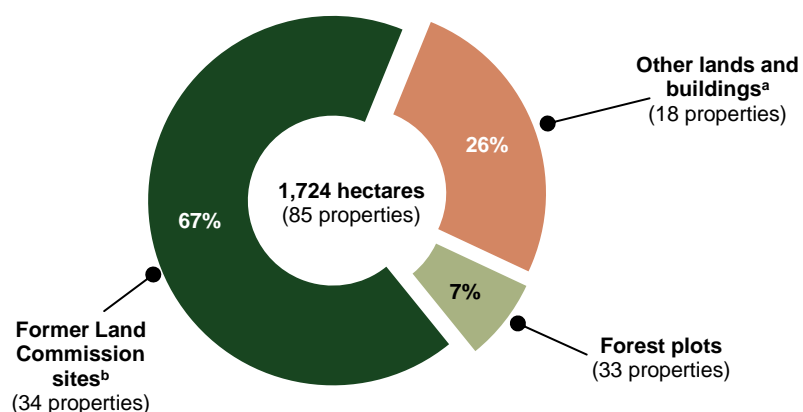
- 10.1** The Department of Agriculture, Food and the Marine (the Department) has a valuable and diverse estate portfolio of 85 buildings and plots of land (1,724 hectares) located across the State (see Figure 10.1).¹
- 10.2** In general, land and buildings are held by Government departments and other public sector bodies to assist in the delivery of public services and to contribute towards the achievement of their overall strategic objectives. All land and buildings owned by the State and controlled or managed by a department should be included in that department's statement of financial position.²
- 10.3** Effective planning for acquisition, safeguarding, use, maintenance and (when appropriate) disposal of assets is a key feature of a good financial management system.³ This examination was undertaken to determine whether the Department
- actively manages its property portfolio, anticipating related risks and ensuring adequate maintenance of the properties
 - accurately accounts for its complete property portfolio in accordance with standard public financial procedures and Department of Public Expenditure, National Development Plan Delivery and Reform (DPENDPDR) guidelines.
- 10.4** As part of the examination, a sample of 14 buildings and land plots (totalling 661 hectares or 38% of the Department's portfolio) were selected for review. This included visits to the sites by the examination team.

¹ Land and buildings at six Fishery Harbour Centres (FHCs) are also vested in the Minister for Agriculture, Food and the Marine. Legislation is currently being prepared to merge the functions of the FHCs into the Department, which will result in a significant increase in the Department's property assets in the future. See Special Report 82 – [Financial Management and Reporting for Fishery Harbour Centres](#).

² Circular 22/2022: [Requirements of Appropriation Accounts 2022](#) (Department of Public Expenditure, National Development Plan Delivery and Reform) provides that where ownership of land and buildings is (a) vested in the Office of Public Works (OPW) or (b) vested in the Minister but in fact controlled/managed by the OPW, they are included in the accounts for the OPW.

³ Public Financial Procedures, Section B.1.22, Department of Public Expenditure, National Development Plan Delivery and Reform.

Figure 10.1 State-owned lands and buildings controlled or managed by the Department



Source: Vote 30 Agriculture, Food and the Marine Appropriation Account 2022

- Notes:
- a For a breakdown of other lands and buildings see paragraph's 10.24 and 10.25.
 - b The Irish Land Commission (ILC) was set up in 1881 as a rent fixing body and subsequently developed by law into a tenant-purchase agency. The ILC was dissolved in 1999 on foot of the provisions of the Irish Land Commission (Dissolution) Act 1992. All ILC land and other property (other than fishing rights and fisheries) transferred to the Minister for Agriculture, Food and the Marine.

Estate management

- 10.5** Land and buildings are valuable assets that need to be managed effectively. An effective property management system should be in place to enable monitoring and management of assets of this nature, and this requires the collation and maintenance of basic data about the assets (see Figure 10.2).

Figure 10.2 Basic data requirements for effective estate management

An estate management system should hold key data for each category of property owned by the Department such as

- precise location
- value of the property
- site size
- basis of ownership title
- Land Registry details
- area of any buildings, building type and current use
- details about the condition and age of the buildings
- facilities available, including the nature of each space/room
- details about programmes of capital and maintenance works completed, underway and/or scheduled
- facilities management data
- schedules of planned and completed site surveys
- details of any easements or obligations (e.g. turbary and grazing rights)^a

Source: Office of the Comptroller and Auditor General

Note: a A turbary right is a right to cut, make, spread and take turf and bog mould from a specific location that is not owned by the turbary right holder.

- 10.6** The Department does not have a centralised estate management system in place. Management of its portfolio is spread across a number of divisions within the Department, depending on the category of the property.

Risk management

- 10.7** Risks associated with a large property portfolio should be identified through a process of assessment that considers the probability of an event occurring and its likely impact. The outcomes from this process should be formally captured in a risk register with control measures assigned to an appropriate risk owner.

- 10.8** The Department's risk register does not contain any risks related specifically to its property portfolio. It only captures risks associated with general asset management and physical access control. The following are the risks that potentially relate to the properties.
- Asset management (low rating) — risk of assets in use around the Department being misappropriated or not being disposed of properly.
 - Physical access control (medium rating) — if appropriate security measures are not in place, this could result in physical access for unauthorised personnel. All Department locations must be secured to prevent unauthorised access.
- 10.9** The physical access control risks identified on the Department's risk register are relevant and appropriate to buildings occupied by the Department. They do not address the risks of potential encroachment or unauthorised/unregulated use of unoccupied buildings or land.
- 10.10** The Department noted that there are certain properties such as bogs, which are unfenced with no physical structure to differentiate between plots, where the Department believes it is not possible to secure them physically.

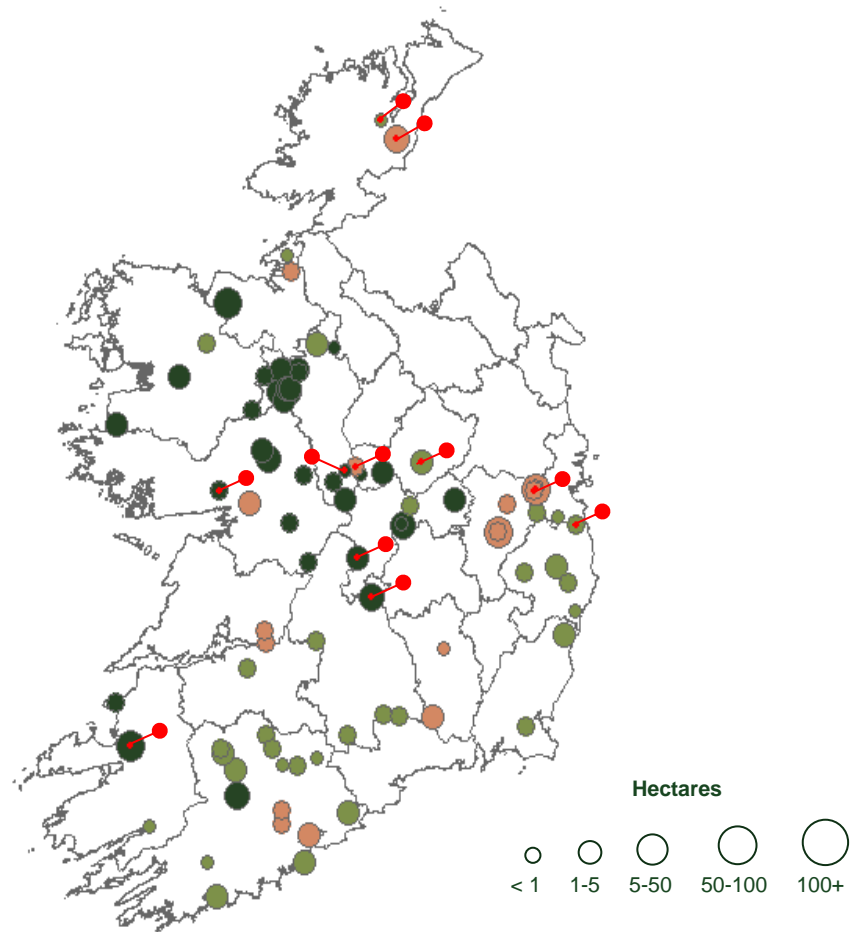
Review of sample lands and buildings

- 10.11** A sample of 14 buildings and land plots located on 12 sites was selected from the Department's listing for examination visits. The examination team found that for one of the selected sites, listed as a forest plot on the Department's asset register as being in Durrow, Co. Laois, the Department was unable to provide location details. It was not clear whether this was a previously-owned plot that should have been removed from the asset register, or whether a site was ever owned at that location. The Department has since removed this from its asset register.
- 10.12** The Department stated that it is conducting a review of the forest plots listed on its asset register to confirm all plots are fully owned. The status of this site will be established as part of this review.
- 10.13** Figure 10.3 illustrates the location of all properties owned by the Department along with the 13 lands and buildings at the 11 sites visited as part of this examination.

Registration of title

- 10.14** It is compulsory for a state authority to register land acquired after 1 January 1967 with the Land Registry.¹ The examination found for the 13 buildings and land plots reviewed that
- eight were correctly registered
 - three forest plots and one former Land Commission site are not recorded in the Land Registry
 - one former Land Commission site was partially registered — only 1.61 hectares of its 44.7 hectares is registered.

¹ Registration of Title Act 1964.

Figure 10.3 Departments lands and buildings locations^a

Source: Department of Agriculture, Food and the Marine. Analysis by the Office of the Comptroller and Auditor General.

Note: a Map key

- Former Land Commission lands
- Forest plots
- Laboratories and other properties
- Sites visited by the examination team.

Former Land Commission lands

- 10.15** Lands inherited by the Department from the former Land Commission are the largest category of property held, accounting for 67% (1,155 hectares) of the Department's land portfolio at the end of 2022. These lands are classified as non-agricultural lands and are mainly bog lands.
- 10.16** At the time of the dissolution of the Land Commission, there was no register available of lands owned or managed by them. The Department set about compiling a register and identified around 2,660 hectares of non-agricultural land, over half of which has since been disposed of.
- 10.17** The Department stated that it had intended on fully disposing of these lands. However, most of the remaining land is subject to turbary rights allotted by the former Land Commission or grazing rights, with the result that they are not easily dealt with.

10.18 Turbary rights can be

- appurtenant (i.e. linked) to a specific dwelling the owner of which has the right to cut turf in a specific place for personal consumption of the household, or
- held in gross, where the plot owner can cut the turf for commercial purposes.

10.19 The Department noted that the former Land Commission lands have both forms of turbary rights allotted. The examination found that the Department does not have a register of turbary right holders for these properties. Therefore, it does not know who has the right of access to these lands and consequently does not have full control over these assets. Department staff do not monitor the levels of turf cutting activity at sites.

10.20 The Department has stated that it was never the policy of the former Irish Land Commission to manage turbary and grazing rights post allotment/vesting. It also stated where turbary rights were allotted by the former Land Commission, it has a record (in paper format), at estate file level, of the persons who were originally allotted such rights. The Department further advised that the holders of turbary rights are not obliged to cut turf.

10.21 Five sites visited by the examination team were former Land Commission sites. There was evidence of recent turf cutting on three of these sites — one bog had a third party contractor on site cutting turf with specialised machinery on the day of the visit.

10.22 The largest former Land Commission site is located in Ballydunlea in County Kerry (285 hectares). A site visit by the examination team noted that

- it is a significant area of unenclosed mountainous land
- seven farmers operate a 'commonage' with turbary and grazing rights
- part of the site forms a military range but the Department stated that it has not been used in recent years by the Defence Forces
- part of the site forms a special area of conservation and there are a number of national monuments on the land.

10.23 The Department has made several attempts to dispose of the lands over a number of years but failed due to a lack of interest. This has included attempts to transfer the land to the farmers with the grazing rights but the intended recipients could not agree on a division of the land.

Other lands and buildings

10.24 The Department's other land and buildings are held for a variety of purposes, and includes lands at Backweston (Backweston farm and Backweston laboratory campus) in Co. Kildare — the largest of the Department's properties in this category at 150 hectares.

10.25 It also includes five regional veterinary laboratories (in Co. Cork, Co. Kilkenny, Co. Limerick, Co. Sligo and Co. Westmeath); a blood testing laboratory in Co. Cork; a dairy science laboratory in Co. Limerick; a potato testing centre in Co. Donegal; Teagasc colleges in Co. Galway and Co. Kilkenny; and Haulbowline Island in Co. Cork.

Lands at Backweston

- 10.26** Backweston laboratory campus and Backweston farm are situated on lands owned by the Department. The laboratory campus and the buildings located within its confines are managed by OPW. These buildings include the Department's Central Laboratory Complex and an administration building where Department staff work.
- 10.27** The campus also accommodates the State Laboratory, a new forensic science laboratory (a Department of Justice facility), a shared services facility and a crèche. The new forensic science laboratory building was recently completed and a shared services public sector data centre is also currently under construction on the campus.

Backweston farm

- 10.28** Backweston farm is operated by the Department and includes offices and farm buildings. The examination team identified a Georgian farmhouse (approximately 235 square metres) during the site visit and found that it was not recorded on either the Department's or the OPW's asset register.
- 10.29** The Department stated that the farm foreman resides in the Georgian farmhouse, and advised that there is no tenancy agreement in place as it is a requirement of the post that the farm foreman resides on the farm. The Department also stated that the building has now been added to the Department's asset register.

Stacumny cottage

- 10.30** Stacumny Cottage is located on the lands at Backweston (adjacent to Backweston farm) and has been in the Department's ownership since circa 1961. It was previously occupied by a farm labourer and his family, and subsequently by his widow, until 2011.
- 10.31** The Department has had a legal tenancy agreement — in place since 2011 — to let the property to a staff member for a nominal annual rent of €104 in order to mitigate against leaving the property vacant for lengthy periods of time and to prevent the property from becoming derelict. The examination found no clear business purpose or policy in place for the use of the cottage. The Department stated that the cottage has also been used to provide shared temporary accommodation for staff on an ad hoc informal basis.
- 10.32** The Department is currently developing a proposal that will prioritise access for visiting scientists to support inter-laboratory collaboration with counterparts in Northern Ireland and other EU member states. This proposal will involve some modification and renovation of the property to make it more suitable for use as short-stay temporary accommodation for visiting scientists and the Department believes the proposal will facilitate active participation in North-South collaboration and EU collaborative activities.

Regional veterinary laboratories

- 10.33** Five regional veterinary laboratories are included on the Department's asset register. During a visit to one regional veterinary laboratory, the examination team found cattle that belong to a local farmer grazing on a portion of the Department's land. There was no formal agreement in place for grazing rights and no related income.

- 10.34** The Department stated that this is an ad hoc arrangement that has been in place for at least 20 years, and that it is mutually beneficial in that the field is maintained at no additional cost to it. It does not consider that there is a risk of a claim or entitlement to grazing rights. The Department further stated that, as the site is due for redevelopment, it intends terminating the arrangement with the cattle owner. Sufficient time, however, will be given to the cattle owner to make alternative arrangements for the animals.

Potato testing centre

- 10.35** The Department's potato testing centre is based at Tops Farm, Raphoe, Co. Donegal and has been in operation since 1988. The main function of the centre is to produce pre-basic mini-tuber seed for participants in the Department's seed potato certification scheme.¹ The centre uses the land for potato propagation, glasshouses, polytunnels and a virus testing laboratory. A visit by the examination team to the centre found it to be well maintained and that there had been a significant investment (around €212,500 inclusive of VAT) on a glass house in 2022.

Forest plots

- 10.36** Since 1989, the commercial State body Coillte has been carrying out forestry activities that had previously been carried out by the Department.² At that time, 396,000 hectares of forest were transferred to Coillte. The Department retained 1,660 hectares (202 properties). In the early 1990s, an evaluation of the retained properties found that many had no realistic resale value, were strategic to Coillte's forest estate or were of conservation interest.
- 10.37** In 1993, the Minister agreed to transfer 134 properties (833 hectares) to Coillte and 12 properties (450 hectares) to the National Parks and Wildlife Service. The Department stated that some of the properties were transferred to Coillte during the intervening years, but the transfers were delayed due to title and legal issues. In conjunction with Coillte, a mechanism for finalising the transfer of lands to Coillte was developed in 2015 and the transfer of the remaining properties commenced.
- 10.38** Coillte stated that it is their understanding that effective control and possession of the 134 properties was given to Coillte with effect from 1993, with legal title to transfer thereafter. For that reason, Coillte has recorded these forest plots as part of its forest inventory and has been responsible for managing those plots continuously since 1993.
- 10.39** There are 33 forest plots (7% of the Department's current portfolio) which remain recorded on the Department's asset register. Three forest plots were visited by the examination team accompanied by Coillte staff. For all three forest plots, Coillte staff were not aware that the Department owned the sites as the plots were being fully managed and controlled by Coillte.
- 10.40** A visit to a forest plot located in Enniskerry, recorded as one site on the Department's asset register, found that there were two separate sites — one in the townland of Lackan and the other in the townland of Monastery. The Lackan site is managed and controlled by Coillte and the Monastery site by the Department. The Monastery site was intended to be disposed of to the National Parks and Wildlife Services, but this has not yet happened.

¹ The seed certification scheme provides a guarantee to the purchaser that the seed is properly labelled, high in quality and free from major pests and diseases.

² Coillte was established under the Forestry Act of 1988 as a private limited company registered under and subject to the Companies Acts 1963-86.

Accounting for land and buildings

- 10.41** The standard accounting policies and principles for the preparation of appropriation accounts provide that all land and buildings owned by the State and controlled or managed by a Department should be included in that Department's statement of financial position. Where appropriate, the basis of valuation of land and buildings should be explained in the Accounting Officer's introduction to the appropriation account.¹
- 10.42** The Department has not determined a valuation for the various properties in its portfolio and consequently, these are not reported in the statement of financial position. Instead, a list of the properties is appended to the Department's appropriation account.
- 10.43** The Department stated that its accounting policy, in the appropriation account, is not to value properties in use for the delivery of its strategic functions. There is no intention to dispose of these properties. If any were to be disposed of, then market valuation would have been applied or alternatively the appropriate DPENDPDR sanction would have been obtained.
- 10.44** The Department further stated that historically, Land Commission properties were valued and sold at an agreed price at time of allotment. It was the intention to value the properties remaining, now in the ownership of the Department, at the time of disposal.

Asset register

- 10.45** An asset register is a key financial management control that enables public bodies to track the value of their assets over time and prevents their loss or misappropriation. The Department's asset register records individual assets with a value of over €10,000 each and includes both financial and non-financial information for each asset. The Department's land and buildings are recorded on its asset register with nil value.
- 10.46** As part of the examination, the lands and buildings recorded on the Department's asset register were compared to those recorded on the OPW's asset register. The examination found that four of the Department's laboratories and lands at Longtown Farm, Co. Kildare are also recorded on the OPW's asset register, and the OPW has determined a valuation for them (see Figure 10.4).
- 10.47** The Department noted that it operates and manages the four laboratories on sites that are owned by OPW and it was for this reason that it had recorded them on its asset register. Both the Department and OPW stated that they will continue to liaise with one another in relation to the duplications with a view to ensuring that there are no duplications between the organisations in future.

¹ [Circular 22/2022: Requirements of Appropriation Accounts 2022](#) (Department of Public Expenditure, National Development Plan Delivery and Reform) provides that where ownership of land and buildings is (a) vested in the Office of Public Works (OPW) or (b) vested in the Minister but in fact controlled/managed by the OPW, they are included in the accounts for the OPW.

Figure 10.4 Duplicate registration of properties in both the Department and OPW

Description	Value ^a €000
Lands and buildings at Longtown	23,792 ^b
Sligo Veterinary Laboratory	780
Kilkenny Veterinary Laboratory	668
Athlone Veterinary Laboratory	610
Limerick Dairy Laboratory	315
	26,165

Source: OPW fixed asset register as of 31 December 2022

Notes: a These assets are valued at cost.

b Includes €7.1 million in respect of Longtown Farm.

Recent property additions and disposals

- 10.48** The examination noted that the Department's list of properties disclosed in its appropriation account changes year on year. A look back over a five-year period (2018 to 2022) of the Department's property additions and disposals, shows that the Department identified 24 buildings or land plots that it either owned or controlled that should have been on its asset register.
- 10.49** The Department stated that former Land Commission sites are often only identified for inclusion on the asset register as a result of external queries on matters such as boundaries, rights of way and legal title.
- 10.50** The largest addition in that period to the Department's asset register was land and buildings at Longtown Farm (see Figure 10.4). These were purchased by the OPW in December 2000, at a cost of around €7.1 million. Following engagement between the OPW and the Department, they were added to the Department's asset register in 2022 on the basis that the Department controlled and managed the farm. Separate from this examination, the audit of the 2022 appropriation account also identified that buildings at Longtown Farm are also being occupied by staff of the Department.
- 10.51** Over the same period (2018 to 2022), the Department disposed of 11 forest plots to Coillte.

Conclusions and recommendations

Estate management

- 10.52** The Department has a large portfolio of lands and buildings located across Ireland. This includes properties listed in an appendix to the Vote for Agriculture, Food and the Marine, and land and buildings at the statutory Fishery Harbour Centres. However, the Department does not have a centralised estate management system in place.
- 10.53** The Department's risk register does not contain any risks related to its property portfolio such as risk of encroachment or unregulated occupation of sites. Examination of a sample of the Department's properties found significant errors and omissions in the registrations of title. In addition, a listed forest plot selected for a visit was found not to exist.

- 10.54** The largest category of property currently held by the Department was inherited from the former Land Commission over 20 years ago. Even though most of these lands are bog land and are subject to turbary or grazing rights, the Department does not maintain a register of these rights which means it does not know who has the right of access to these lands and therefore does not have full control over these assets.
- 10.55** Three of the five former Land Commission sites visited had evidence of recent bog cutting. One bog had a third party contractor on site cutting turf with specialised machinery. Another site was unenclosed with seven farmers operating a commonage with turbary and grazing rights on almost all of the 285 hectares of land.
- 10.56** There was no clear evidence that the Department has appropriate control over the exercise of the legal rights by those entitled to do so. The Department stated that it was never the policy of the former Irish Land Commission to manage turbary and grazing rights post allotment/vesting. It is considered appropriate by the Department that the holders of the rights do so themselves.
- 10.57** For one of the laboratories visited, cattle that did not belong to the Department were found to be grazing on a portion of its land with no formal letting agreement in place and no related income. On another site, the examination team identified a Georgian house which was not recorded on either the Department or OPW's asset registers, in which the farm foreman was currently residing. There was no legal arrangement in place for the occupancy. The Department stated that the foreman was expected to reside on site, but this was not documented in his contract of employment.
- 10.58** Another cottage on the same site was identified as being used by staff on a temporary basis. While Department officials stated that the occupancy had been facilitated to prevent the cottage from becoming derelict, there was no clear business purpose or policy in place for its use. The financial audit also found that buildings at Longtown Farm are also occupied by staff of the Department.

Recommendation 10.1

The Department should put a centralised estate management system in place to manage its property portfolio. At a minimum, the system should capture key information on the nature, location, title, scale, condition and use of its property assets.

Accounting Officer's response

Agreed.

The Department will establish a centralised estate management system, capturing the recommended information categories for each property held. However, management of the property portfolio will remain with the expert Divisions across the Department.

Timeline for implementation

Between one and two years (by 2025) as procurement of software may be necessary.

- 10.59** The gaps and weakness in the Department's management of its property portfolio are significant risks that should be captured in its risk register, in order that an assessment can be made of their likely impact and actions identified to mitigate the impact. The examination found that the Department's risk register does not contain any risks in relation to its property portfolio.

Recommendation 10.2

The Department should include as part of its annual risk assessment exercise consideration of the particular risks attached to the management of its property portfolio. Risks identified from this process should be added to its risk register.

Accounting Officer's response

Agreed.

The Department will consider the risks attached to the management of its property portfolio and add them to its risk register.

Timeline for implementation

Between six and nine months (by June 2024). The annual risk assessment will be conducted alongside drafting of annual divisional business plans.

Accounting for land and buildings

10.60 The Department has not determined a valuation basis for the properties in its portfolio and therefore does not report them in its statement of financial position in its annual appropriation account. They are instead listed by way of an appendix to that account.

10.61 The planned incorporation of the financial statements for the fishery harbour centres into the appropriation account increases the Department's requirement for comprehensive valuation and financial reporting of its property assets.

10.62 A comparison of the Department's asset register with that of the OPW found that five of the Department's properties are also recorded on OPW's asset register, which has the potential to result in confusion over responsibilities. There was a significant delay in adding properties at Longtown Farm to the Department's asset register.

10.63 In addition, in the last five years, the Department has identified 24 land plots and buildings that should have been on its asset register. However, these assets were only discovered as a result of external queries such as estate cases or boundary queries. These findings would indicate that the Department's property portfolio listing is neither accurate nor complete.

Recommendation 10.3

The Department should determine a valuation basis for its properties and include them in its statement of financial position in its annual appropriation account.

Accounting Officer's response

Agreed.

The Department notes that financial reporting reforms have been commenced by the Minister for Public Expenditure, National Development Plan Delivery and Reform and a specific accounting standard to cover property, plant and equipment has been developed. This accounting standard will require all departments to value properties and revalue them on a scheduled basis.

The Department has already had initial discussions with Government Accounting Unit in DPENDPDR on the implementation of an appropriate approach to this valuation exercise. The views of some relevant agencies such as Teagasc and Coillte may be of assistance in this process.

Timeline for implementation

For inclusion in the 2024 appropriation account which will be published by end September 2025.

- 10.64** Around 7% of the lands and buildings held by the Department are forest plots. These plots are deemed strategic to Coillte's forest estate and in most cases form part of larger Coillte sites that are being controlled and managed by Coillte. It was agreed in principle in the 1990s that these would transfer to Coillte, and even though a mechanism was devised for transferring these properties to Coillte in 2015, they have not yet all been transferred.
- 10.65** Site visits to three of the Department's listed forest plots found that all three were being fully managed and controlled by Coillte. One listed property comprised two separate sites: one site being part of Coillte's inventory and the other site retained by the Minister, apparently pending transfer to the National Parks and Wildlife Service.

Recommendation 10.4

The Department should complete the transfer of legal title of the forest plots to Coillte as agreed in 2015.

Accounting Officer's response

Agreed.

The Department's intention remains to divest the remaining 33 plots to Coillte as soon as possible. Title issues, registry issues, administrative and technical legal reasons presenting on the remaining sites need to be resolved before the final transfer can take place. The Department is actively assessing these sites with a view to accelerating the process and will review the necessary steps to transfer the remaining sites with Coillte and the Chief State Solicitor's Office.

Timeline for implementation

The Department is conducting a review of these cases. It is not possible to say at this stage how long these transfers will take. Given the land registration issues involved, it may take a number of years to complete all 33 transfers.

11 Utilisation of the Land Aggregation Scheme sites

- 11.1** The Department of Housing, Local Government and Heritage (the Department) supports the acquisition by local authorities of land intended for development of social and affordable housing. In the past, this support included the authorisation of borrowing by local authorities from the Housing Finance Agency to fund the land acquisition. Arising from the financial crisis in 2008, many local authorities experienced difficulties in meeting their loan repayments to the Housing Finance Agency.
- 11.2** The Land Aggregation Scheme (LAGS) was established in 2010 to alleviate the financial burden on local authorities relating to the maturing Housing Finance Agency loans, where residential development of the associated land had not proceeded.
- 11.3** In return for LAGS funding, local authorities were required to surrender the related land, for a nominal fee of €1 per site. Between 2010 and 2023, the sites were transferred to the Housing Agency, which was given the responsibility of managing the sites including developing a strategy for utilisation of the LAGS land bank.
- 11.4** Under the scheme, local authorities could only transfer land which had a reasonable residential development potential but which had no plans for development in the short to medium term. The Department approved or rejected the inclusion of sites into the LAGS following its consideration of an assessment carried out by the Housing Agency.
- 11.5** I have reported previously on the LAGS, dealing with matters relating to the development of the scheme, the transfer of sites to the Housing Agency and the subsequent development of those sites.¹
- 11.6** This examination reviews progress made by the Housing Agency in developing the LAGS sites since 2019 and the extent to which it implemented the three recommendations contained in the previous report (see Annex 11A). As part of the examination, a sample of seven LAGS sites (totalling 67.4 hectares) valued at €21 million was selected for further examination, including visits to the sites by the examination team.

Transfer of land to the Housing Agency

- 11.7** In all, 73 sites totalling 247 hectares were approved by the Department for transfer to the Housing Agency. This portfolio comprised a wide range of sites varying in size from 0.11 hectares to 24.21 hectares, spread across 18 local authorities.
- 11.8** Between 2010 and 2011, the Department paid the local authorities almost €111 million for 47 sites to enable them to redeem the related loans. In 2012, revised arrangements were introduced whereby loans from the Housing Finance Agency on a further 26 sites were converted to mortgages of up to 25 years, with an initial value of €52 million. The Department has an ongoing financial commitment to the local authorities in connection with these mortgages.

¹ *Report on the Accounts of the Public Services 2013*, chapter 6; *Report on the Accounts of the Public Services 2015*, chapter 5; *Report on the Accounts of the Public Services 2019*, chapter 12.

- 11.9** The Housing Agency took ownership of the individual LAGS sites over a number of years. By the end of 2020, all 73 of the approved sites had been transferred and registered in the ownership of the Housing Agency. Since then, 15 sites or parts of sites have been disposed of back to the local authorities for housing development — 13 with construction complete and two with construction ongoing.¹ A further six sites or parts of sites were also disposed of to third parties for other uses. The land disposed of represents 15% of the overall LAGS land bank (Annex 11B lists those sites and how they were planned to be used).
- 11.10** As of August 2023, the Housing Agency retains ownership of 60 LAGS sites, with an estimated market value of just over €56 million.

Progress in developing LAGS sites

- 11.11** Since 2019, 578 social housing units have been delivered on LAGS land. Notwithstanding this, as illustrated in Figure 11.1, relatively little progress has been made by the Housing Agency in developing the LAGS portfolio between 2019 and August 2023. While the status of some individual sites changed over the period, much of the land remained in an undeveloped condition, despite plans for development. Both the Department and the Housing Agency noted that Covid-19 restrictions were a significant complicating factor for development of the LAGS sites during this period.
- 11.12** Similar to 2019, by the end of August 2023, almost half of the land area (39 sites) held by the Housing Agency has no formal development plans in place.²
- 11.13** In 2018, the Housing Agency assessed the LAGS portfolio as having the potential to deliver 5,365 social houses. A variety of delivery strategies including local authority and approved housing body (AHB) led developments, the identification of development partners through public procurement and the use of public private partnerships. The Housing Agency has also engaged with the Land Development Agency (LDA) to review LAGS sites and identify suitable sites for development.³

¹ Transfers back to the local authorities from whom the sites were originally acquired were for a nominal fee of €10 each.

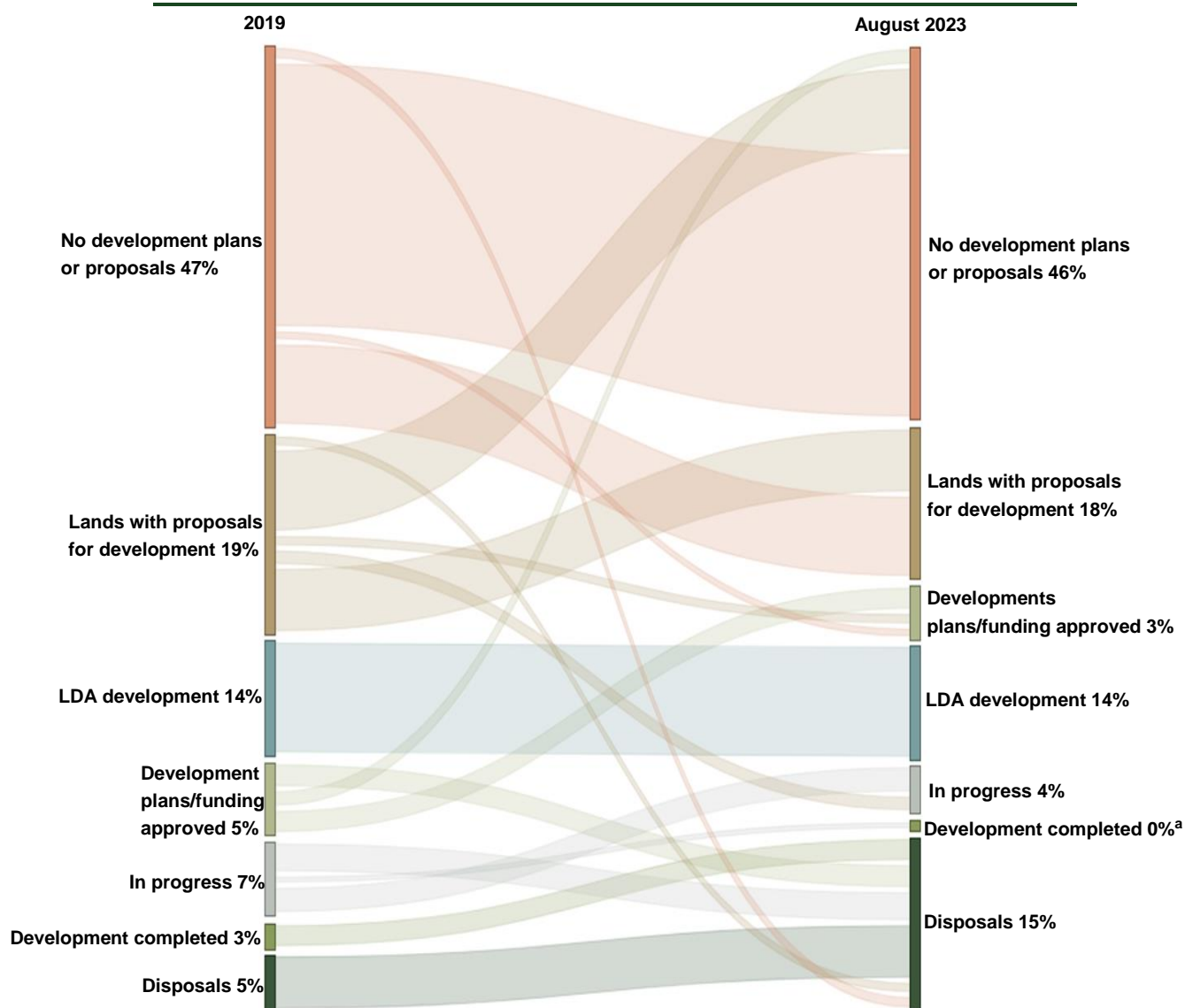
² Comprises 31 full sites and eight partial sites.

³ The Land Development Agency's primary function is to manage the development and regeneration of land and property, for the purpose of the delivery of housing.

Development completed — 14 sites

- 11.14** As of August 2023, 676 social housing units had been completed on 14 LAGS sites with all units currently occupied. 12 of these developments were completed by local authorities and two by AHBs.
- 11.15** Of the 14 sites, 13 have been disposed of by way of transfer to the relevant local authority (see Figure 11B.1) with ownership of one site containing six social housing units yet to be transferred by the Housing Agency to the relevant local authority.

Figure 11.1 Progress developing the total LAGS portfolio by area, 2019 and August 2023



Source: The Housing Agency. Analysis by the Office of the Comptroller and Auditor General.

Note: a The total area of sites in this category is less than 1% of the overall area.

In progress — eight sites

- 11.16** Seven of the LAGS sites are at various stages of development and are expected to deliver a total of 243 social housing units between the end of 2023 and early 2026.
- 11.17** The Housing Agency is also in the process of agreeing a five-year lease with the Department of Children, Equality, Disability, Integration and Youth (DCEDIY) for one site to provide temporary accommodation (42 modular homes) for Ukrainian refugees. Construction is currently ongoing on the site. A site visit carried out by the examination team in June 2023 noted that the substructure was in place to accommodate the delivery of modular units to the site. The Housing Agency estimates that the units will be completed in late 2023.
- 11.18** Another visit by the examination team to a site assessed by the Housing Agency in 2018 as having the capacity to deliver 90 social housing units found that just 12 houses had been completed on part of the site. The Housing Agency has stated that the scale of the development reflects the social housing needs in accordance with the relevant local authority's housing needs demand assessment. However, another private development is in progress on an adjacent site which indicates there is further demand for housing in the area.
- 11.19** There were no plans for further development of the remainder of the site, and horses were grazing on the unused and unfenced part of the site.

Land Development Agency — three sites

- 11.20** The LDA obtained planning permission for 1,381 housing units on three LAGS sites that are being developed by the LDA, almost 50% more units than had been estimated in 2018 by the Housing Agency (see Figure 11.2). These sites are intended to provide a mix of social, affordable purchase and cost-rental new homes, in addition to other amenities such as crèche facilities and retail units.
- 11.21** The Housing Agency advised that the Devoy Barracks site will be disposed of to the LDA in late 2023 followed by the remaining sites in early 2024. Once these sites are disposed of, the Housing Agency will no longer have any involvement in the development of these sites.

Figure 11.2 Status of three LDA sites

Site	Size (hectares)	Planning obtained	Current stage of development	Estimated units	Actual units planned	Difference
Devoy Barracks, Naas, Co. Kildare	5.66	Q4 2022	Tender stage	142	219	+54%
Hampton, Balbriggan, Co. Dublin	22.80	Q1 2023	Design stage	605	817	+35%
Hacketstown, Skerries, Co. Dublin	7.30	Q1 2023	Tender stage	183	345	+89%
Total				930	1,381	+48%

Source: The Housing Agency

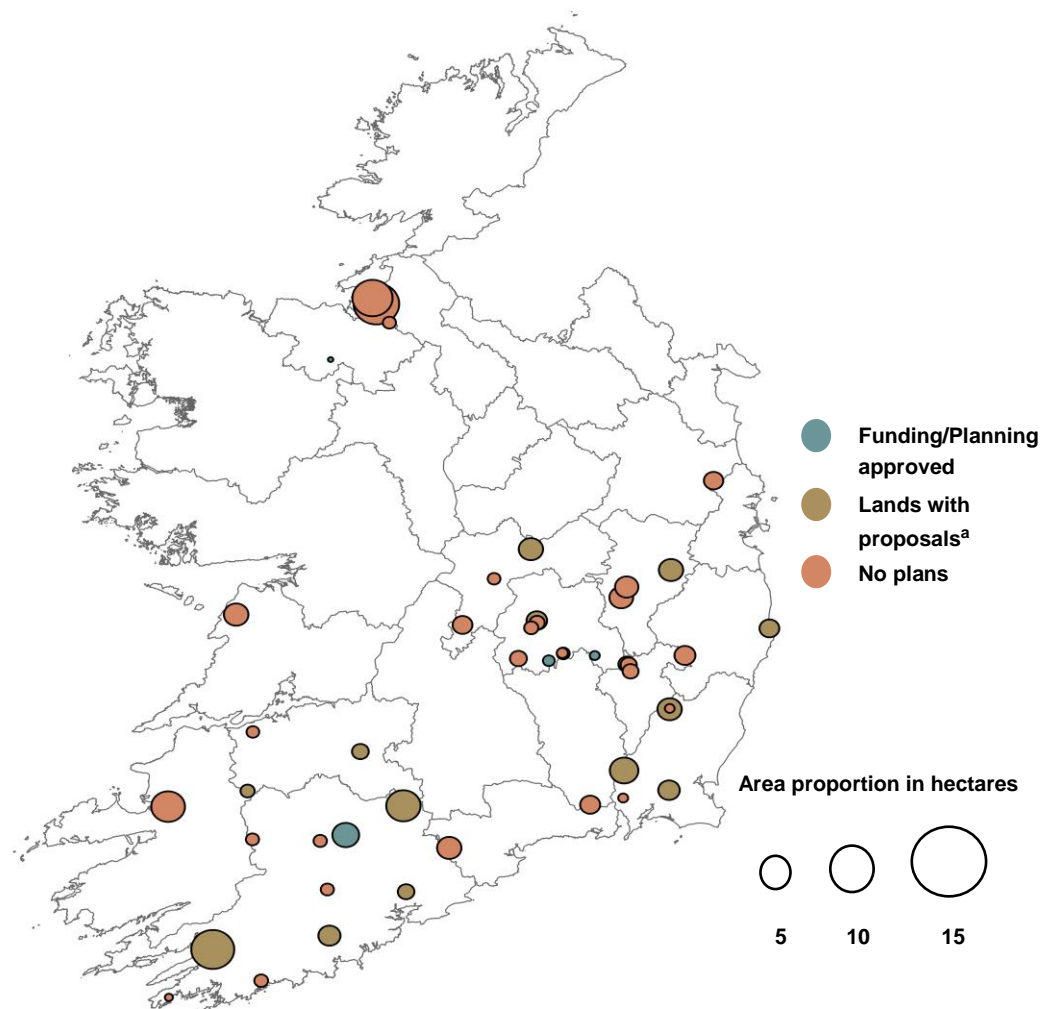
LAGS sites that have not progressed

11.22 For the remaining LAGS sites, representing around 66% (by area) of the LAGS portfolio (see Figure 11.3), limited progress has been made by the Housing Agency in their development.

Development plans or funding approved — four sites

11.23 The Housing Agency has stated that one site at St Joseph's Road, Mallow, Co. Cork is being developed by the local authority. A design team has been appointed for the site, with the local authority planning to develop 160 social and affordable housing units. The design team is currently at an early planning stage. In addition, funding was approved for three sites for a total of 37 social housing units.

Figure 11.3 Status of 66% of the LAGS portfolio area (hectares) at end August 2023



Source: The Housing Agency. Analysis by the Office of the Comptroller and Auditor General.

Note: ^a In some cases, the proposals are for partial site development.

Land with proposals for development — 13 sites

- 11.24** Six of the LAGS sites classified in 2019 as having proposals for development of 454 units have not progressed past this stage. The Housing Agency stated that this was for a number of reasons including
- initial development proposals being halted and new proposals being selected
 - delays agreeing development proposals with the relevant local authorities and AHBs, and
 - the re-evaluation of certain projects due to increasing construction costs.
- 11.25** Seven sites that in 2019 had been classified as having no development plans in place, received expressions of interest for development between October 2022 and August 2023. Local authorities expressed an interest in five sites capable of providing 250 social housing units; the HSE expressed an interest in part of a site for a medical centre and one site has been selected for development under a public private partnership arrangement. At the time of this examination, all proposals were at very early stages.
- 11.26** The examination team visited one site and found it located near a local school and GAA grounds. The site comprised three fields currently leased by the Housing Agency to a local farmer. The site also appeared to have numerous public access points and a tent was located on the site at the time of the visit.

Sites with no development plans or proposals — 39 sites

- 11.27** There are currently no plans or proposals for the development of 39 sites, representing almost half of the LAGS portfolio by area.¹ These include eight sites where the Housing Agency advised that previous proposals for development could not be progressed. Since 2019, two of the eight sites have been rezoned for community and enterprise, while proposals for the remaining six have been halted as there is no near-term housing demand in the locations.
- 11.28** A number of the sites without plans are currently being leased by the Housing Agency under short term leasing agreements with local farmers (14 sites) and a local GAA club (one site). In May 2023, the Housing Agency sought expressions of interest from AHBs to develop 15 of the 39 sites. However, no suitable proposals were received.
- 11.29** The 2019 examination reported that there were no development plans or proposals in place for four sites identified as being ready for immediate development.
- Two sites in Cork had an estimated capacity of 581 social housing units. Parts of both sites were selected for development under a public private partnership arrangement, which is expected to deliver a total of 200 social housing units.
 - Two sites in Sligo had an estimated capacity to deliver 200 social housing units under the 2018 plan. The Housing Agency engaged with the relevant local authority and was advised that the two sites would not be developed in the near term. Significant infrastructural works are required to serve the sites, and there is a lack of demand in the area for social housing.
- 11.30** The examination team visited the two Sligo sites, which are located in close proximity to one another, and found that they are in a very rural setting with no access to public transport and are not easily accessible from Sligo town.

¹ Includes eight partial sites which have had progress made on the remainder of the site.

- 11.31** The examination team also visited three other sites with no development plans. One site was found to be in a rural setting with low demand for social housing and with zoning issues. The other site visit was to two adjoining sites, one of which is being partially used for the temporary modular accommodation for Ukrainian refugees. The sites are in close proximity to a town and are zoned for tourism purposes under the most recent local authority development plan.

Alternative use for LAGS sites

- 11.32** The Housing Agency has explored a range of options for developing or finding alternative uses for the LAGS sites that have no development plans. In March 2022, the Housing Agency engaged with DCEDIY in order to identify sites suitable for the provision of temporary accommodation for Ukrainian refugees.
- 11.33** Seven sites were initially selected with only one of these sites having since progressed to construction.¹ Three sites are still under consideration while three have been deemed unsuitable due to local and infrastructural issues.
- 11.34** In June 2022, the Housing Agency engaged a consultant to carry out a biodiversity study on 20 of the 39 sites (around a quarter of the total LAGS portfolio by area) to improve the management of sites identified as having no near term requirement for social or affordable housing, or not capable of being developed due to infrastructural issues. The Housing Agency stated that it has subsequently received expressions of interest to develop three of these sites by local authorities.
- 11.35** The study will provide an assessment of the baseline biodiversity value of the sites and of their most appropriate management, and inform what further actions are required. The Housing Agency, however, has advised that it will not implement any biodiversity measures that could impact future development or cause the sterilisation of lands subject to adherence to any legislative requirements in relation to protected species or habitats.
- 11.36** The survey is due to be completed by September 2023, with the report's findings and recommendations to be presented to the board of the Housing Agency in late 2023.

Ongoing costs

- 11.37** The Department stated that the total cost of LAGS as at 31 December 2022 is €131.6 million. Expenditure totalling €127.4 million has been charged to subhead A.3 (local authority housing) in the Department's appropriation account. The difference of €4.2 million is made up of surplus local property tax receipts being offset against some local authority claims under LAGS.

Site values

- 11.38** As at 31 August 2023, the Housing Agency retained ownership of 60 of the LAGS sites, with an estimated market value of just over €56 million. Since 2018, the Housing Agency has adopted a policy of recognising the LAGS land portfolio at fair value.
- 11.39** The Housing Agency stated that a desktop valuation is undertaken every two years for a number of larger sites that together account for at least 50% of the total LAGS land portfolio by site value. A full revaluation exercise will be carried out every six years for all LAGS sites, with the next full revaluation exercise to be completed in 2024 (the last one having been completed in 2018).

¹ Details of this site are included in the 'In progress' section above.

Mortgages

- 11.40** By the end of 2022, the local authorities had submitted claims totalling €20.9 million in respect of the 26 mortgaged LAGS sites.
- 11.41** These mortgages had outstanding balances totalling €35.6 million at 31 December 2022. The Department estimates that the annual cost of repayments will be approximately €2.7 million per year, depending on interest rates.

Residential zoned land tax

- 11.42** The residential zoned land tax introduced by the Finance Act 2021 is an annual tax of 3% applied to land that is zoned as suitable for residential development and/or serviced after 1 January 2022. It is payable annually from May 2024. Currently there are a total of 28 LAGS sites that will be liable to this tax with an annual cost of almost €1.5 million.

Legal ownership

- 11.43** The Housing Agency advised that they will no longer have legal ownership of LAGS sites once construction and all contractual obligations have been completed. However, sites disposed of to AHBs contain conditions relating to the maintenance of completed social housing units for a minimum period of 30 years and up to 150 years in certain cases.

Conclusions

Achievement of scheme objectives

- 11.44** The 73 sites taken into the LAGS scheme were originally acquired by the respective local authorities to form part of land banks for future development of social housing. Loans to fund the purchase of the sites were provided to the local authorities by the Housing Finance Agency on the basis that the land was for residential development. All of the sites were accepted into the LAGS scheme by the Department, following an assessment by the Housing Agency. Only land with reasonable residential development potential was accepted into LAGS.
- 11.45** At the end of August 2023, 13 years after the scheme was established, almost half (by area) of the LAGS portfolio of land had no development plans or proposals for delivering social or affordable housing. Although the Housing Agency has engaged with the local authorities, AHBs and other state bodies on these 39 sites, no viable development options have yet been identified.
- 11.46** The Housing Agency has cited a number of reasons for this including infrastructural issues, a lack of demand for social housing in certain areas and individual site issues such as flooding risk, topographical and zoning issues. Visits by the examination team to a number of the sites confirmed their probable unsuitability for social housing development.
- 11.47** In 2023, the Housing Agency commissioned a biodiversity study on 23 of the 39 sites with no development plans and representing a fifth of the LAGS portfolio. The Housing Agency stated that no biodiversity measures would be implemented that would impact future development or cause sterilisation of lands subject to adherence to any legislative requirements in relation to protected species and habitats.

- 11.48** The LAGS scheme succeeded in reducing the indebtedness of certain local authorities to the Housing Finance Agency. However, the apparent unsuitability of a significant part of the LAGS land area for any foreseeable social housing purpose indicates that a significant part of the voted funding used to acquire the LAGS sites from the local authorities will not in fact contribute to housing delivery.

Development of social housing

- 11.49** Although the Housing Agency has assessed the LAGS portfolio as having the capacity to deliver 5,365 social housing units, only 676 social housing units have been delivered in the 13-year period since the scheme was established — an average of 52 social housing units delivered per year and representing just under 13% of what was estimated could be achieved. A further 243 social housing units are at various stages of construction.
- 11.50** Up to the end August 2023, 15 sites had been transferred back to the local authorities from which they were acquired with a further six sites disposed of to third parties for other uses. One of the six sites has been disposed of to a private developer with conditions to develop housing within a specified timeframe.
- 11.51** Three LAGS sites are scheduled to be disposed of to the LDA in late 2023 and early 2024. The LDA has obtained planning permission for 1,381 social and affordable housing units on these sites — this is almost 50% more than the Housing Agency had assessed in 2018 as being the capacity of the sites.
- 11.52** Proposals for development are in place for 13 of the sites. This includes six sites which were at the same stage in 2019, and which had not progressed. According to the Housing Agency's 2018 plan, these sites have the capacity to deliver around 1,220 social housing units.

Cost of the scheme

- 11.53** The cost of the scheme to end 2022 was €131.6 million. This comprises almost €111 million paid in grants to clear local authority loans from the Housing Finance Agency under the first phase of the scheme, and €20.9 million in mortgage supports under the second phase to date. The outstanding balance on the 26 mortgaged sites at the end of 2022 was €35.6 million.
- 11.54** From May 2024 onwards, 28 of the LAGS sites will be liable to residential zoned land tax which it is estimated will cost the Housing Agency around €1.5 million per annum.

Annex 11A Progress implementing recommendations as at August 2023^a

Recommendation	Implementation status
<p>The Housing Agency should seek to put development plans in place as a matter of urgency for the four sites identified in 2018 as being ready for immediate development but for which there are currently no development plans or proposals.</p>	<p>No longer implementable</p>
	<p>The Housing Agency engaged with the local authorities on the development of these sites. Two sites in Sligo with capacity for 200 social housing units are no longer considered viable for immediate development, as significant infrastructural works are required to service the sites and a lack of demand for social housing.</p>
<p>The Housing Agency should seek to develop a longer term plan for each of the sites considered not ready for immediate development. If development for social housing purposes is unlikely even in the longer term, the Housing Agency should consider the potential for alternative uses of the land in the public interest.</p>	<p>Ongoing</p>
	<p>The remaining two sites in Cork have been selected for development under public private partnership. However the sites are only being partially used with proposals for 100 housing units on each site, down 381 on the original estimates.</p>
<p>The Housing Agency should seek to develop a longer term plan for each of the sites considered not ready for immediate development. If development for social housing purposes is unlikely even in the longer term, the Housing Agency should consider the potential for alternative uses of the land in the public interest.</p>	<p>Ongoing</p>
	<p>The Housing Agency has engaged with the local authorities, AHBs and other state bodies regarding the utilisation of these sites. No viable development options have been identified for the majority of sites.</p> <p>This is for a number of reasons including infrastructural issues, demand issues for social housing in certain areas and individual site issues such as flooding risk, topographical and zoning issues.</p> <p>In 2023, the Housing Agency commissioned a biodiversity study on 23 of the 39 sites with no development plans and representing a fifth of the LAGS portfolio. The Housing Agency stated that no biodiversity measures would be implemented that would impact future development or cause sterilisation of lands subject to adherence to any legislative requirements in relation to protected species and habitats.</p>
<p>The LAGS land is being held by the Housing Agency for disposal. In its accounting policies, the Housing Agency should specify a maximum interval between revaluations for lands held under LAGS and should indicate when the next revaluation is planned.</p>	<p>Implemented</p>
	<p>Since 2018, the Housing Agency has adopted a policy of recognising the LAGS land portfolio at market value. A desktop valuation is sought every two years for high value sites with a detailed valuation exercise to be conducted every six years for all sites.</p>

Source: The Housing Agency and the Office of the Comptroller and Audit General

Note: a Recommendations made in Chapter 12, Progress under the Land Aggregation Scheme in the Report on the Accounts of the Public Services 2019.

Annex 11B Disposal of LAGS sites

Figure 11B.1 LAGS sites with construction complete and sites disposed of as at 31 August 2023^{a,b}

Land location	Hectares	Recipient (city/county council)	Disposal date	Purpose of land disposal	Residential units completed
Duntahane Road, Fermoy, Co. Cork	2.08 of 3.98	Cork	2018	Partial disposal: construction of social housing units and one community building (remainder in Figure 11B.3).	46
Enniskerry Road, Sandyford, Co. Dublin	2.80	Dun Laoghaire – Rathdown	2018	Construction of social and cost rental housing. Construction commenced in June 2019.	155
Craddockstown, Naas, Co. Kildare	3.58 of 7.93	Kildare	2019	Partial disposal: construction of 74 social housing units. Construction commenced March 2019.	74
Nancy's Lane, Clane, Co. Kildare	3.7 of 8.49	Kildare	2019	Partial disposal: development of 77 social housing units. Construction commenced in November 2019.	77
Oakwood, Macroom, Co. Cork	2.26	Cork	2019	Construction of social housing units, commenced in December 2019.	50
The Miles, Clonakilty, Co. Cork	1.99	Cork	2019	Delivery of social housing units. Construction commenced in December 2019.	52
Baile Eoghain, Gorey	0.95	Wexford	2020	Construction of social housing units.	9
Creagh 'B', Gorey	0.73	Wexford	2020	Construction of social housing units.	10
Carrick on Bannow	0.52	Wexford	2021	Construction of social housing units.	12
Old Knockmay Road, Portlaoise	1.03	Laois	2021	Construction of social housing units.	33
Ballymoneen Road, Co. Galway	0.5 of 2.27	Galway City	2022	Delivery of 14 social housing units.	14
	1.77 of 2.27	Galway City	2023	Delivery of 78 social housing units.	78
Hampton Balbriggan, Co. Dublin	1.47 of 24.21	Fingal	2023	Partial disposal: delivery of 20 social housing units via rapid build.	20
Townparks (Riverside), Kells, Co. Meath	2.03 of 4.39	Meath	2023	Partial disposal: construction of social housing units.	40
Total units completed					670

Source: The Housing Agency and the Department of Housing, Local Government and Heritage

Notes: a All sites were disposed of for a nominal fee of €10.

b Excludes one site containing six social housing units yet to be transferred by the Housing Agency to the relevant local authority.

Figure 11B.2 LAGS sites disposed of and construction to be completed as at 31 August 2023^a

Land location	Hectares	Recipient (city/county council)	Disposal date	Purpose of land disposal	Residential units planned
Lissywollen ^b	5.02	Westmeath	2021	Facilitate the construction of an access road and housing units. Early stages of development.	170
Royal Oak Road, Bagenalstown	0.11 of 0.50	Carlow	2022	Partial disposal: construction of social housing units currently on going. Expected completion 2023.	6

Source: The Housing Agency and the Department of Housing, Local Government and Heritage

Notes: a All sites were disposed of for a nominal fee of €10.

b Following a procurement process, a joint venture of two construction companies was selected as a construction partner. In March 2022, the parent company of one company involved in the joint venture entered receivership. The Department of Housing, Local Government and Heritage endorsed the resubmission of a tender on 31 March 2022 and a new construction partner was selected.

Figure 11B.3 LAGS sites disposed of to third parties for other uses as at 31 August 2023

Land location	Hectares	Recipient	Price €	Disposal date	Purpose of land disposal	Progress to date
Duntahane Road, Fermoy, Co. Cork	1.90 of 3.98	Dept. of Education and Skills	248,000	2015	Partial disposal: construction of new primary school. (remainder in Figure 11B.1)	Completed.
Glin, Co. Limerick	0.52	Glin Homes for the Elderly Ltd	25,000	2017	Construction of homes for the elderly.	Early stages of development.
Devoy Barracks, Naas, Co. Kildare	0.55 of 5.66	Kildare County Council	10	2019	Partial disposal: construction of local enterprise and innovation centre.	Construction commenced in November 2019.
Meelin, Co. Cork	1.65	Meelin Community Group	35,000	2020	Development of community activities ground.	Astroturf pitch installed.
Cloghmacsimon, Bandon, Co. Cork	1.13 of 3.63	Department of Education	200,000	2022	Partial disposal: construction of new primary school.	Stage 1 (Preliminary Design) as of 29th June 2023.
Lissywollen (Cartontroy & Kilnafaddoge)	0.48	Sold to private developer	75,000	2022	Sold to private developer.	N/a

Source: The Housing Agency and the Department of Housing, Local Government and Heritage

12 Stock management in the Defence Forces

- 12.1** Stocks held by the Department of Defence (the Department) at the end of 2022 were valued in the Defence appropriation account at just under €255 million.¹ The majority of the stocks (€254 million) related to military equipment items held by the Defence Forces (see Figure 12.1).² These items were held in 383 individual military store accounts in 23 locations across the country and overseas.³
- 12.2** A formal review of inventory management in the Defence Forces was carried out in 2014. The report arising from the review — *Review of Inventory Management in the Defence Forces* (referred to as the Dunning report) — was finalised in May 2014.⁴ The report identified a number of recommendations for implementation in inventory management which covered, *inter alia*, procurement, management, disposal/write down, valuation, and reporting.
- 12.3** This examination was undertaken to assess the adequacy of the controls in place to manage, value and correctly account for stocks held by the Defence Forces, with a particular focus on the implementation of the Dunning report recommendations. Five locations (which included eight military stores) were visited as part of the examination.⁵

Stocks held

- 12.4** The value of stock held by the Defence Forces has increased by around 26% since 2017. While recorded stock levels decreased over the period 2012 to 2017, this was mainly due to an ongoing data cleansing and reclassification of assets exercise.
- 12.5** The safeguarding and management of Defence Forces inventory and fixed assets, is underpinned by directives, policies and procedures. Individual Corps Directors are responsible for developing specific policies and procedures for their specialist areas. Account owners and operators in the individual stores are responsible for the implementation of the policies and procedures.

¹ Circular 22/2022: *Requirements for Appropriation Accounts 2022* renamed stocks as inventories.

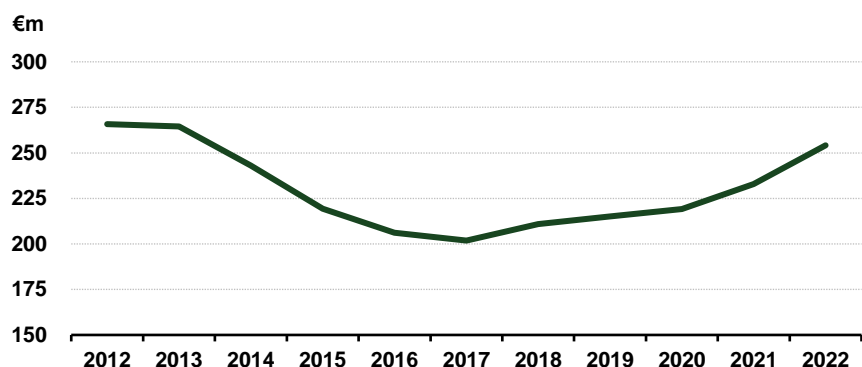
² The Defence Forces comprise the Naval Service, the Air Corps and the Army Corps. The Army Corps is further divided into nine Corps. Each Corps has a specific area of responsibility.

³ A military store means all buildings or bounded locations where items of Defence Forces equipment are held or stored.

⁴ The review was undertaken by a working group chaired by Mr Aidan Dunning, former Secretary General of the then named Department of Communications, Energy and Natural Resources.

⁵ The locations visited were — Baldonnel (Dublin), Air Corps; Haulbowline (Cork), Naval Technical Stores and LÉ Samuel Beckett; Curragh Camp (Kildare), Ordnance and Communications; Collins Barracks (Cork), Communications and Medical; and McKee Barracks (Dublin), Logistics Headquarters.

Figure 12.1 Value of military stock held by the Defence Forces, 2012 – 2022^a



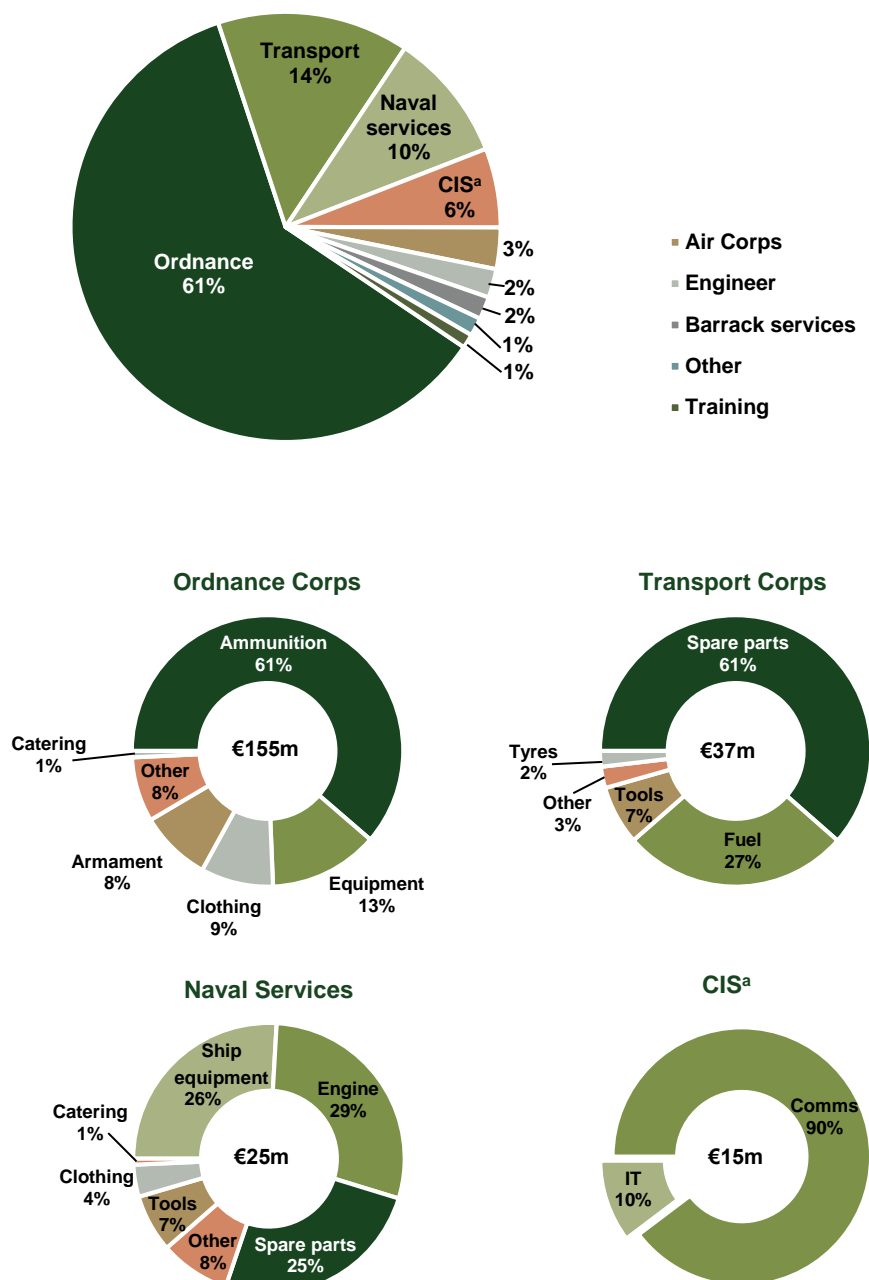
Source: Vote 36 Defence appropriation accounts 2012 – 2022

Note a The increase in inventory held at the end of 2022 was primarily due to a significant purchase of ammunition in late 2022 and increased fuel holdings.

12.6 The Department stated that a significant array and quantity of stores are held by the Defence Forces to ensure that ongoing operational requirements are met and that appropriate stocks are in place to meet contingency requirements in line with the roles of the Defence Forces as set out by Government.

12.7 At the end of 2022, almost 61% (by value) of total military stock was held by the Ordnance Corps (see Figure 12.2).¹ A further breakdown of stock holdings for the four Corps with the largest amount of stock (by value) is also shown in Figure 12.2.

Figure 12.2 Military stocks by Corps and by type, 31 December 2022



¹ The Ordnance Corps provide technical support to the Defence Forces for the procurement, storage, distribution, inspection, maintenance, repair and disposal of all items of ordnance related equipment. This ranges from small arms to anti-aircraft missiles, from personal protective equipment to the uniforms worn by military personnel.

Source: Department of Defence

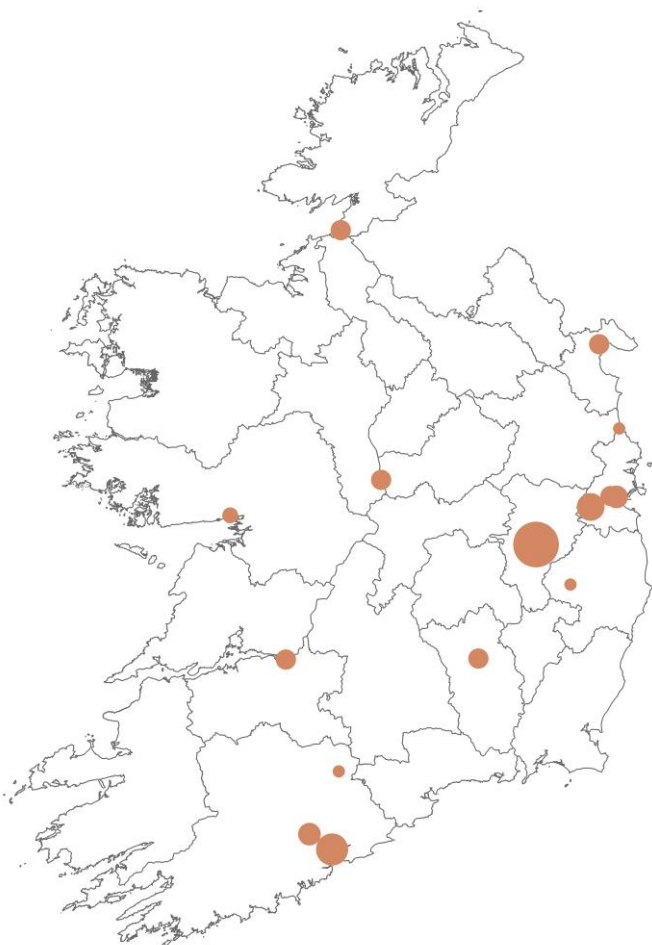
Note: ^a CIS — Communications and information services.

- 12.8** Stock is recorded on the inventory module of the Department's management information framework system (MIF).¹ All stock items have an individual Department item code which can be used to identify quantities of stock held. The Air Corps has a separate system for recording its stock — the Aircraft Maintenance Management System (AMMS).²
- 12.9** The examination team had 'view-only' access to the detailed listings of stock held on the MIF, and this was sufficient for examination purposes. The Department stated that it and the Defence Forces place a very strong emphasis on security and have comprehensive policies and procedures in place. It further noted that there are a substantial number of security items held in stores (including weapons, ammunition and explosives) and that access to this information is strictly controlled.

Stock locations

- 12.10** Around 70% of the Defence Forces stock is held in stores in Dublin, Kildare and the surrounding areas; 20% is held in stores in Cork; and around 10% in stores throughout the rest of the country and overseas (see Figure 12.3).

Figure 12.3 Location of main military stores^{a,b}



1 The Oracle eBusiness Suite (eBS) sits within the MIF. The eBS contains modules which include inventory, purchasing, fixed assets and asset maintenance. The eBS is used by Defence Forces personnel to electronically record transaction details involving the primary functions of a military stores account i.e. the procurement, storage and distribution of stores items.

2 Both stock figures are combined for the purposes of the annual appropriation account.

Source: Department of Defence

Notes: a The size of the circle reflects the concentration of stock (by value) in the location.

b Excludes stock held overseas.

Implementation of inventory review report recommendations

12.11 Following the finalisation of the Dunning report, an implementation group was set up in July 2014 to oversee the implementation of the report's 27 recommendations.¹ Five fundamental recommendations from which all other recommendations emanated were identified and ranked in order of priority

- introduction of a stock management policy; and in particular the identification of minimum and maximum levels of inventory holdings
- development of a clearly defined disposal policy
- publication of a co-ordinated annual report by the Department and the Defence Forces
- addressing eBusiness Suite (eBS) capabilities
- a clearly defined timeframe for implementation.

12.12 In late May 2015, the implementation group reported on the outcome of its work and assessed the progress made in the implementation of the five fundamental recommendations.² Based on a review of the group's report, it was not clear to the examination team what level of implementation had been achieved by May 2015, as a number of actions were categorised as 'ongoing' and target delivery dates for the implementation of all recommendations were not evident.

12.13 Responsibility for implementing the recommendations then passed to a number of committees in the Department, but no specific responsibility was assigned for monitoring the implementation progress. The Department has stated that, as at June 2023, 21 of the 27 recommendations included in the Dunning report had been fully implemented (see Annex 12A) and that implementation of the remaining (six) recommendations was ongoing (see Figure 12.4).

¹ The group comprised staff at a senior level from the Department and the Defence Forces.

² *Report on the implementations and conclusions of the Joint Implementation Group – on the Report of Inventory Management in the Defence Forces (May 2014).*

Figure 12.4 Dunning report recommendations yet to be fully implemented as at June 2023

Recommendation	Status	Annex 12A reference
High priority: A new Defence Forces equipment plan should be finalised as a matter of urgency, including work on the reclassification of certain Defence expenditure, for example, reclassify certain stock as assets.	The equipment plan has been put in place. While a large part of the codification project has been completed, the remaining elements have been paused pending completion of the eBS upgrade project.	2
Medium priority: Review existing inventory management structures and storage arrangements.	This is ongoing. The implementation of the Commission on the Defence Forces report (published in February 2022) is likely to have an impact on the inventory management structures and storage arrangements.	4
High priority: Agree clear inventory management targets and outcomes.	An updated stock management policy covering the period 2023 to 2025 is currently being implemented and this will provide further guidance on establishing targets including key performance indicators.	6
Medium priority: The eBS must be augmented as necessary to ensure real time and accurate reporting on all relevant information. Strong consideration to be given to incorporating the AMMS into the eBS.	Insight software reporting has improved the reporting provided by the eBS. While AMMS still remains outside the eBS, closing inventory information has been generated on a monthly basis since 2021 and recorded in the eBS.	12
Medium priority: Various projects relating to cleaning up codes should continue and be finalised urgently. Rationalise the number of category and item descriptions.	Most of the data cleansing and codification process has been completed. It is currently paused due to the ongoing eBS upgrade project. The reclassification of assets is being evaluated in the context of the implementation of central government accounting standards and accrual accounting developments.	23
Medium priority: The Defence Organisation should review its strategy for integrating information and communications technology (ICT) into the Defence Forces supply chain to maximum leverage of ICT capabilities to underpin efficient performance across the supply chain. ^a	Implementation ongoing including liaison with the Office of Government Procurement in respect of shared data. Financial Management Shared Services (FMSS) roll out will further enhance developments.	27

Source: Department of Defence and Annex 12A

Note: a The Defence Organisation comprises the Department of Defence and the Defence Forces.

1 The military store accounts are the inventory accounts which are recorded on the Management Information Framework (MIF) system. They are known as sub-inventories (SIs).

2 Stock items are referred to as inventory items on the Defence Forces Logistics Management System.

Management of stock

12.14 There are 383 individual store accounts on the MIF system which hold records on both fixed assets and stock.^{1,2} The range and value of the items held in each store account can vary. At the end of 2022, the largest individual account held €87 million of stock or 34% of the overall stock value. Half the stock value was accounted for in just four (1%) of the store accounts. At the end of 2022, there were over 60 (16%) individual store accounts where the total stock value was less than €10,000. However, the Department stated that this has reduced to less than 10% of store accounts as at May 2023.

- 12.15** The Department stated that a joint Department/Defence Forces group, the *Organisation and Sub-Inventory Working Group*, was set up in 2020 to undertake a review of the stores set-up, including the rationale governing locations and the arrangements for the management of stores; and to make recommendations on the most optimal approach.
- 12.16** The group reported in 2021 and noted that the number of accounts was directly related to the organisation and structure of the Defence Forces. It recommended a small reduction in the number of accounts and a reconfiguration and renaming of other accounts. However, the recommendations of the group have not been implemented.
- 12.17** As an alternative to annual stock takes, cycle counts are used in the bigger stores and in the Air Corps as a method of stock management. These counts allow stores to continue to operate, without the need to close stores to undertake stock takes. In a cycle count, the MIF system generates a random sample of stock codes to be counted and confirmed that day. Where the actual quantity is different to that recorded on the system, this is highlighted on the MIF system for investigation.
- 12.18** Under contracts with some of its suppliers, the Air Corps facilitates the holding of stock of proprietary aircraft parts by the suppliers at its Baldonnell base. An employee of the supplier manages the stock on site. Such stocks are not included in the stock valuation, and are only accounted for at the point of purchase.

Classification of stock

- 12.19** All items held in the military store accounts are classified as either a fixed asset or a stock item. Fixed assets are items that are expected to generate a benefit to the Defence Forces for a period greater than one year and generally have a purchase value in excess of €1,000. The Department has a derogation from the Department of Public Expenditure, National Development Plan Delivery and Reform (DPENDPDR) which allows it to record items valued as low as €1,000 as assets.¹
- 12.20** Items classified as assets are allocated a serial number which is recorded on the MIF system, and this allows the movement of each asset item to be tracked. The recording of items as assets (e.g. items of interest from a security perspective) facilitates increased tracking of these items. All small hand-held weaponry is classified as fixed assets.
- 12.21** Items that are expendable by nature are classified as stock. The engine of an airplane or a tank can be included as a stock item even though the value can be substantial — for example, a Mowag armoured vehicle part is included in stock at €280,000. Conversely, smaller security related items can be included as fixed assets for security and monitoring purposes even if below the purchase value threshold. By comparison, capital spare parts are recognised by defence departments in other jurisdictions as fixed assets in accordance with international accounting practices (e.g. United Kingdom (UK) Ministry of Defence).²
- 12.22** The Department stated that it complies with the definitions of stock and fixed assets set out in DPENDPDR's guidance for the annual appropriation accounts.
- 12.23** The examination team identified some items that were incorrectly classified — for example, in one store, three welding machines (valued at €12,570) in use to carry out repairs were recorded as stock rather than machinery.³

¹ Under the derogation, the normal threshold (€10,000) for recording items as assets across central government departments and offices is reduced to €1,000.

² UK Ministry of Defence Annual Report and Accounts 2021-22.

³ The value of the audit sample for this store was €95,000.

- 12.24** The examination team also identified items (e.g. a hydraulic press and a circular saw) that although in use, were still included as stock in the store account records. The Department stated that such items are maintained on the inventory system for stewardship and safeguarding purposes. By comparison, inventories are only recognised on the UK Ministry of Defence's balance sheet from the point of acquisition to the point of issue for use.
- 12.25** The Dunning report noted the link between stock and fixed assets and the ongoing work on the coding of items to ensure they are properly classified and consistently valued. The report (in 2014) recommended, *inter alia*, that the various ongoing projects in this area be finalised urgently. The examination team found that this work remained ongoing.

Stock valuation

- 12.26** Up to 2022, varying practices were used by the Department to value the items held in stock as disclosed in the statement of accounting policies and principles adopted for the Defence vote. The Department stated that all military stock has been valued at average cost in its 2022 appropriation account.
- 12.27** Military stock is valued at average purchase cost of the items held, calculated on a store-by-store basis. An overall average item cost across all stores is not calculated. Any movement of stock items between stores may lead to a re-calculation of the average cost in the receiving store. As a result, the same items may be held at different values across stores, due to being purchased or transferred into the store at different prices.
- 12.28** The average cost valuation methodology was identified by the Department as the most suitable inventory costing methodology for military stock and has been in use since 2006. It was re-confirmed as the most appropriate methodology in 2017, in the context of the migration to FMSS.¹
- 12.29** Prior to 2022, Air Corps stock was valued at the original purchase price, regardless of whether a further purchase of the stock item occurred, potentially at a different price. The AMMS system retained the original purchase price and this was used for valuation purposes. The Department stated that a new tool has been implemented which allows the generation of the closing inventory valuations for the Air Corps stock on an average cost basis.

Stock levels

- 12.30** In January 2015, in response to the Dunning report recommendations, a stock management policy was adopted by the Defence Forces to cover the period 2015 to 2020. This policy remained in place until end May 2023, when a new policy covering the period 2023 to 2025 came into effect.
- 12.31** The current policy, similar to the 2015 policy, includes a control framework for stock 'owners' and custodians to determine how to categorise the stock level held for each item (see Figure 12.5).
- 12.32** The 2015 policy envisaged that numerical values i.e. minimum and maximum numbers for each item would be allocated at each of the stock levels.^{2,3} With the exception of values for certain ammunition noted on the naval ship visited, the examination team found that minimum and maximum stock levels were not in place for stock items.⁴

¹ This methodology is also adopted by Defence departments in the United Kingdom and Australia.

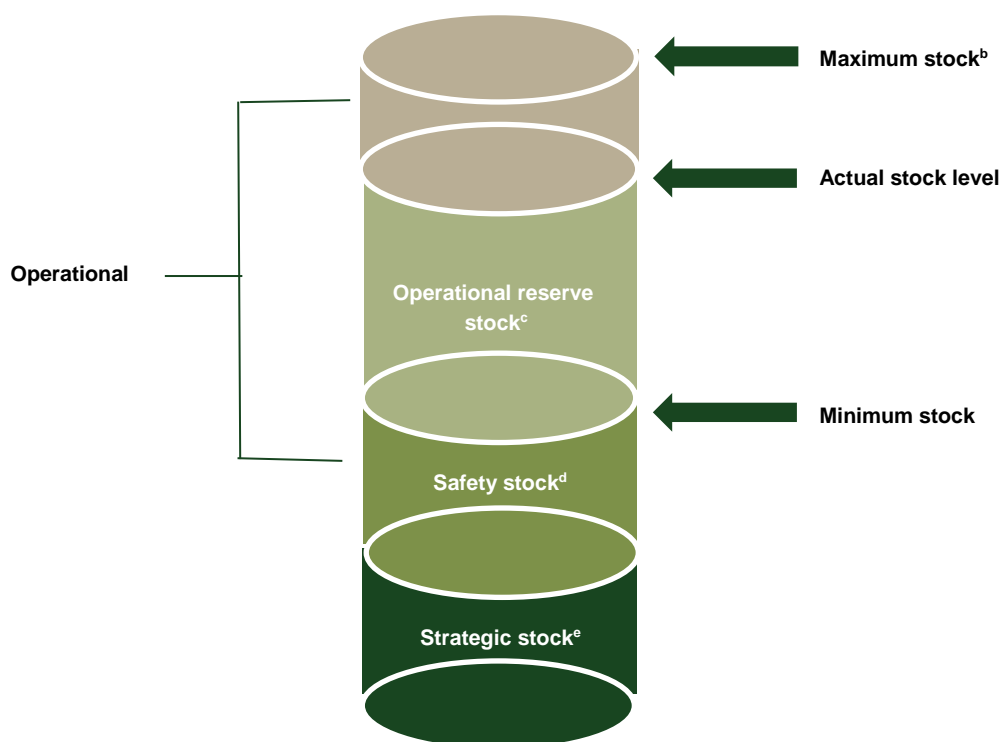
² The 2015 policy was in place when the examination team carried out its fieldwork.

³ This responsibility rests with supply directors who are the stock owners and holders of the Department's devolved supply subheads.

⁴ Haulbowline (Cork) — LÉ Samuel Beckett.

- 12.33** Between 2014 and 2015, the Communications Information Services (CIS) carried out an analysis of all aspects of its stock movements including inventory turnover, lead-in times and usage rates. It was found that minimum/maximum planning was not fit for purpose for many CIS stock items due to elongated lead-in times, the extension of economic life beyond the manufacturer's life and the discontinuation by manufacturers of some spare part production lines.

Figure 12.5 Stock framework – stock control measure^a



Source: Department of Defence

- Notes:
- a All stock holdings must be managed through the use of appropriate stock control measures.
 - b Maximum stock reflects the level of stock which should not be exceeded, except in extraordinary circumstances or due to an extraordinary event.
 - c Operational reserve stock is the stock that is consumed on a day to day basis.
 - d Safety stock is a buffer between operational reserve stock and strategic stock.
 - e Strategic stock is stock which is essential for the Defence Forces to maintain its capability.

- 12.34** The Defence Forces stated in July 2022 that while minimum/maximum stock level planning was previously investigated and reviewed at a strategic level for use within the Defence Forces Logistics Management System, this initiative was paused due to staff shortages and turnover of staff in key roles.
- 12.35** The updated stock management policy requires each Corps to implement the relevant stock control measure, as appropriate, on the stock management system specific to its stock control requirements, within twelve months of the eBS upgrade, which is scheduled for completion by the end of 2023.

Key performance indicators

- 12.36** The current Defence Forces stock management policy, similar to the 2015 policy, sets out that it is essential that key performance indicators (KPIs) are set by each supply director i.e. the stock owners. The policy suggests examples of three KPIs which could be used
- inventory turnover rate
 - percentage of incomplete orders
 - average order cycle time.
- 12.37** The 2015 policy further set out that the (example) KPIs should be applied on an individual department number basis i.e. individual item codes and that grouping stock items together would skew data and should be avoided.
- 12.38** Information on KPIs requested as part of the examination team's onsite visits was not provided. At the time, the Defence Forces stated that it had not yet proved practical to implement the KPIs, mainly due to the large variation in stock types across different Corps, high staff turnover and the lack of analytic software. While there were instances where the (example) KPIs were in use, this was on an informal basis (e.g. the CIS main technical stores).
- 12.39** Under the 2023 policy, Corps are required to identify, implement and report quarterly on stock management KPIs, commencing at the end of Q3 2023.

Stock variance

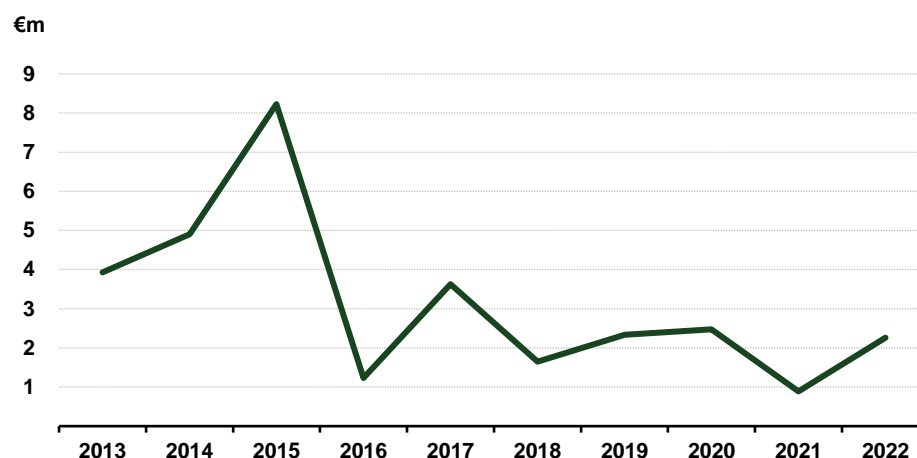
- 12.40** There is an ongoing variance between the valuation of stock in the inventory module of the MIF and the Department's accounting system. This variation arose over time following the implementation of the current MIF system in 2006. An internal exercise undertaken in 2012 identified a number of key issues contributing to the variance: these were software bugs, back-dated transactions, impaired codes, rounding and mis-categorisation.¹
- 12.41** The most significant cause of the variance, in monetary terms, was due to incorrect item codes for some stock items i.e. mis-categorisation. A final report by the project team in March 2014 noted that the variance had reduced from around €14 million to just under €400,000. At the end of 2022, the difference was €76,000.
- 12.42** The Department stated that as there was no evidence of the issue recurring following a software upgrade, it has accepted that the issue was resolved. The Department noted that there are some remaining differences but the impact is deemed not to be material, and the discrepancy balance is relatively stable.

Obsolete stock

- 12.43** Potentially obsolete stock is generally identified during stock takes. However, to be classified as obsolete, the stock must first be reviewed by a Board of Survey.²
- 12.44** To improve transparency in the stock management process, the Dunning report recommended that the value of stock written off in the period be disclosed in the financial statements. Since 2013, this information has been disclosed in the Department's annual appropriation account (see Figure 12.6).

¹ A project team comprising departmental and Defence Forces staff was established to investigate the stock value variance.

² A Board of Survey comprises three members of the Defence Forces appointed to report on the condition of the stock deemed to be obsolete. The Board determines whether the stock in question is serviceable, repairable, surplus to requirements or obsolete.

Figure 12.6 Value of stock write offs, 2013 – 2022

Source: Vote 36 Defence appropriation accounts 2013 – 2022

- 12.45** The examination team's visit to the Naval Base found that while a ship with store accounts is connected to the stock management system, transactions may also be maintained separately on an excel spreadsheet, due to connectivity issues.¹
- 12.46** The examination team also noted that a decision had been made to withdraw three ships from service (LÉ Orla, LÉ Ciara and LÉ Eithne) and that significant stock was held at the Naval Base related to the servicing and upkeep of these ships.²
- 12.47** The examination team was informed that due to the decision to withdraw the ships from service, a sizable portion of the stock held in the naval main store would now be considered obsolete.³ Also, the closure of the store accounts allocated to the ships and the disposal of the stock items would form part of the decommissioning process.
- 12.48** The Department stated that the stock was required to ensure the ships were kept to a seaworthy standard, for safety and operational reasons, until the decision was made to withdraw them from service. It stated that following the decision, there continues to be an obligation to maintain these ships to a seaworthy standard prior to their disposal.⁴
- 12.49** Stock items such as ammunition have a shelf life. This stock can be slow moving as only a portion of ammunition is used annually for training and service requirements. The Department stated that the Defence Forces must maintain strategic and safety ammunition stock for contingency purposes in respect of the roles assigned to them by Government.
- 12.50** When items are considered obsolete, they are generally disposed of (once approved by a Board of Survey) and removed from the stock management system. There can be a delay between the identification of obsolete items and the completion of a Board of Survey. A disposals policy was implemented in response to the Dunning report and revised Defence Forces regulations and new procedures have been put in place.⁵ However, there are ongoing issues regarding disposals, mainly the timely disposal of surplus/obsolete items.

1 The system is subsequently updated once connectivity improves.

2 The three ships were ceremonially decommissioned by the Minister of Defence on 8 July 2022.

3 The actual level of obsolete stock won't be known until the Board of Survey has completed its analysis.

4 The Department stated that the ships may be sailed to a disposal facility following the required Board of Survey.

5 The Department stated that the revised regulations were signed by the Minister in November 2022.

- 12.51** Following concerns raised regarding an ordnance store account and stock items found outside of a military location which had previously been written off for disposal, the Department's internal audit unit carried out an audit of a specified store in November 2021. The audit found that there were ordnance component parts in the store for disposal but although they had been removed from the stock system, they had yet to be disposed of.
- 12.52** The audit made a number of recommendations, which included: the retention of all stocktaking documentation; a full audit trail for disposals; stock to be destroyed/ disposed of immediately following the Board of Survey; and having a secure area for stock awaiting a Board of Survey determination.
- 12.53** The Department has stated that since the internal audit, significant actions have been taken to address these issues, including putting a contract in place for metal shredding; greater security for items to be disposed of; and enhanced procedures and controls for the store in question.
- 12.54** In 2021, the Defence Forces set up a group to review the Board of Survey process. The group reported in early 2022, recommending changes in the process which included the requirement for Board members to certify the implementation of the Board's recommendations.
- 12.55** In November 2022, revised disposal regulations were introduced which include the requirement for two Board of Survey members to certify that they have witnessed the disposal of items recommended for disposal.

Good practice

- 12.56** The examination team identified instances of transferrable good practice in the stock management processes used by the Department of Defence. These include
- the MIF system, which allows the Defence Forces to identify if a required stock item is held in another location and to immediately organise its transfer
 - cycle counts which facilitate the ongoing monitoring and counting of stock without closing a store for an extended period to facilitate stock takes
 - the use of vendor-managed stocks by the Air Corps which promotes efficient inventory management processes and transfers the stock management holding risk to suppliers
 - lower stocks of spares required to meet needs as personnel with specialist skills can carry out repairs on assets and can also determine if a stock item held is obsolete
 - transparency in the stock management process by disclosing stock written off in the annual appropriation account.

Conclusions and recommendations

- 12.57** Military stocks held at the end of 2022 totalled €254 million. Stock is held in a number of military stores across the country and transactions in these stores are recorded in over 380 store accounts on the Department's management information framework system.
- 12.58** A formal review of inventory management in the Defence Forces was carried out in 2014, which resulted in the Dunning report. The report included 27 recommendations across a number of areas. As at June 2023, six of the recommendations had yet to be fully implemented.
- 12.59** Work on data cleansing and correct classification of items stored by the Defence Forces has been ongoing for a number of years. The Dunning report recommended that ongoing projects in this area be finalised urgently. The Department has yet to complete its work in this area.

Recommendation 12.1

The full implementation of the remaining Dunning report recommendations should be actioned in a timely manner. An implementation plan with delivery targets and milestones should be put in place.

Accounting Officer's response

Agreed

21 of the 27 recommendations in the Dunning report have been fully implemented. A considerable amount of work has been undertaken on the other six recommendations, with most of them significantly advanced towards full implementation, as set out in Figure 12.4 above. Since the Dunning report, a number of issues have arisen that have impacted on the implementation of these recommendations, including the proposed move of Defence to FMSS (first scheduled for 2018) and the report of the Commission on the Defence Forces. The Department and the Defence Forces will examine the remaining recommendations with a view to putting in place a finalisation plan.

Timeline for implementation

The Department and the Defence Forces will examine the remaining recommendations and put a finalisation plan in place by Q1 2024.

- 12.60** The examination team identified some items that were incorrectly classified — for example, items that although in use, were still included as stock in the store account records.

Recommendation 12.2

The Department should carry out an evaluation of the current data cleansing and codification process, including the classification of assets to identify the factors giving rise to ongoing misclassification; and update the related guidance to ensure that stock and assets are correctly classified in future and that stock issued for use is removed from store account records accordingly.

Accounting Officer's response

Agreed

Significant work has been completed on the data cleansing and codification project. It has been paused for the past year due to the ongoing upgrade of the Department of Defence's integrated financial system (including inventory and fixed asset modules). Once the new system goes live, work on the project will resume. However, the project will also need to take account of the imminent central Government accounting standards, which are expected to be released before the end of the year. These new standards will include new definitions and guidelines in relation to inventory and fixed assets. The Department will ensure that these guidelines are implemented.

Timeline for implementation

This recommendation will be implemented by the end of 2024.

- 12.61** In January 2015, in response to the Dunning report recommendations, a stock management policy was adopted by the Defence Forces to cover the period 2015 to 2020. This policy remained in place until May 2023.
- 12.62** Elements of the 2015 policy, such as defining stock numbers as part of the stock control framework and the use of key performance indicators (KPIs), have yet to be implemented.
- 12.63** A new stock management policy, covering the period 2023 to 2025, came into effect at the end of May 2023. The new policy requires stock control measures to be implemented (whereby the level of stock held for each item is considered and managed) within twelve months of a planned system upgrade which is expected to be completed by the end of 2023. The policy also requires that KPIs are identified, implemented and reported on quarterly starting at the end of Q3 2023.

Recommendation 12.3

Periodic (e.g. annual) reviews should be undertaken to ensure that the policy requirements are being actioned as intended and to ensure that all elements of the policy continue to suit the current and future needs of the Defence Forces.

Accounting Officer's response

Agreed

This recommendation is being implemented. The Defence Forces stock management policy has been reviewed and a new policy has recently been put in place for the period 2023-2025. Corps Directors, as key stakeholders, will be required to submit regular reports on their implementation of the policy.

Timeline for implementation

This recommendation is being implemented and will be fully in place by the end of 2024.

- 12.64** Stock is held by the Defence Forces in over 380 store accounts. The largest account holds €87 million worth of stock, with half the stock value spread across four accounts. There are a large number of accounts which hold a low value of stock, with associated security risks and costs.

- 12.65** A review of the stores set-up, including the rationale governing locations and the arrangements for the management of stores was undertaken in 2020/2021. The review found that the number of accounts was directly related to the organisation and structure of the Defence Forces and recommended a small reduction in the number of accounts; and a reconfiguration and renaming of other accounts. However, the recommendations have yet to be implemented.

Recommendation 12.4

The recommendations arising from the review of the stores set-up should be actioned on a timely basis. Also, the need to maintain a large number of low value store accounts should be assessed periodically.

Accounting Officer's response

Agreed

These recommendations have not been implemented as yet, as further changes in the structure and organisation of the Defence Forces, and the army in particular, are likely due to the implementation of the recommendations of the Commission on the Defence Forces. Once greater clarity is available on the proposed structure for the army, this issue will be revisited.

Timeline for implementation

The timeline for the implementation of this recommendation is unclear as it will be impacted by the review of the structure of the Defence Forces recommended by the Commission. The recommendation will be implemented within a year of the finalisation of the review.

- 12.66** Up to 2022, an inconsistent approach was adopted in valuing stock across the Defence Forces. Military stock was valued at average cost on a store by store basis, while Air Corps stock was valued at the original purchase price. This changed in 2022 and all military stock is now valued at average cost and this is reflected in the Department's 2022 appropriation account.
- 12.67** In response to the Dunning report, improvements have been made in the reporting of obsolete stock written off, as part of the annual appropriation account. However, instances have been identified whereby stock items have been written off the management information framework system but such items have not actually been disposed of in a controlled way.
- 12.68** Internal audit undertook a review of a specified store in November 2021, where items already written off the system had not been physically disposed of. The audit recommended, *inter alia*, the need for: retention of all stocktaking documentation; a full audit trail for disposals; stock to be destroyed/disposed of immediately following a Board of Survey determination; and having a secure area for stock awaiting a Board of Survey determination.
- 12.69** Revised disposal regulations were introduced in November 2022 which include the requirement for two (of the three) Board of Survey members to certify that they have witnessed the disposal of items recommended for disposal.

Recommendation 12.5

A more widespread review of the stores should be undertaken to establish the underlying factors impacting the timely, physical disposal of all stock items and an action plan put in place to address the factors identified.

Accounting Officer's response

Agreed

A review was undertaken by the Department's internal audit unit of the main store where items already written off the system had not been physically disposed of in a timely manner. This review identified a number of reasons for such delays.

In addition, a formal review of the Board of Survey process has been undertaken. As a result, the specific regulations governing Boards of Survey have been amended to address these procedures, with a revised Defence Forces Regulation (DFR L7) signed by the Minister on 10 November 2022.

A broader review of stores will be undertaken as recommended. This will build on the findings of both the internal audit review and the review of the Board of Survey process.

Timeline for implementation

This recommendation will be implemented by Q2 2024.

Recommendation 12.6

An additional control should be introduced, whereby the disposal of sensitive military items is formally certified on a timely basis by members of the relevant Board of Survey before these items are written off the stock management system. The disposal regulations should be updated to reflect these requirements.

Accounting Officer's response

Agreed


































This recommendation has already been largely implemented.




























In relation to this recommendation that 'the disposal of sensitive military items is formally certified by members of the Board of Survey before these items are written off the stock management system', current procedures require that all items are held on the stock management system until properly disposed of. Explicit instructions to this effect are currently being considered in the context of the revision of Defence Forces Order 01/2014 – *Accountancy Procedures for Military Stores and Workshops*.

Timeline for implementation

This recommendation will be implemented by Q2 2024.

Annex 12A Assessment of implementation of the 2014 Dunning report recommendations

Key recommendations ^a	Priority ^c	May 2015	Dec 2016	June 2023
Overarching priority^b				
1. A small dedicated fulltime team of civilian and defence force personnel should be established with a specific remit to drive implementation of the review recommendations.	High			
2. A new Defence Forces equipment plan should be finalised as a matter of urgency, including work on the reclassification of certain Defence expenditure, for example, reclassify certain stock as assets.	High			
3. New stock management and disposal policy statements to be agreed.	High			
4. Review existing inventory management structures and storage arrangements.	Medium			
5. The annual resource allocation by subhead and proposed inventory oversight processes should be more clearly aligned.	Medium			
6. Agree clear inventory management targets and outcomes.	High			
7. Keep all elements of lifecycle of inventory under review and monitor linkages.	Medium			
8. Department of Defence and the Defence Forces to agree on an implementation blueprint for the recommendations after deciding upon their position regarding the review.	High			
Procurement				
9. Procurement process should be subject of more centre led strategic coordination between the Department and the Defence Forces led by the proposed new team.	High			
Management				
10. The individual Stock Policy Statements for all Army Corps, Air Corps and Naval Service should be approved by the High Level Planning and Procurement Group (HLPPG) and put in place as a matter of urgency.	High			
11. The Obsolete and Slow Moving Stock Board should intensify its work and report on its work to the HLPPG with a focus on high value stock which has not moved for some time.	Medium			

Key recommendations ^a	Priority ^c	May 2015	Dec 2016	June 2023
12. The eBS must be augmented as necessary to ensure real time and accurate reporting on all relevant information. Strong consideration to be given to incorporating the AMMS into the eBS.	Medium			
13. Corps Directors should attend regularly at meetings of the new HLPPG Sub-Group on inventory management and disposal.	Medium			
14. The Defence Forces should implement greater cross-functional communication with respect to inventory management.	High			
Disposal				
15. HLPPG to be much more active and disposals should be part of the remit of the proposed military/civilian team. A subgroup of the HLPPG on inventory management and disposal should be established.	High			
16. Formal process of identification of surplus inventory should be streamlined with greater use of the technical officer process as distinct from the Board of Survey.	Medium			
17. Quarterly progress reports on the Boards of Survey which have been convened should be prepared by Defence Forces Logistics Branch and be submitted to the proposed new team and onto the HLPPG sub-group.	Medium			
18. Boards of Survey should operate and complete their work within a specified time period set out by the HLPPG sub group.	High			
19. All proposed write offs of surplus inventory on foot of Boards of Survey or otherwise, should be compiled centrally by the proposed new team and notified to the relevant departments.	High			
20. Disposal by sale of surplus items of value should be the preferred option. A policy in this regard should be agreed with the relevant departments, including the Department of Foreign Affairs and the Department of Public Expenditure, National Development Plan Delivery and Reform.	High			

Key recommendations ^a	Priority ^c	May 2015	Dec 2016	June 2023
Valuation				
21. The issue of whether inventory in regional locations has in fact been used or consumed should be urgently assessed.	High	●	●	●
22. The accounting policy in relation to the valuation of inventory to be reviewed with DPENDPDR and the Office of the Comptroller and Auditor General.	Medium	●	●	●
23. Various projects relating to cleaning up codes should continue and be finalised urgently. Rationalise the number of category and item descriptions.	Medium	●	●	●
Reporting				
24. A publication encompassing inventory should be produced annually (with Estimates publication). The new inventory publication should be consistent with the relevant appropriation account figures.	Medium	●	●	●
25. Publication should be coordinated by the proposed dedicated team and approved by the HLPPG, the two Finance Branches and the Senior Management Committee should also review and approve the annual Defence Forces estimates publication.	Medium	●	●	●
26. Table in appropriation account on year on year movement in inventory should include the specific figure for write-offs.	Medium	●	●	●
ICT capability				
27. The Defence Organisation should review its strategy for integrating information and communications technology (ICT) into the Defence Forces supply chain to maximum leverage of ICT capabilities to underpin efficient performance across the supply chain.	Medium	●	●	●

● Implemented ● Partially implemented

Source: Department of Defence

Notes: a The detail included is an abridged version of the full recommendations. Many of the recommendations are interrelated and not mutually exclusive.
b Recommendation category of the review.
c Priority ranking.

13 Regularity of social welfare payments

- 13.1** The Department of Social Protection (the Department) is required to ensure that
- expenditure it incurs has been applied for the purposes for which the money has been made available by Dáil Éireann, and
 - its financial transactions conform with the authorities under which they purport to have been carried out.

Financial transactions are considered to be ‘regular’ when both of these conditions are satisfied.

- 13.2** Any payments that are in excess of claimants’ entitlements under the terms of welfare schemes are, accordingly, irregular. Such excess payments can arise due to suspected fraud, new facts or evidence such as a change in the claimant’s circumstances not being notified to the Department, or official error (see Annex 13A).
- 13.3** The level of expenditure incurred each year by the Department means that even a low incidence of error, new facts and/or suspected fraud can result in a substantial monetary loss to the Exchequer — which funds Vote 37 Social Protection — or to the Social Insurance Fund (SIF), which is mainly funded by social insurance contribution receipts.
- 13.4** From 2014 to 2019, the Department incurred gross annual expenditure of around €20 billion under about 80 schemes and programmes. Annual gross expenditure increased to €31 billion in both 2020 and 2021 reflecting the Department’s response to the Covid-19 pandemic, which had very significant impacts on the Department’s operations. In 2022, the Department’s gross expenditure decreased to €25 billion.
- 13.5** In 2022, in addition to the Department’s scheme expenditure,
- €696 million was paid for administration expenses
 - €951 million was paid over to the National Training Fund¹
 - €56 million in grant funding was paid to the Citizens Information Board.

Control surveys

- 13.6** The Department’s compliance and anti-fraud strategy provides for a programme of surveys of scheme payments in order to determine the level of excess payment that is occurring. This is a key measure of the Department’s success in preventing, detecting and deterring fraud and error in its scheme payments. The surveys also assist the Department in identifying scheme-specific risks and required changes to the control measures in place.²
- 13.7** The surveys involve reviews of random samples of claims in payment to establish if the recipients are entitled to the payments they are currently receiving and, if so, whether the correct amounts are being paid.

¹ See *Report on Accounts of the Public Services 2022*, chapter 19, National Training Fund.

² In May 2022, the Department published the methodology for control surveys at www.gov.ie/en/publication/59304-detailed-methodology-for-control-surveys-in-the-department-of-social-protection.

Control survey methodology

Control surveys generally review between 500 and 1,000 randomly selected claims for each scheme and aim to provide an estimate — with 95% confidence — of the level of incorrect payment at a point in time. The surveys typically capture

- the **gross excess payment** which is the total value of any excess payments identified
- the **net excess payment** which adjusts for transfers to other schemes in situations where a claimant (and/or a dependent person) was found to be paid in excess of their entitlements on the scheme reviewed, but was entitled to a different social protection payment.

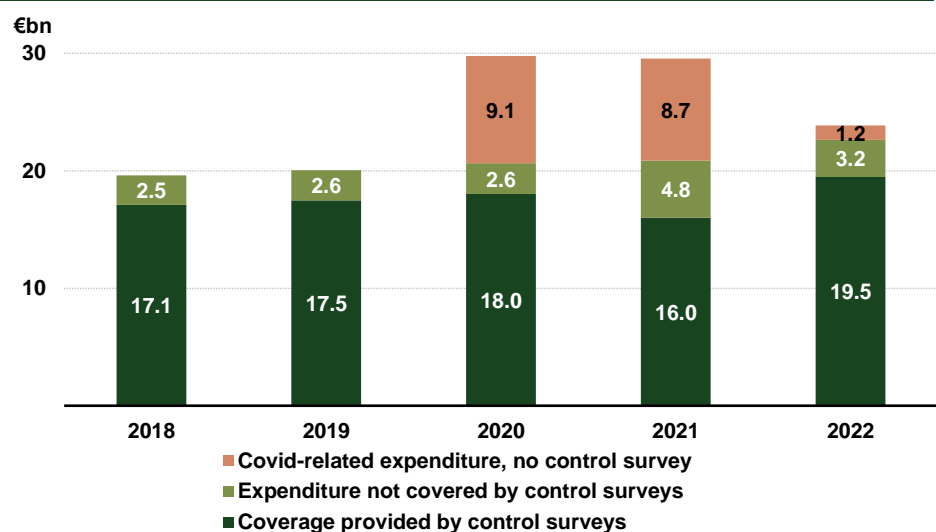
The Department considers the net excess payment identified to be the more accurate measure of the level of excess payment on schemes.

13.8 The Department published two control surveys in 2023.

13.9 Almost 82% of the Department's total scheme expenditure in 2022 was covered by control surveys conducted within the last ten years (see Figure 13.1). This was up significantly from 54% of total scheme expenditure in 2021.¹ The increase is due to

- the reduction in expenditure on pandemic-related support schemes which have not been subject to a control survey²
- the publication in 2023 of control surveys on two schemes that had not been surveyed in more than a decade: disability allowance (€2 billion in expenditure in 2022) and jobseeker's benefit (€0.475 billion in expenditure in 2022).

Figure 13.1 Coverage of scheme expenditure provided by control surveys^a



¹ Control survey coverage for non-Covid-19 related schemes is 85% in 2022 compared to 77% in 2021.

² The Department stated that the pandemic-related schemes were temporary and therefore a control survey of the schemes would be of limited use in relation to the amendment of scheme controls.

Source: Department of Social Protection. Analysis by the Office of the Comptroller and Auditor General.

Note: a Coverage provided by control surveys published within the last ten years (2014 to 2023).

Implications of control surveys for audits

13.10 Figure 13.2 shows the expenditure in 2022 on Vote and SIF schemes in respect of which control surveys have been undertaken (at least once) since 2014, and the level of irregular payment identified by each control survey.

Figure 13.2 Estimated level of irregular payments in schemes subject to control surveys published since 2014

	Scheme (and survey report date) ^a	Scheme cost in 2022 €m	Estimated level of net excess payment ^b
Vote funded schemes	Child benefit (2022)	2,286	1.4%
	Disability allowance (2023)	2,016	5.7%
	Jobseeker's allowance (2022)	1,641	7.9%
	State pension (non-contributory) (2019)	1,136	6.5%
	Carer's allowance (2018)	993	9.1%
	One-parent family payment (2021)	614	5.9%
	Working family payment (2016)	361	0.6%
	Supplementary welfare allowance (BASI) (2017)	122	2.6%
	Rent supplement (2014)	75	6.0%
	Farm assist (2016)	56	12.7%
	Back to work enterprise allowance (2019)	32	3.3%
Social insurance funded schemes	State pension (contributory) (2017)	6,564	2.1%
	Widow's/widower's/surviving civil partner's contributory pension (2014)	1,725	0.7%
	Invalidity pension (2015)	766	1.5%
	Illness benefit (2015)	614	6.0%
	Jobseeker's benefit (2023)	475	8.0%

Source: Department of Social Protection. Analysis by the Office of the Comptroller and Auditor General.

- Notes:
- The household benefits survey in 2016 is not included because the survey only related to beneficiaries not in receipt of another welfare payment and represented only 7% of those in receipt of the benefits package. Since 2016, schemes representing a further 62% of household benefit recipients have been examined — the Department estimates the error rate in respect of entitlement to the benefits package for the schemes surveyed to be 1.3% by value.
 - The net excess payment is the value of all excess payments identified less transfers to other schemes. The figures shown are the net excess payments identified in control surveys as a percentage of the total value of payments of income support included in the survey cases.

13.11 There is wide variation in the level of excess payments found by surveys.

- In relation to Vote-funded schemes, estimated rates of net excess payments range from 0.6% of scheme expenditure (working family payment) to 12.7% of scheme expenditure (farm assist).
- Estimated rates of net excess payments for SIF schemes range from 0.7% (Widow's/widower's/surviving civil partner's contributory pension) to 8% (jobseeker's benefit).

Latest control survey findings***Disability allowance***

13.12 The disability allowance scheme is funded by the Vote, with expenditure of €2 billion in 2022. There were 158,000 claims in payment at December 2022 and, as at May 2023, the personal rate is up to €220 per week.¹ The allowance is a means-tested weekly allowance paid to individuals with a disability that substantially restricts the claimant from doing work that would be suitable for a person of their age, experience and qualifications.²

13.13 In February 2023, the Department published the results of a disability allowance control survey which examined 600 randomly selected claims in payment in April 2022.³

13.14 Key scheme conditions that must be satisfied are a medical assessment of the claimant's disability and a means assessment. The control survey focussed on the examination of the means of the claimant and did not review medical aspects of the claim.⁴ The Department stated that including medical reviews would have delayed the time to complete the survey by up to 18 months. Furthermore, the Department considers that the absence of medical reviews from the survey did not materially impact the survey outcome given the relatively low level of disallowances detected from routine medical reviews.⁵

13.15 The control survey found that 16.4% of disability allowance claimants surveyed were receiving more than they were entitled to. The value of the excess payments was estimated to be 5.7% of expenditure on the sampled cases.⁶ There were no identified entitlements to payments under other schemes that would reduce the value of the excess payments.

13.16 The control survey also found 3.5% of claimants surveyed were being underpaid, with the underpayments equivalent to 0.7% of scheme expenditure across all claims examined.

13.17 The excess payment rate of 5.7% is high, and compares with 2.1% found in a 2012 control survey of the same scheme. The Department has previously stated that older control surveys are not comparable to the more recent surveys due to differences in the methodologies used.

13.18 Figure 13.3 shows the risks identified by the 2023 control survey, and the steps the Department is taking to address those risks and to improve controls over the disability allowance. The risk categories and rankings have changed significantly from those identified in the 2012 survey, emphasising the need for repeated surveys over a shorter cycle.

1 Additional payments may be made for qualifying dependent adults or children.

2 The claimant must be aged 16 or older.

3 A stratified random sample is selected to ensure the sample accurately represents claims in payment. Three claims from the selected sample were subsequently excluded from the review as the claimant was judged to be a vulnerable person.

4 A claimant can work and retain an entitlement to some or all of the disability allowance.

5 The Department noted that of 1,284 medical reviews conducted in 2022, there were only 17 disallowances.

6 The main causes of excess payments were unreported changes in circumstances (2.8% of scheme expenditure) and wilful concealment of facts (1.8% of scheme expenditure).

Figure 13.3 Disability allowance — control survey findings and control changes**Scheme risk**

- claimants who had a means test in the prior three years were less likely to have an excess payment than those who had not (3.4% versus 7.9%)
- increases in employment income of the claimant or their spouse/partner was a leading cause of an excess payment being detected and the rate of payment being reduced^a
- claimants aged 45 or older were more likely to have an incorrect payment

Changes to improve the control regime

- greater emphasis to be placed on Revenue data, with monthly checks on claimants with no declared means, for qualifying adults in payment and for changes in employment
- staff in the control section of the scheme area to conduct ad-hoc reviews using Revenue data
- use of the Department's Special Investigation Unit for risk areas
- an increase in scheme control reviews to 10,000 for 2023 (the target for 2022 was 9,500, of which 7,600 were conducted)^b

Source: Department of Social Protection

- Notes:
- a As at June 2023, a claimant can earn up to €165 per week (after deduction of PRSI, pension contributions and union dues) while retaining full entitlement. An amount equal to half of weekly earnings between €165 and €375 is deducted from the claimant's entitlement, while an amount equal to any weekly earnings in excess of €375 is deducted.
 - b The survey report stated that there had been staffing challenges in the first half of 2022 due to temporary re-assignment to deal with the Ukrainian crisis and staff vacancies.

13.19 In May 2023, the Department provided an update on the changes to improve the control regime, stating that

- the Department's Business Analytics Unit is leading the selection of claims and that these checks are being prioritised by the scheme administrators
- no target is being set for the number of ad-hoc reviews using Revenue data to be conducted by the control section of the scheme area.

Jobseeker's benefit

13.20 The jobseeker's benefit is funded by the SIF, with expenditure of €0.48 billion in 2022. It is payable to a claimant who had been employed and paying PRSI but is now fully unemployed or is unemployed for at least four days each week. There were 33,000 claims in payment as at December 2022. As at May 2023, the personal rate is up to €220 per week and is payable for up to nine months.¹

13.21 In February 2023, the Department published the results of a jobseeker's benefit control survey which examined 600 randomly selected claims in payment in February 2022.

13.22 The control survey found 9.7% of the jobseeker's benefit claimants surveyed were receiving more than they were entitled to. The value of the gross excess payments was estimated to be 8.2% of the scheme expenditure on the sample cases. Transfers to other schemes reduced the excess payment level to a net 8%.

¹ The personal rate is reduced for claimants who had been earning less than €300 per week. Additional payments may be made for qualifying dependent adults or children.

- 13.23** The control survey classified the cause of the gross excess payments as
- suspected fraud for 5.5% of the sampled expenditure, with 3.6% due to materially incorrect information being provided and 1.9% due to wilful concealment of information
 - new facts (due to customer error) for 2.5% of expenditure, with 1.9% due to inaccurate information being provided and 0.6% due to an unreported change in circumstances
 - official error responsible for excess payment of 0.2% of expenditure.
- 13.24** The control survey also found that 0.8% of the jobseeker's benefit claimants surveyed were being underpaid, with the underpayments equivalent to 0.3% of scheme expenditure across all claims examined.
- 13.25** The net excess payment of 8% is high, and compares to 1.6% found by the previous control survey published in 2012. As above, the Department has stated that older control surveys are not comparable to the more recent surveys due to differences in the methodologies used.
- 13.26** Figure 13.4 shows the risks identified by the 2023 control survey and steps the Department is taking to address these risks and improve controls over the jobseeker's benefit.

Figure 13.4 Jobseeker's benefit — control survey findings and control changes

Scheme risk

- claims classified as suspected fraud primarily related to a failure to notify the Department of a return to work
- a failure to notify the Department of increases in the earnings of a spouse or partner resulted in qualifying adult payments being reduced or terminated
- claimants aged 55 or older were less likely to have an incorrect payment
- claimant could not be contacted in a small number of cases^a

Changes to improve the control regime

- an increase in control reviews enabled by staff returning from re-assignment^b
 - regional re-structuring, so that each region will have staff dedicated to control reviews
 - increasing the use of Revenue data with data-matching by the Business Analytics Unit
 - use of the Department's Special Investigation Unit for risk areas, in particular non-residency and concurrent working and claiming
 - more timely review of casual workers
 - increased guidance for staff from the Control Division and for claimants through mailshots and interactions with the Department
-

Source: Department of Social Protection

Notes: a In 13 cases out of 600 (2.2%) sampled. Payment in each of these cases was terminated.
 b Staff had been re-assigned to deal with the impact of the pandemic, the Ukrainian crisis and the transition to jobseeker's support from claimants who had been on the pandemic unemployment payment.

Forthcoming control surveys

- 13.27** In March 2023, the Department commenced control surveys of the State pension (contributory) scheme (sample of 400 claims in payment in February 2023 selected) and the widow's, widower's and surviving civil partner's contributory pension (sample of 200 claims in payment in February 2023 selected). Both pension schemes are funded from the SIF.
- 13.28** The Department is also conducting a rolling control survey on the jobseeker's allowance scheme with the most recent batch of 250 claims selected in April 2023. Reports on the above control surveys are expected to be published in January 2024.
- 13.29** The Department's current compliance and anti-fraud strategy is for the period 2019 to 2023. The Department stated that work on a renewed strategy for the years 2024 to 2028 will commence in summer 2023 and is expected to be completed by the end of 2023.

Impact of Covid-19 restrictions on normal scheme controls

- 13.30** The estimated level of irregular payment found by a control survey is measured when the Department's control activities are operating as normal.
- 13.31** From 2020 to 2022, Covid-19 impacted the Department's ability to operate some of its normal controls over its schemes when processing new applications and to conduct other control activities for claims in payment. The impact was most severe in 2020, but some control restrictions continued into 2021 and 2022 (see Annex 13B, which provides an update on thirteen schemes which were previously reported as having reduced scheme controls).¹
- 13.32** The audit team had asked the Department in prior years for a list of all controls impacted by Covid-19 restrictions, but the Department did not have a central register of the changes made and so could not provide a complete list. During work on the 2022 audit, the team identified scheme controls impacted by Covid-19 that the Department had not reported. Changes identified include the following
- Wage subsidy scheme — monthly control checks on the wage subsidy scheme were suspended during the pandemic. The check is to ensure a recipient is not also in receipt of another social welfare payment and that they are still in employment. These checks recommenced in 2022.
 - Free travel — travel operators were instructed to accept Public Services Card (PSC) free travel cards with expired dates; the surveying of PSC free travel use on all privately operated bus routes was suspended (for a sample examined, ongoing payments were based on surveys in the period 2017 to 2019); and monitoring of trips was suspended. These controls recommenced in Q1 2023.
 - Tús — the Department was automatically renewing scheme participants during the Covid-19 restriction period. The normal control — no automatic renewal — was restored in May 2023. In addition, in relation to both Tús and the rural social scheme, the expected annual monitoring had not occurred in 16 of 23 premises of an implementing body since January 2020.²

¹ See *Report on the Accounts of the Public Services 2021*, chapter 10 Regularity of Social Welfare Payments.

² The Department stated that all Tús participant contracts were extended during Covid-19 to reduce the impact of participants leaving the scheme where it was unlikely that such participants would be replaced in a timely manner and the services provided being essential.

- Widows/widowers/surviving civil partners pension (non-contributory) — prior to the pandemic, means assessments were carried out during a social welfare inspector (SWI) visit. Since March 2020, desk-based means assessments have been carried out instead by a deciding officer, unless the applicant is self-employed (including farmers) or a deciding officer believes an SWI visit is warranted — in these cases, an SWI visit is carried out. This will remain the control regime in future.
- Daily expenses allowance for individuals seeking international protection — from March 2020 to mid-2022, payments moved from post office payment to electronic funds transfer, and claimants were allowed to be paid when they moved out of the designated accommodation centres despite the normal control being that the claimant is eligible only if they reside in a designated centre.¹

13.33 The audit team also noted certain scheme controls were impacted by the staff re-allocation the Department made in order to deal with the Ukrainian crisis.

- Jobseeker's benefit — activation officers in Intreo Dundalk were seconded to assist Ukrainian families from March 2022 to September 2022. As a result, normal activation measures were not in place, and alternative controls were not implemented, to provide assurance that claimants were genuinely seeking work.
- Daily expenses allowance — a normal control is that new claims are reviewed after 8-10 months. Department staff are automatically notified when the review is due. However, these notifications have not been actioned since the outbreak of war in Ukraine, in February 2022. Scheme rules are that the claimant is only eligible if residing in a designated centre.
 - Since February 2022, the Department has not received information from the accommodation centres to confirm recipients were still residing in a centre and no mitigating controls were in place by the end of 2022. However, listings of claimants who received international protection status and those moving accommodation were circulated to the relevant local Department offices.
 - The Department has stated that it is no longer possible to enforce the residential control in all locations due to the unprecedented increase in applicants for international protection arriving in 2022. However, reviews are undertaken locally where necessary, for example where post is returned due to the claimant not being at their registered address, communication from claimants providing a different address, uncollected payments and targeted reviews by location. Practices regarding regular review work are to be revised and implemented in 2023 as part of a change in the overall Community Welfare Service structure.

¹ During the pandemic, where an applicant for international protection was able to source temporary accommodation with a relative or from some other source to reduce the risk of Covid-19 infection in International Protection Accommodation Services (IPAS) centres, this was facilitated by IPAS and the daily expenses allowance remained in payment. The accommodation in the IPAS centre was held for the applicant.

13.34 The examination team found that the Covid-19 pandemic and the Ukrainian crisis have impacted on the Department's ability to operate normal, planned controls over its schemes in 2022. However, relative to 2021, the extent of the impact of the pandemic on most schemes significantly reduced or were resolved during the course of 2022.

Other social welfare payment regularity issues

- 13.35** The daily expenses allowance is a means-tested entitlement for claimants in a designated accommodation centre. Legislation requires the Department to conduct a means assessment after the claimant has been in receipt of income for at least 12 weeks, and to reduce or terminate the allowance to reflect any increase in means. However, the audit found that the Department has not conducted any means assessments of claimants — the value of irregular payments cannot therefore be established and the Department is not in compliance with its statutory responsibilities in operating the scheme.
- 13.36** The Department has noted this finding and stated that it will consider implementing means-testing for international applicants in employment. Scheme expenditure in 2022 was €19.3 million.

Conclusions

- 13.37** With scheme expenditure of almost €24 billion in 2022, even low levels of payments in excess of entitlements to welfare can amount to significant losses of public funds.
- 13.38** The level of irregular payments found by the Department through its ongoing programme of scheme-level control surveys continues to be material. Based on these findings, I have referred in my audit reports on the 2022 appropriation account for Vote 37 Social Protection and on the 2022 financial statements of the SIF to the material level of irregularity of scheme payments.

Control surveys

- 13.39** The available evidence points to a material incidence of payments in excess of the entitlements of claimants under many welfare schemes. This has been confirmed by the level of irregular payments found through the Department's most recent control surveys, on the disability allowance and jobseeker's benefit schemes (published in February 2023).
- 13.40** The surveys published in 2023, and other surveys in recent years, have detected a higher rate of irregular payment than previous surveys of the same schemes conducted a number of years ago. The Department stated that the rates are not comparable due to an improvement in the methodology used over the years. However, the finding of higher levels of excess payment highlights the importance of up-to-date control surveys to inform the Department of a scheme's excess payment rate and its key risks.
- 13.41** The amount of scheme expenditure in 2022 for which control surveys have been published in the last ten years was 82%, which is a significant improvement from 54% in 2021. The improvement in the rate of coverage was driven by the publication of the two control surveys on schemes with high expenditure, and the significant reduction in expenditure on schemes to mitigate the impact of the Covid-19 pandemic which were not surveyed.

Impacts on normal scheme controls in the Department

- 13.42** The Covid-19 pandemic impacted the Department's ability to operate some of its normal controls over its schemes. There continued to be an impact on controls for some schemes during the course of 2022. During work on the 2022 accounts, the financial audit team identified additional impacted scheme controls that the Comptroller and Auditor General was not previously informed of.
- 13.43** The financial audit team also found that some scheme controls were impacted by staff re-allocation to deal with the Ukrainian crisis.
- 13.44** Compared to 2021, the extent of the impact of the pandemic on most schemes significantly reduced or were resolved during the course of 2022. The Department should continue the process of restoring normal controls on all schemes.

Annex 13A

Categorisation of irregular payments

- Suspected fraud — where it is suspected that a claimant for welfare payments intentionally provides incomplete or inaccurate information in relation to a claim, or deliberately fails to inform the Department of relevant changes in circumstances (such as an increase in means or a change in medical condition) affecting a claim in payment.
- Claimant error — when the claimant has provided inaccurate or incomplete information, or failed to report a relevant change in circumstances, but there is no fraudulent intent on the claimant's part.
- Official error — where benefits are paid incorrectly due to inaction, delay or mistakes made by the Department's staff.¹ Where the last review of a claim was conducted more than five years previously (or three years previously for working age schemes), excess payment is categorised as an official error.

¹ In some cases, claimant and official error can also result in claimants receiving less than they are entitled to (an underpayment).

Annex 13B

Figure 13B.1 Impacts to normal scheme controls in 2022

Scheme (2022 expenditure)	Extent of impact of pandemic in 2021	Extent of impact of pandemic in 2022
Non-contributory State pension (€1.1 billion)	Controls improved but not all key controls were in place in 2021.	Controls improved further but desk reviews, a key control, were not in place in early 2022 and were at less than the target rate when they resumed. The financial audit was informed that there were no impacts during 2022 and that processes had resumed in Q3 2021. A standard control was that 5% of cases are referred for desk-review by Social Welfare Inspectors. This control was suspended during the pandemic, but resumed in February 2022 with 1% of cases being referred in 2022 — the control policy was amended to 1% of such claims for 2023.
Widow's/ widower's/ surviving civil partner's contributory pension (€1.7 billion)	Controls improved but not all key controls were in place in 2021. Certain control reports were not run at the normal frequency.	Expenditure on this scheme in 2022 was not included in the audit plan, so an update was requested from the Department. The Department stated that all control work resumed to pre-pandemic levels for 2022.
Jobseekers' allowance (€1.6 billion) and benefit (€0.5 billion)	Controls improved but not all key controls were in place in 2021.	Controls improved further, but some controls were not fully restored until January 2023. The control for SAFE2 identity authentication prior to a claim being put into payment continued to be an issue during 2022. SAFE2 registration was not mandatory from March 2020. The Department began bringing current claimants to SAFE2 registration in April 2021 and the control was reinstated as mandatory in January 2023. Scheme audit of 2022 payments found the Department did not check residency and contribution history (a normal control for new claims) before awarding claims that transferred from the PUP scheme. The Department stated that all such transferring cases were targeted for early in-person attendance for control purposes, ensuring a quicker and more efficient transfer to standard jobseeker terms.
One parent family payment (€0.6 billion)	Controls continued to be impacted — there was no material improvement in controls in 2021.	Key controls returned to normal in 2022. The suspended normal control was a requirement for all claimants to complete an annual self-declaration of continued eligibility. The Department restored this control in March 2022.
Child benefit (€2.3 billion)	Controls improved relative to 2020, but not all key controls were in place in 2021.	Key controls returned to normal in 2022. 244,000 control reviews were conducted in 2022 (95% of the target of 258,000), around the same of number as in 2019. By comparison, in 2021, only 170,000 control reviews were conducted (72% of the target of 237,500).
Back to school clothing and footwear allowance (€86 million)	Controls continued to be impacted during 2021 — there was no material improvement in controls in 2021.	Key controls returned to normal in 2022. Expenditure on this scheme in 2022 was not included in the audit plan, so an update was requested from the Department. The Department stated that in 2022, quality control reviews were carried out on 2% of scheme decisions — of 56,900 manual applications received and processed in 2022, almost 1,050 went through the quality control inspection. This is the same level as prior to the pandemic.

Scheme (2022 expenditure)	Extent of impact of pandemic in 2021	Extent of impact of pandemic in 2022
Disability allowance (€2 billion)	Controls improved relative to 2020, but not all key controls were in place in 2021.	<p>Key controls improved during 2022 but had not been fully restored by December 2022.</p> <p>Medical reviews, which were not conducted in 2020 or 2021, recommenced in 2022.</p> <p>In 2021, data matching exercises were delayed and the targeting of cases by exception reporting was suspended through 2021. In 2022, over 1,300 cases (of 3,000) selected for review by the Business Analytics Unit were reviewed and a further 1,500 of these cases were closed in 2023. By comparison, only 500 of 3,000 such cases were completed in 2021.</p>
Carer's allowance (€1 billion) and benefit (€49 million)	Controls continued to be impacted — there was no material improvement in controls in 2021.	<p>Key controls returned to normal in 2022.</p> <p>Expenditure on this scheme in 2022 was not included in the audit plan, so an update was requested from the Department. The Department stated that normal controls, including data-matching exercises, resumed by February 2022, including medical reviews. The number of control reviews of carer's and the value of control savings substantially exceeded their targets for 2022.</p>
Illness benefit (€0.6 billion)	Amended scheme controls to mitigate the impact of the pandemic were implemented during 2021.	<p>Key controls returned to normal in 2022.</p> <p>Expenditure on this scheme in 2022 was not included in the audit plan, so an update was requested from the Department. The Department stated that normal control work resumed in March 2022. Additional resources were assigned to control work, resulting in the number of control reviews and the value of control savings exceeding targets for 2022.</p>
Rent supplement (€75 million)	Controls continued to be impacted — there was no material improvement in controls in 2021.	<p>Key controls returned to normal in 2022.</p> <p>The normal control requiring the claimant to have been paying rent for six months was reintroduced in March 2022 and the control to conduct home visits recommenced in February 2022. However, the Department do not collate information centrally on the number of home visits conducted.</p>
School meals (€78 million)	Controls continued to be impacted — there was no material improvement in controls in 2021.	<p>Key controls returned to normal in 2022.</p> <p>At the end of 2021, no quality control checks had been conducted in relation to 2020 or 2021 expenditure. The Department stated that these control checks were completed during 2022.</p>

Source: Department of Social Protection. Analysis by the Office of the Comptroller and Auditor General.

14 Ex-gratia payments to social welfare branch managers

- 14.1** As at June 2023, the Department of Social Protection (the Department) has 56 social welfare branch offices at various locations in the State.¹ Social welfare branch offices are privately run, with each branch office assigned to a 'parent' Department office, generally the nearest Intreo centre.²
- 14.2** Each branch office is operated and managed by a branch manager who is engaged as an agent of the Department, under a contract for services.³ Branches have access to the Department's IT systems, and their work is closely integrated with the work of the Department. Branch managers are required to meet the cost of providing the agency service, including staff pay and premises costs, from the payments they receive from the Department.
- 14.3** Branch managers operate under one of three types of permanent contract (see Figure 14.1). The remuneration terms of these contracts were revised in 2018, following discussions between the Department and representatives of the branch managers, led by a facilitator.^{4,5} New contracts would have required an open competition in line with current procurement law. The Department stated that, prior to modification, it reviewed each of the contracts and received advice from the Chief State Solicitor's Office and the Office of the Attorney General in relation to compliance with procurement requirements. A letter setting out the new arrangements was sent to each branch manager in April 2018.⁶

1 Branch offices were initially established under the *Labour Exchanges Act of 1909*.

2 Intreo is a service from the Department which provides a single point of contact for all employment services and income supports.

3 The full range of services provided by branch offices is outlined in Annex 14A.

4 Prior to 2018, the remuneration of branch managers was variable, based on the volume of services provided — see Annex 14B.

5 The Branch Managers' Association and the Representative Group of Branch Managers represent branch managers in discussions with the Department.

6 The letter was reviewed by the Office of the Attorney General.

Figure 14.1 Branch managers' contracts, by type, August 2022

Contact type	Contract conditions	Number of branch managers on contract ^a	Issuance period
Contract for life/open-ended contract	Branch manager has a contract for the duration of their lifetime. ^b	17	Up to 1984
Contract to retirement	Branch manager retains the contract to provide the service until the branch manager reaches a specific age (65, 66 or 70 years old). ^c	24	1985 to 2007
Five-year contract	The branch manager retains the contract to provide the service during the contract period.	14	2006 to present
Temporary contract	A temporary contract to ensure continuity of service.	1	

Source: Department of Social Protection. Analysis by the Office of the Comptroller and Auditor General.

- Notes:
- a Number of contracts at August 2022 when the ex-gratia payments were calculated.
 - b At August 2022, five branch managers were aged 66 to 69 and ten were aged 70 or more.
 - c With effect from January 1999, permanent contracts offered to new branch managers contain a clause which stipulates compulsory retirement.

14.4 The Department has stated that the revised payment model for the branches reflects a move from one based on transaction volumes (fee per item e.g. per claim processed) to one based on service quality and adaptation to new ways of working.

14.5 Under the contracts with the branch managers, the payment model includes a core fixed remuneration amount for each branch office. This amount is based on the average payments made to branch offices in 2017 under the previous payment model, and consists of three core elements

- a standard payment of €40,000, made to each office, regardless of size
- a services and support payment of 80% of the fixed remuneration amount for the office less the €40,000 standard payment
- a service level payment of 20% of the agreed remuneration amount for the office, payable for achieving the required service levels of the improved service delivery model.¹

1 The criteria against which performance is assessed relate to branch adherence to Departmental circulars and instructions. In addition, branch office accommodation must be maintained at the standard required by existing contracts and relevant provisions.

14.6 The Department stated that following the introduction of the new arrangements, it engaged in a process of performance monitoring by way of inspections and reporting — every branch office should have two control checks and one general inspection conducted annually, and at least one of those control checks should be conducted during the fuel allowance season.²

2 Fuel allowance season refers to the period during which fuel allowance is paid to claimants. It normally begins in late September of each year and ends in April.

14.7 The 20% final portion of the branch manager's remuneration is paid on the basis of performance which forms part of these required inspections. The Department has not reduced payments to any branch office for a failure to meet the required service level. It stated that the issue of withholding the 20% service level payment did not arise in relation to any of the branch offices. However, internal audits carried out in 2022 and 2023 raised issues with the non-completion of control and general inspections within the sample of branch offices it reviewed.

3 These payments are approved by local Department management.

14.8 In addition to the fixed remuneration amount, branch offices also receive

- per item fees for processing of public services card applications, SAFE registration and PPSN allocation — €476,000 to 44 branch managers in 2022 (2021: €290,000 to 42 branch managers — an increase of 64% year on year)
- payments for accommodation to facilitate the attendance of the Department's staff who provide employment, control or community welfare services in the branch area — €163,000 in 2022 (2021: €166,000)³
- payments to retiring branch office managers — €68,000 paid in 2022 to two retiring branch managers (2021: nil).^{4,5}

4 The clients of the two closed branch offices were absorbed by Intreo offices.

5 The Department stated that it is obliged to make these retirement payments under a 1966 scheme.

6 Revenue's Tax and Duty Manual (04-01-19) sets out the relevant process. Branch manager income is taxed as self-employment income (returned under Schedule D).

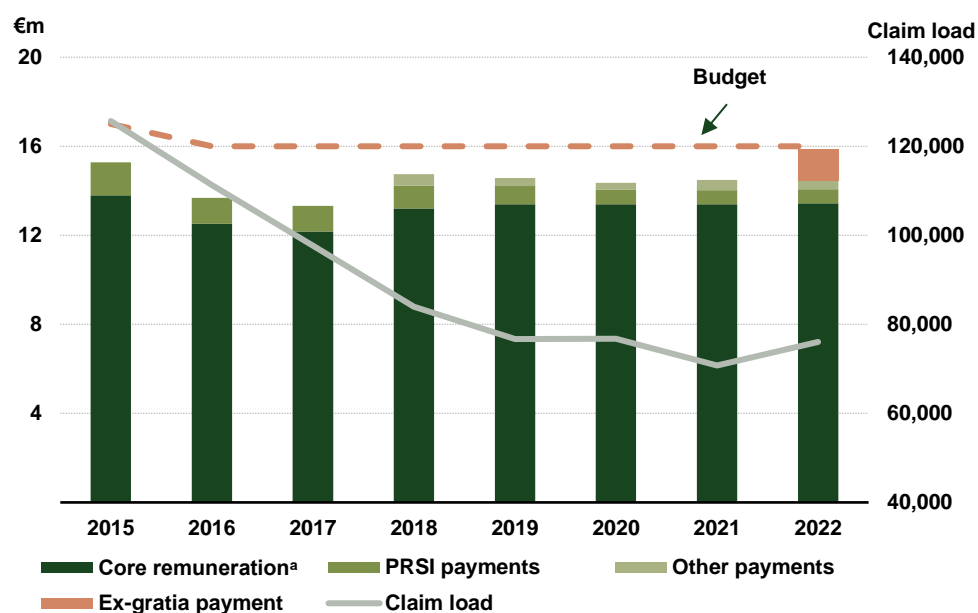
The Department also paid €644,000 in 2022 (2021: €631,000) directly to Revenue in relation to branch manager's PRSI (class A contributions).⁶

- 14.9** In June 2018, the Department of Public Expenditure, National Development Plan Delivery and Reform (DPENDPDR) sanctioned the revised remuneration arrangements but expressed concern that it (DPENDPDR) had not been consulted before the agreement was reached. A condition of the sanction was that there was to be no agreement on continuation of this new model beyond 31 December 2020 and that there must be detailed prior consultation before any decision is taken beyond 2020.
- 14.10** The Department stated that given the unique circumstances of the Covid-19 pandemic in 2020, it operated on the assumption that the 2020 sanction automatically continued for 2021 and 2022, within the previously sanctioned limits. In March 2023, the Department stated its intention to seek sanction from DPENDPDR for payments to branch managers in 2023.

Payments to branch offices

- 14.11** The claim load of the branch offices, as measured by the number of claims being managed at the year end, has declined by around one third since 2015 (see Figure 14.2). Payments increased in 2018, reflecting the revised contract arrangements, and remained relatively stable thereafter. Because the payment rate is fixed for each office, there was no material change in payments to branch offices during the period of the pandemic.
- 14.12** The Department stated that while there were fewer applications for jobseeker payments during the pandemic, branch offices remained open and accepted pandemic unemployment payment (PUP) applications, but did not process them.

Figure 14.2 Payments to branch managers, 2015 – 2022



Source: Department of Social Protection. Analysis by the Office of the Comptroller and Auditor General.

Note: a Due to different remuneration structure prior to 2018, there is no split between core remuneration and other payments for 2015 to 2017.

- 14.13** The annual budget for payments to branch offices included in Vote 37 Social Protection was a constant €16 million a year, from 2016. In the period 2018 to 2021, there was an underspend on the voted provision each year of between €1 million and €1.4 million.
- 14.14** The Department met with representatives of the branch managers in June and July 2022 to discuss financial pressures on branch offices due to increases in the costs of living, the delivery of services, and supports for Ukrainian claimants.
- 14.15** In response, the Department prepared a proposal to make a one-off payment to branch managers, in recognition of the impact of their increased business costs. The proposal contained information on the general economic outlook and rising costs of living. It referenced inflation projections, increases in the consumer price index and data on energy price increases.
- 14.16** However, the proposal did not include any detailed analysis on the impact of the cost of living increases on branch offices, nor did it estimate the additional costs incurred by branch offices as a result of increased service demands arising from the influx of Ukrainian refugees.
- 14.17** The Department devised a method of apportioning one-off 'top-up' payments to each branch manager, based on the branch claim load and the number of Ukrainian claimants in the branch office area. The total payment allocated across all branches remained within the Department's overall budget allocation for branch offices.
- 14.18** The total value of ex-gratia payments made in 2022 was €1.425 million ranging between €16,000 and €51,000, allocated based on two components¹
- €782,000 apportioned based on the number of claimants of the branch office (payments ranged from €12,000 to €18,000 for individual branch offices) to address increased financial pressures²
 - €547,000 apportioned based on the number of Ukrainian clients in the area (payments ranged from €4,000 to €35,000 for individual branch offices).³
- 14.19** The Department had no obligation to make the 'top-up' payments under the terms of the 2018 agreement. Furthermore, the Department made these payments in the absence of evidence based detailed analysis to substantiate the validity of the payments.

¹ This comprised a payment of €1.329 million directly to branch managers and €0.096 million to Revenue for PRSI.

² Based on a total claim load managed by branch offices of 71,150 at end September 2022.

³ Total Ukrainian clients for all branch offices was 5,000 at end September 2022.

Approval for the ex-gratia payments

- 14.20** DPENDPDR's *Public Financial Procedures* defines an ex-gratia payment as a payment not legally due under a contract or otherwise and states that such special payments usually require prior sanction and should be the subject of a note in the relevant appropriation account.
- 14.21** The Department did not seek DPENDPDR sanction for the ex-gratia payments to the branch managers but has, following from an audit query, included a note in that regard in the Vote 37 appropriation account for 2022.

- 14.22** The Department stated that the contracts with the branch managers provide for the Minister to vary at any time the amount of remuneration payable and it was under this provision that the Department responded to the cost pressures faced by branch managers. The Department stated that the use of an ex-gratia payment was a measured response which did not embed an ongoing increase in fees in a situation where there was still some expectation that price pressures might be temporary in nature.
- 14.23** In addition, the Department's view is that the payment to branch managers was funded from the voted subhead proper to such payments and the total cost remained within the voted amount under that subhead, for which sanction was already in place.
- 14.24** DPENDPDR has stated that *Public Financial Procedure* (section C2, paragraph 13) makes clear that the Exchequer has first claim on any savings on a Vote and in the normal case departments are expected to surrender such savings rather than retain them for allocation to other items of expenditure, except where prior approval of DPENDPDR has been obtained.

Conclusions and recommendations

- 14.25** Social welfare branch offices are provided and managed by self-employed contractors who are responsible for meeting the costs of providing the service, including staff and premises costs.
- 14.26** The structure of payments to branch managers was revised in 2018, against the background of a declining case load. The revised arrangements were scheduled to expire in 2020. DPENDPDR sanctioned the revised arrangement in 2018, after it had been agreed between the Department and branch managers, and requested that the agreement would not be extended without its input.
- 14.27** The Department continued to apply the revised contract terms in 2021 and 2022, without seeking a further sanction. As at June 2023, branch offices continued to operate under the terms of the 2018 agreement.

Recommendation 14.1

The Department should engage with DPENDPDR to agree on an approach to discussions with branch office managers on the contract terms and governance arrangements for the future operation of social welfare branch offices.

Department of Social Protection Accounting Officer's response

Agreed.

The Department will engage with DPENDPDR to ensure that the necessary sanctions and governance arrangements are in place for the proper remuneration for branch managers. The Department will consult with branch managers prior to finalising any revised arrangements which impact on the operation of branch offices.

Timeline for implementation

By end 2023 in respect of budget 2024 estimates.

- 14.28** In addition to the payments provided for and approved under the 2018 agreement, the Department made ex-gratia payments totalling €1.425 million to branch managers in 2022. The Department stated the top-up payments were made in response to financial pressures on branch offices due to inflation, and the requirement to deliver services and supports for Ukrainian claimants.
- 14.29** The Department's internal proposal for the ex-gratia payment was based on general cost increases in the economy, rather than a detailed evidence-based assessment of the impact that cost of living increases and service demand increases had on branch offices. In the absence of any such detailed and specific analysis, it is difficult to determine if there is a valid case for making any top-up payment.
- 14.30** The ex-gratia payments represented a significant enhancement of the sanctioned payment terms provided for in the 2018 agreement. The amount paid out used up available voted funding that otherwise would have resulted in a saving to the Exchequer. *Public Financial Procedures* makes clear that such savings are not available to vote managers to use without the prior approval of DPENDPDR. Since sanction for this use was not sought, the expenditure was irregular.

Recommendation 14.2

The Department should engage with DPENDPDR to seek prior sanction for any proposed future ex-gratia payments.

Department of Social Protection Accounting Officer's response

Agreed.

The Department will apply a default rule of applying for sanction for one-off/ex-gratia payments. This rule will be applied in all but exceptional cases and in compliance with the guidance contained in *Public Financial Procedures*.

However, noting that *Public Financial Procedures* does not insist on such sanction in every case, it is important to retain some discretion and not to apply too burdensome a process where it is not necessary to do so for procurement or financial control reasons.

For example, sanction may not be necessary in cases where a one-off payment is substituting, at a lower cost, for an on-going spend or is permissible within the terms of a contract for which sanction is already in place.

Nevertheless, in all cases ex-gratia payments with or without sanction, will in future be subject to sign-off at a minimum at Deputy Secretary General level in accordance with approved authorisation levels.

Timeline for implementation

With immediate effect.

Annex 14A Services provided by branch offices

Branch offices provide the following services:

- information provision — ensuring that individuals have access to accurate, comprehensive and clear information relating to all social welfare schemes and services, including community welfare services and employment services
- triaging claims and assisting customers in accessing all Department of Social Protection (DSP) schemes and services
- registering and maintaining claims for all services provided by Intreo centres — currently jobseeker's allowance and benefit, one-parent family payment, farm assist, fish assist, benefit payment for 65 year olds, and fuel allowance
- supporting employment services — hosting group or joint information sessions for jobseekers
- ensuring payment integrity/control activities — working with DSP control functions to ensure the correct operation of the Department's fraud and control policies
- identity authentication — processing customer applications for the Public Services Card
- accommodation provision — providing facilities for the Department's staff to meet with clients on an 'as needs' basis.

Annex 14B Branch manager contract prior to 2018

Prior to 2018, remuneration of branch managers comprised three elements.

- A standard annual salary: ranging from €43,199 to € 71,485 per annum, depending on the claim load of the Branch Office.
- Tiered Services Allowance: ranging from €2,959 to €29,411 per annum, depending on claim load and subject to the maintenance by branch managers of an adequate standard of accommodation and is intended to cover all operational costs.
- Variable costs: no payment was made in respect of an office with an annual claim load of less than 500. For offices with higher annual claim loads, the payment was € 3,083 for the first 101 to 500 claims per annum rising to € 7,713 for each subsequent 100 claims per annum.

15 Raising social welfare overpayments

15.1 The Department of Social Protection (the Department) makes weekly or monthly income support payments to around two million claimants, with scheme expenditure of €23.9 billion in 2022 funded through the Vote for Social Protection and the Social Insurance Fund (SIF).

- Vote-funded schemes are mainly social assistance, and the eligibility criteria usually include a means test.
- SIF-funded schemes are based on social insurance, where any benefits due are based on the claimant's recorded PRSI contributions.

15.2 Excess payment of income support arises where a claimant receives a payment to which they were not entitled or the level of payment exceeds their entitlement. This can happen for example where the claimant's means were not fully disclosed when applying for the payment, those means or the claimant's other circumstances changed after the payment commenced, or the Department made an error when assessing the declared means.

15.3 When the Department identifies an excess payment situation, it may, if appropriate, seek to recover some or all of the amount overpaid in the past. It does this by raising an overpayment liability, or debt, in respect of the claimant.¹ Significant sums may be involved in certain cases, and so ensuring prompt identification of overpayments is important. Because of the potential impacts of overpayment recovery on claimants with limited means, appropriate controls are required to ensure fairness and reasonableness.

15.4 This chapter examines

- trends in the raising of overpayments
- the Department's processes and its guidance to staff and claimants in relation to overpayments
- Department staff compliance with the guidance issued by the Department
- the Department's management of debt of deceased claimants.

Chapter 16 examines the Department's processes after an overpayment is raised, in relation to the recovery or write-off of overpayment debt.

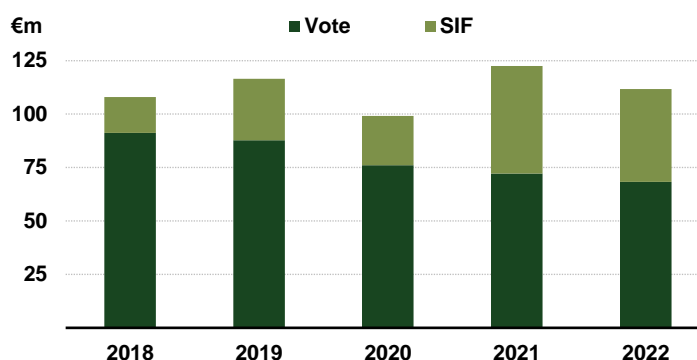
15.5 This examination reviewed key documents and data produced by the Department and interviewed key staff. The examination also reviewed a random sample of one hundred cases where the Department had identified a payment in excess of entitlement through its control work.

¹ The Department's definition of an overpayment is any amount paid in excess of the amount that a customer was entitled to receive under statute or scheme guidelines and which has been so determined by a deciding officer or designated person.

What are the trends in overpayments raised?

- 15.6** In recent years, the value of overpayments raised has been relatively constant, in the range €100 million to €125 million (see Figure 15.1). Overpayments are likely to arise more frequently on Vote-funded schemes because means assessments are a key eligibility condition but the value of assistance-scheme overpayments has trended downwards in recent years.¹ In 2021 and 2022, there was a significant increase in the value of overpayments raised on SIF-funded schemes, primarily due to overpayments raised on the pandemic unemployment payment.

Figure 15.1 Value of overpayments raised, Vote and SIF, 2018 to 2022



Source: Department of Social Protection. Analysis by the Office of the Comptroller and Auditor General.

- 15.7** When a payment in excess of entitlement (an excess payment) is detected, the deciding officer may make

- a 'current date' decision, which reduces the rate of future payments or terminates the claim, but does not seek to recover any past excess payments — no overpayment debt is raised
- a retrospective decision, which reduces the rate of payments or terminates the claim, and seeks to recover past excess payments — overpayment debt is raised.

- 15.8** The Department requires staff to classify the cause of each overpayment raised into one of four classifications (see Figure 15.2).

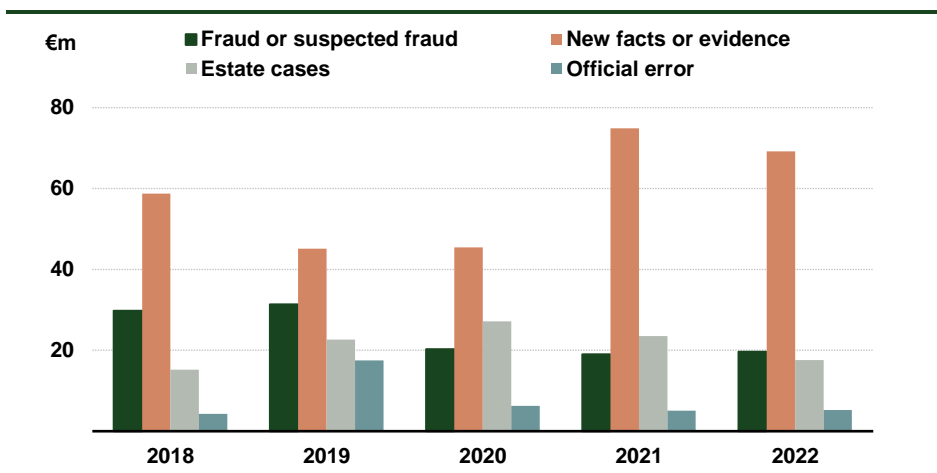
- **Fraud or suspected fraud:** arises where a deciding officer is satisfied that there is sufficient evidence that the customer deliberately provided false or misleading information or wilfully concealed relevant information. The revised decision is effective from the date that the information presented or concealed affected the rate of payment (the revised decision is always retrospective). Such cases are generally suitable for prosecution.²
- **New facts or evidence:** arises where new facts or information comes to light but there is no evidence that the claimant deliberately attempted to conceal facts or information from the Department.³ The deciding officer determines the date of effect of the revised decision, having regard to the circumstances of the case so a current date or retrospective decision may be made.
- **Official error:** arises where a deciding officer incorrectly applied legislation, incorrectly calculated the rate payable, or failed to act on information received from a claimant.⁴ Deciding officers generally make a current date decision, and therefore do not raise an overpayment debt against the claimant.

¹ An exception is the child benefit payment, which is a universal payment for which there is no means assessment.

² Section 302 (a) of the Social Welfare (Consolidation) Act 2005 (the Act) provides the basis for this decision.

³ Section 302 (b) of the 2005 Act provides the basis for this decision. This classification was previously referred to as claimant error. Examples include a claimant providing inaccurate or incomplete information or there was an unreported change in the claimant's circumstances.

⁴ Section 302 (c) of the 2005 Act provides the basis for this decision. This classification was previously referred to as Departmental error.

Figure 15.2 Value of overpayments raised by classification, 2018 to 2022

Source: Department of Social Protection. Analysis by the Office of the Comptroller and Auditor General.

- **Estate case:** arises where, subsequent to the death of a claimant, it comes to light that not all of the deceased person's means had been reported or disclosed during the time they were in receipt of income support — this may be due to suspected fraud, new facts or evidence — or there was excess payment due to official error. Depending on the circumstances, an overpayment may be raised, and the Department can recover (some or all of) the amount overpaid from the estate of the deceased claimant.

Value of overpayments by scheme

1 The Department provided the following illustration: a claimant is returning to work on a Monday and informs the Department on the Friday beforehand. As the payment for the week has already run, this will result in an overpayment of either two or three days depending on whether the claimant is on jobseeker's allowance or benefit.

15.9 The value of overpayments raised varies significantly by scheme (see Figure 15.3).

- Many low value overpayments are raised in relation to jobseeker's allowance and benefit schemes. The Department stated that there is a high volume of overpayments due to 'working while claiming', as the Department often may not have sufficient notice to amend a payment when a claimant returns to work.¹
- Fewer overpayments are raised on pension schemes but the average overpayment value is much higher.

Figure 15.3 Value of overpayments raised and average overpayment value, by scheme, in 2022

Scheme name	Value of overpayments raised	Average overpayment
State pension non-contributory	€21.8 million	€8,310
Jobseeker's allowance	€20.7 million	€900
Pandemic unemployment payment	€17.0 million	€4,238
State pension contributory	€7.1 million	€1,089
Jobseeker's benefit	€6.9 million	€403
Disability allowance	€6.4 million	€4,479
Carer's allowance	€6.2 million	€10,589
Illness benefit	€5.7 million	€554
One-parent family payment	€4.8 million	€1,982
Widow(er)s pension contributory ^a	€3.7 million	€1,081

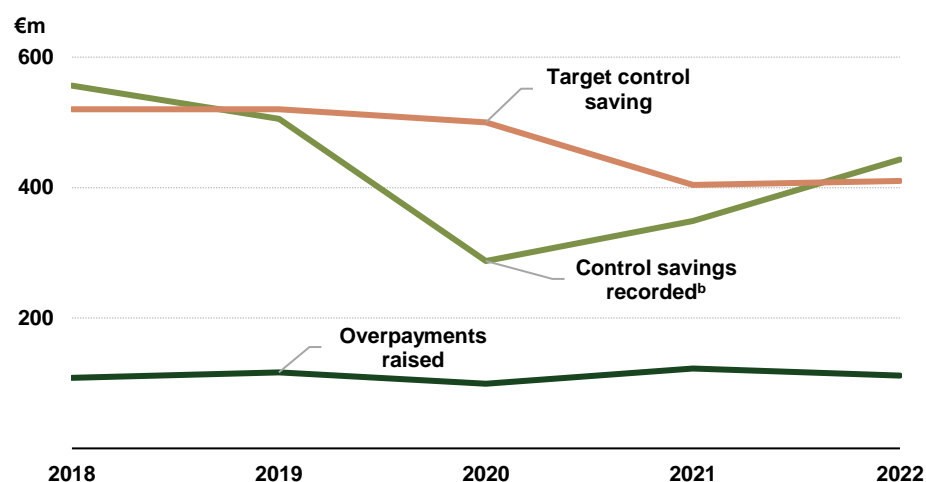
Source: Department of Social Protection. Analysis by the Office of the Comptroller and Auditor General.

Note: a Full title: Widow's/widower's/surviving civil partner's contributory pension.

Overpayments versus control savings

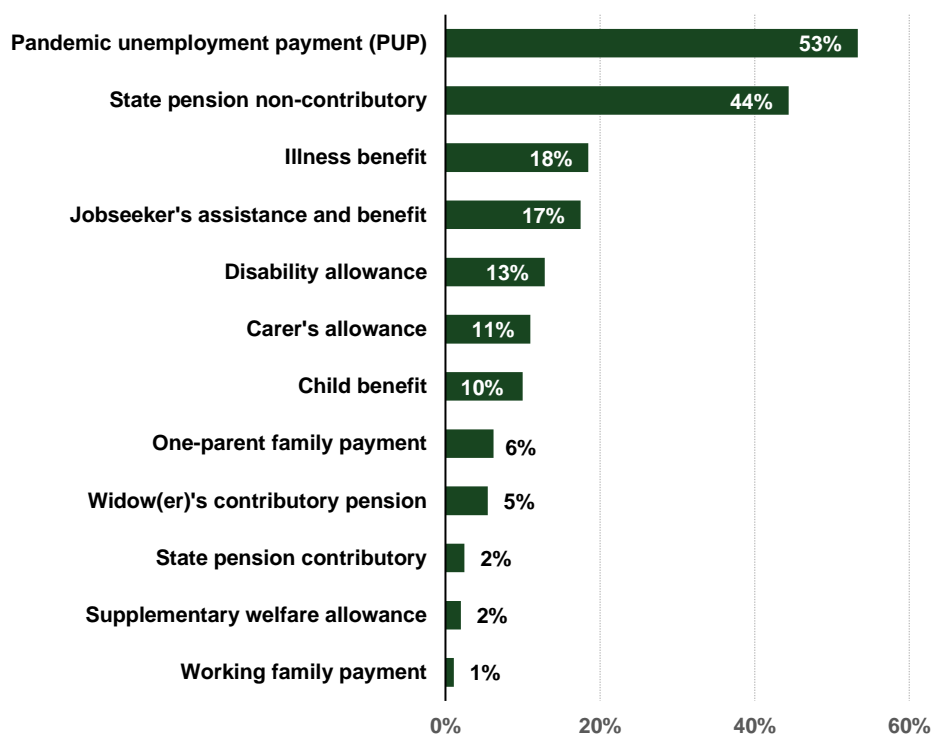
- 15.10** The Department undertakes programmed control work to identify past, and to prevent future, excess payments. It uses 'control savings' as the key performance measure to estimate how much it has saved through this control work. For each scheme area, the Department sets annual targets for the number of control reviews to be conducted and the value of control savings to be made.¹ The Department does not set a target for the value of overpayments to be raised in a year.
- 15.11** The Department estimates the value of control savings achieved in respect of a detected excess payment case as the sum of
- the value of any overpayment debt raised
 - the value of future excess payments that were expected to be prevented.
- 15.12** The Department only counts a control saving where it had decided to conduct a review which then identified an excess payment. It does not record control savings where a review was initiated by the client providing voluntary information.
- 15.13** When calculating the value of future excess payments prevented, the Department applies a multiplier to the value of the weekly/monthly excess payment identified, on the basis that it would otherwise have continued for a period ranging between four and 136 weeks, depending on the scheme. As a result, the value of control savings recorded is significantly greater than the value of overpayments raised (see Figure 15.4). A lower multiplier is sometimes assigned to cases where the payment is reduced compared to being terminated. Annex 15A sets out the multipliers used for each scheme. The multipliers were developed by the Department in conjunction with the Central Statistics Office. The Department stated that similar control savings methodologies are used in the UK and Australia.

¹ The Department sets these targets under its compliance and anti-fraud strategy.

Figure 15.4 Value of control savings recorded and overpayments raised, 2018 to 2022^a

Source: Department of Social Protection. Analysis by the Office of the Comptroller and Auditor General.

- Notes:
- a The value of overpayments raised shown here includes those raised following a control review and those raised for other reasons, such as on foot of information voluntarily provided by a claimant.
 - b The Department has stated that the reduction in control savings recorded in 2020 and 2021 was a consequence of restrictions imposed during the Covid-19 pandemic.

Figure 15.5 Value of overpayments raised due to control reviews as a percentage of control savings, by scheme area in 2022^a

Source: Department of Social Protection. Analysis by the Office of the Comptroller and Auditor General.

- Note:
- a Value of overpayments raised in this analysis includes only overpayments raised on foot of a control review which resulted in a control saving. Analysis indicates that around 68% of overpayments raised resulted from the Department's control work. The remaining 32% of overpayments were raised on foot of information from claimants — these cases do not result in control savings being recorded.

15.14 In many cases where a control saving is recorded, the value is entirely based on future savings and there is no related overpayment debt raised (that is, current date decisions).

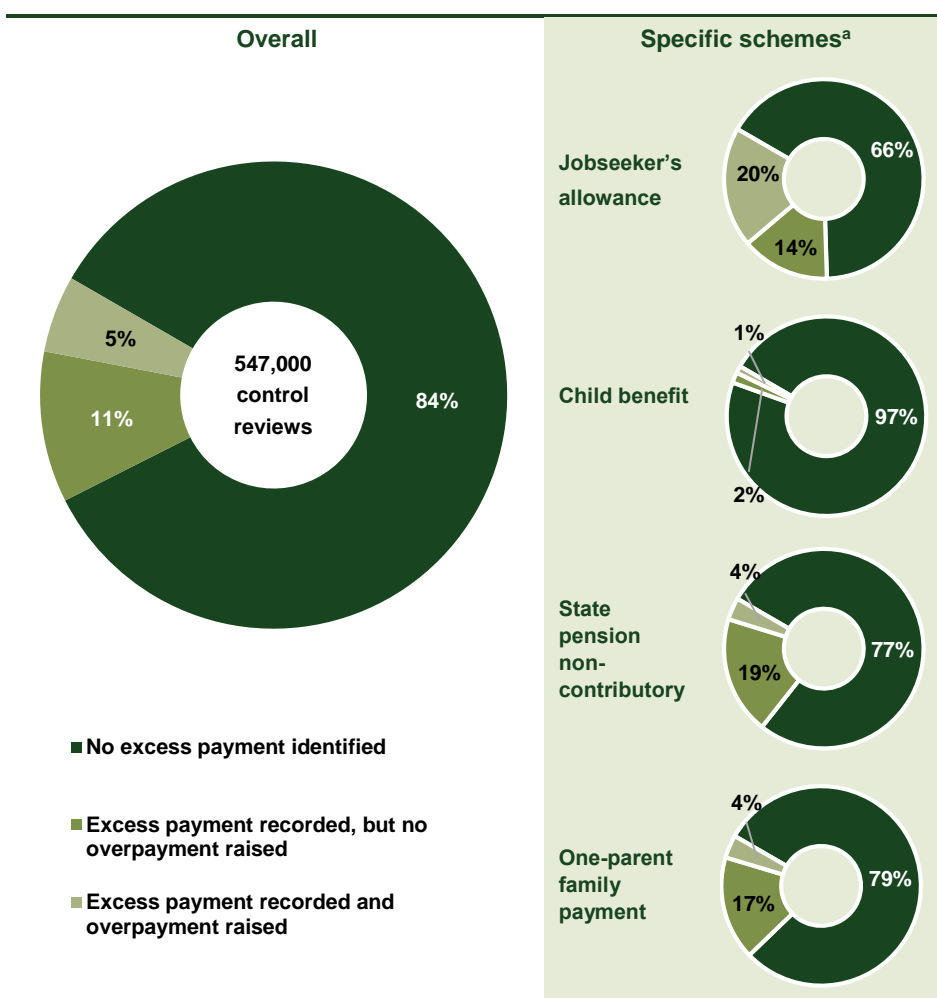
15.15 Given the variation in outcome by scheme shown in Figure 15.5, analysis by the Department of a sample of claims from different schemes would provide insight into whether the differences relate to the inherent characteristics of different schemes or from the application of discretion in how decision rules and guidelines are applied by deciding officers.

15.16 The Department conducts two types of claim analysis

- control reviews, which are targeted reviews selected because the risk of excess payment in certain case types is greater than average
- control surveys, which are randomly selected reviews to determine the level of excess payment that is occurring.¹

15.17 The majority of claim reviews are control reviews. It is to be expected that control reviews will identify a higher rate of excess payment than control surveys because control reviews are selected based on perceived risk instead of random selection.

Figure 15.6 Rate of excess payments identified by controls reviews in 2022



¹ See *Report on the Accounts of the Public Services 2022*, chapter 13, Regularity of social welfare payments.

Source: Department of Social Protection. Analysis by the Office of the Comptroller and Auditor General.

Note: a The specific schemes shown are high-expenditure schemes on which a control survey has recently been conducted.

- 15.18** The effectiveness of the Department's identification of higher-risk claims can be assessed by comparing the extent to which the (targeted) control reviews detected control savings more frequently than a random selection. For the four schemes referred to in Figure 15.6, that comparison indicated that the identification of higher-risk claims was very effective for the jobseeker's allowance and child benefit schemes. In contrast, targeted control testing was less effective — there was little difference between randomly selected and targeted claims — for the non-contributory State pension and the one-parent family payment.

Improvement in controls to reduce overpayments

- 15.19** The Department stated that the primary causes of overpayment are

- working while claiming
- payments after death
- changes in means that the Department was not informed of.

- 15.20** In relation to working and claiming, the Department stated that it is placing increased emphasis on real-time Revenue data on pay to employees, with monthly checks on

- claimants who have no earnings declared as means, but who appear on Revenue earnings data
- changes in the rate of income which have not been declared
- employment details for qualifying adults
- changes in employment and random checks for casual workers.¹

- 15.21** Deaths in Ireland must be registered within a maximum of twelve months. When the death is registered, the personal public service number (PPSN) of the deceased person must be provided, enabling the Department to match the deceased person to claims in payment.² Legislation is currently being prepared to introduce a requirement that deaths are notified to the General Register Office within five days. Family members will also be required to complete the registration process within 28 days. The Department considers that shortening the notification period(s) would help to reduce the level of payments after death.

¹ Revenue real-time reporting commenced on 1 January 2019.

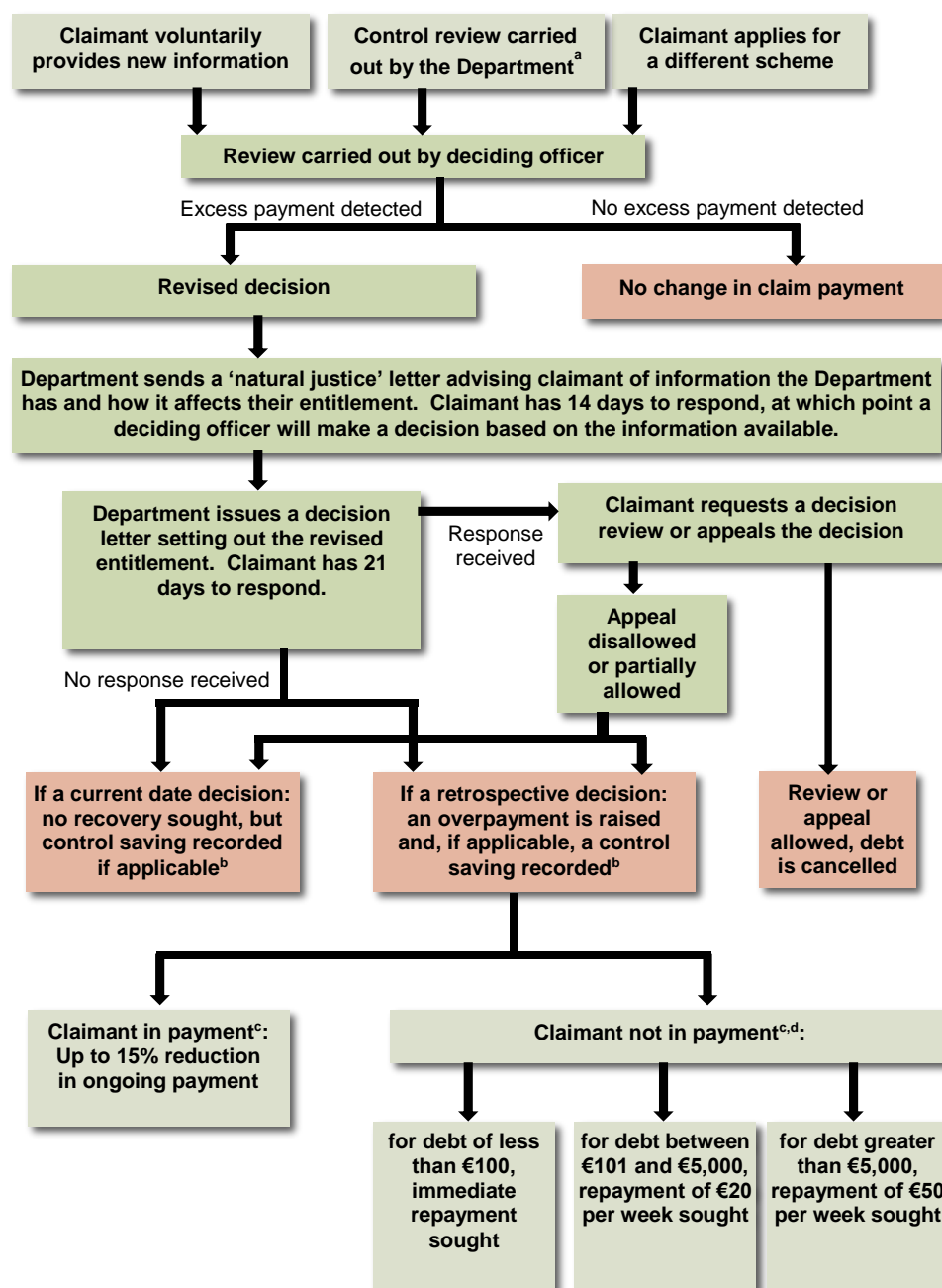
² The estate of a claimant is entitled to six weeks' payments after death in certain circumstances.

- 15.22** To detect changes in means which the Department has not been informed of, the Department is using Revenue data and issuing change of circumstance letters to claimants. The Department expects to introduce an automated system to issue letters to claimants on means-tested schemes, reminding them of the requirement to inform the Department of changes in means (this process is currently manual), with all scheme claimants to receive such notification over a period of years on a cyclical basis.

Raising an overpayment

15.23 The Department has an established process for the review of claims, which may result in an overpayment being raised and recovered, as set out in Figure 15.7.

Figure 15.7 Process for the identification and raising of overpayments



Source: Office of the Comptroller and Auditor General

- Notes:
- a A claim may be selected for a control review due to random selection (e.g. as part of a control survey), the presence of certain risk factors, an anonymous disclosure, or as part of an annual recertification process.
 - b Where the review was initiated by the Department, a control saving will be recorded. Where the review was initiated by the claimant, a control saving should not be raised.
 - c The Department and claimant may agree a lower or higher rate of recovery.
 - d If no response is received after 21 days the Department issues a reminder letter. If a response still is not received after another 14 days the Department issues a final letter advising that the Department may utilise notice of attachment powers.

Guidance to staff

15.24 A deciding officer may review the basis on which a claimant has been awarded a payment, and may issue a revised decision in relation to that payment.^{1,2} Each officer is required to make an independent judgement on the application of the law, but is expected to be familiar with guidelines issued by the Department to enhance the consistency of decisions. The Department's Decisions Advisory Office (DAO) provides guidance to officers in relation to making initial decisions and making revised decisions.³ In February 2023, the Department provided updated guidance to staff on the management of overpayments.⁴

15.25 The calculation of the amount to be recovered as an overpayment is limited to the amount of money received by the claimant. The Department cannot charge interest on the overpayment amount or apply penalties as a deterrent to fraud. There is no minimum value for which an overpayment debt can be raised.

15.26 The guidance is available to officers on the Department's intranet. The Department also has an online training module covering the decision making and natural justice processes. In addition, the Department's Control Division conducts internal roadshow events to promote key guidance, such as the need to document the rationale for decisions. (Key elements from the Department's guidance to staff on calculating the value of an overpayment to be raised are explained in Annex 15B.)

15.27 The examination team reviewed the guidance provided to staff to support the decision-making process and concluded that the guidance was comprehensive.

Guidance to claimants

15.28 An objective of the Department, under its *Compliance and Anti-fraud Strategy*, is to provide clear and understandable information to customers to minimise error, through publicity campaigns, information leaflets, the Department's website and assistance provided by staff.

15.29 Documents signed by or sent to claimants at the application and claim award stages clearly state the need for claimants to advise the Department when their circumstances change. Claim award letters state that a claimant should immediately notify the Department of a change in means. On the State pension non-contributory and carer's allowance scheme, the Department states that changes in means should be notified within three months, but timelines are not specified for other schemes. (Further information on the Department's communication with clients is given in Annex 15C.)

15.30 Other targeted interactions with claimants include

- an annual recertification process to verify payment entitlement for recipients of the working family payment, farm assist payment and one-parent family payment
- the conducting of control reviews
- continuing eligibility certification letters are issued to claimants of some contributory schemes and child benefit
- change in circumstance letters are issued to State non-contributory pension claimants.⁵

1 Authorised 'deciding officers' consider entitlement to most of the Department's schemes. A 'designated person' considers entitlement to supplementary welfare allowances. Here, the term deciding officer is used to cover both roles. Where the decision of a deciding officer is appealed, an appeals officer has powers to revise that decision. Once appointed, a deciding officer retains their powers until they leave the Department and, as a result, many of the Department's staff are authorised deciding officers, but may not be acting in that capacity on a day-to-day basis.

2 A revised decision is any decision to allow, disallow, increase or decrease a payment — this chapter focuses on overpayments which result from a decision to disallow or decrease a payment.

3 The guidance was most recently updated in March 2022.

4 Management of customer overpayments and recovery of customer debt provides high-level background information on the raising of overpayments and more detailed information on the recovery of overpayments, the prior version of which was published in January 2020.

5 Change in circumstance letters are not a control review and the claimant is not obliged to respond unless to bring new or previously undeclared facts or evidence to the attention of the Department.

1 MyWelfare (www.mywelfare.ie) is an online portal for welfare services, enabling a claimant to apply for certain benefits, update personal details and order statements.

2 Where the deciding officer is not fully certain that the non-compliance was intentional, the revised decision will be classified as new facts rather than suspected fraud.

3 The rate of appeal is monitored by scheme but not the reason for the appeal. The SWAO Annual Report provides details on individual case studies including cases where an overpayment raised was the reason for the appeal. See *Report on the Accounts of the Public Services 2020*, chapter 10, Management of social welfare appeals

4 The examination excluded control savings recorded on the working family payment scheme from the sample — 17% of all control savings related to this scheme but they resulted in very few overpayments being raised. A control saving is raised on this scheme when a reduced rate is payable after the claimant re-applies for the payment, as each claimant is required to do each year. The examination concluded this scheme was not representative of other schemes and excluded it from the sample.

5 In eight of the 79 cases where no issue is raised, an excess payment was detected but there is no legislative basis for recovering an overpayment (cases relate to an administrative scheme such as household benefits or a benefit scheme where the claimant may be deceased).

6 The guidance to staff is that a note is not required where there is an automated decision process (child benefit and standard continuing eligibility certification) and on medical only reviews.

15.31 The Department stated that automated processes for sending change-in-circumstances letters are being developed during 2023. This will substantially increase the quantity of change-in-circumstances notifications issued to claimants of means-tested payments. Regular notification or reminders are not communicated via the MyWelfare application.¹

15.32 The guidance provided to claimants is comprehensive. However, the Department does not track the number of claimants who received a revised decision after voluntarily providing updated information to the Department, so it is not possible to assess the effectiveness of the communication. The volume of overpayments being detected, in particular due to new facts or evidence coming to light, suggests that many claimants are either unaware of their obligation to inform the Department of changes in a timely manner or claimants are aware but choose to be non-compliant.²

15.33 Each claimant is advised of the right of a review of the decision with the Department and the right to appeal the decision to the Social Welfare Appeals Office (SWAO). The examination found that the number and outcome of overpayment based appeals is not monitored.³

Staff compliance with guidance issued by the Department

15.34 For this examination, we reviewed a random sample of 100 cases (of a total 86,000 cases for 2022) where an excess payment was identified, to assess the extent of compliance with the Department's guidance, in particular in relation to the documentation of the rationale for decisions and the presence of sufficient and appropriate evidence to support the decision.⁴

15.35 The examination team identified an issue with 21% of the claims reviewed.⁵ There were three main areas of concern in these cases.

- An overpayment was not raised in ten cases where the examination team's assessment is that an overpayment should have been considered. In these cases, the rationale of the deciding officer to raise a current date decision rather than a retrospective decision was not documented.⁶
 - In three cases where no overpayment was raised, this was apparently because the value of the overpayment could not be determined as the claimant did not engage with the Department. However, the examination team was able to ascertain, using information available to the Department, that these claimants were still working in the State and therefore the Department could have conducted further work before concluding these cases.
 - In three cases, the disclosed means of the claimants had increased by more than €100 per week.
 - In two cases, an increase in means following the commencement of relevant employment was not disclosed to the Department.
 - In one case where the claimant was in receipt of PUP, no overpayment has yet been raised due to an ongoing PUP-specific overpayment project.
 - In one case, the claimant's means exceeded the current allowable threshold but no overpayment was raised because the means were less than a forthcoming increased threshold.

- In six cases, no overpayment was raised as the claimant was not engaging with the Department and had potentially left the country, so the value of overpayment could not be assessed. The examination team considers that an estimate of the overpayment, with documented calculations as supporting evidence, should be recorded so that recovery of the actual overpayment can be sought if the claimant seeks a payment from the Department in future.
- In three cases, a control saving was raised despite the review being initiated by the claimant.
- In one case, there was a lack of supporting documentation on file to clearly support the basis of the decision. In this case, the correct decision may have been made, but the examination team could not assess the decision as being correct based on the supporting evidence on file.
- In one case, there was a lack of evidence of an excess payment on file, so no control saving should have been raised.

15.36 The examination team noted that some documents stored on the Department's SDM IT system (such as the 'natural justice' notification letter and decision letter issued by certain schemes) were not always visible from the Department's (more modern) BOMI IT system, so a reviewer cannot readily view all relevant documentation together. Furthermore, where the rationale for the conclusion of the deciding officer is not recorded, an independent reviewer of the available information may reach a different conclusion — different levels of importance may be placed on the various details, resulting in the overturning of decisions on review or appeal.

Department's monitoring of decisions made

15.37 The Department stated that deciding officers who are newly appointed or have moved to a new position have each of their decisions reviewed by a manager as part of the training process. The extent to which decisions are reviewed decreases as the officer gains experience.

15.38 The Control Division of the Department also reviews, independent of scheme management, a sample of thirty claims each month across four schemes perceived to represent high-risk (disability allowance, carer's allowance, jobseeker's allowance and one-parent family payment) to assess the extent to which the rationale for not raising an overpayment has been recorded.

Excess payments on estate cases

15.39 Overpayment debt may be attributed to a deceased person due to

- payments after the death of the claimant until the Department became aware of the death¹
- debt that was raised after the death of the claimant as the claimant had not fully disclosed their means while in receipt of a means-tested payment
- debt that had been raised but not fully repaid prior to the death of the claimant.

15.40 The value of overpayments raised following the death of claimants — referred to as 'estate cases' is significant at around €21 million per year (see Figure 15.2).

¹ Where the claimant has a qualifying adult or child dependent, the estate of the claimant may be entitled to continue receiving the payment for up to six weeks.

Payments after death

- 15.41** The General Register Office (GRO) notifies the Department's scheme operational areas daily of registered deaths in the State. However, this information may not be timely because registration can be up to twelve months after the death.¹ As noted above, legislation is being prepared to reduce the allowable period for completion of death registration to 28 days. Separately from the registration of death process, the Department may also be informed of the death by the claimant's relations.
- 15.42** Legislation provides for the Department to recover income support payments made after death directly from the bank account of the claimant into which they were paid.²

Debt raised after death of claimant due to inadequate disclosure of means

- 15.43** The Department stated that the main underlying causes for overpayments in estate cases due to inadequate disclosure of means are
- non-declaration or only partial declaration by claimants of the value of assets, investments or income streams held at the time of their initial pension application
 - non-declaration (or only partial declaration) by claimants of relevant changes in means during the lifetime of their claim.
- 15.44** Where a deceased person has at any time been in receipt of an assistance payment, legislation obliges the personal representative of a deceased claimant to provide the Department with a statement of assets of the deceased's estate at least three months before the planned distribution of any assets.^{3,4} The statements of assets are compared to the claimant's most recently declared means. The personal representative is personally liable to the Department where assets are distributed in advance of that three-month timeframe and the claimant is found to have been overpaid.
- 15.45** The legislation only provides for those claimants who are on means tested payments and makes no similar provision for cases where an overpayment (other than a payment after death) arose on a benefit-related scheme.

1 Civil Registration Act 2004.

2 Section 340 of the Social Welfare Consolidation Act 2005.

3 Section 339 of the Social Welfare Consolidation Act 2005.

4 Once the Department is satisfied that its examination of the deceased's claim is complete and any overpayment is recovered, a letter of clearance will be sent to the representative of the deceased allowing them to distribute assets.

5 The second page of the letter does state that the personal representative must give the Minister written notice of an intention to distribute assets not less than three months before distributing the assets.

- 15.46** The correspondence to the personal representative of the deceased claimant, sent to the most recent postal address of the claimant, outlines the requirement for the statement of assets to be submitted to the Department. The letter wording states "If the late [name of deceased] left a will/estate, the personal representative should forward a copy of the schedule of assets, when available to Estates Section". This wording may not make it sufficiently clear to the personal representative that a debt may be recoverable.⁵

Debt raised but not repaid by the time of death

- 15.47** The Department has powers, as noted above, in relation to the recovery of debt from deceased claimants of assistance payments. However, the legislation does not place the same obligation on the personal representative of claimants who received only benefit payments. The examination team, when reviewing claims for Chapter 16 on the recovery of overpayments, noted cases where existing debt arising from a benefit payment was not reported to the deceased claimant's personal representative and was subsequently written-off.

- 15.48** The Department's ability to recover overpayments from a deceased claimant's estate is limited where the personal representative does not engage with the Department as the Department cannot easily identify who the personal representative is — some such cases have also resulted in debt being written-off. It is the Department's policy to check probate records before writing off debt, but the 'small estates procedure' allows estates valued at less than €25,000 to be administered without the need for a grant of probate or grant of administration, so there may not be a public record of the personal representative.

Use of probate information to identify overpayments to estate beneficiaries

- 15.49** Means tested social welfare payments consider a claimant's total assets in determining payment entitlement. Where a claimant of a means tested payment receives an inheritance from an estate, there may be a new risk of overpayment to that claimant.
- 15.50** The statement of assets submitted by the personal representative of a deceased claimant does not typically provide details of the beneficiaries.¹ As a result, the Department does not receive information necessary to assess whether beneficiaries of that inheritance are also recipients of a means-tested payment and, therefore, at greater risk of an overpayment.
- 15.51** The Department stated that where the beneficiaries of a will are evident from the submitted documents, the Department must operate within GDPR provisions and therefore the use of this information for other purposes, including control of overpayments, is limited and it is not the Department's policy to use the information for such purposes.

Conclusions and recommendations

- 15.52** The value of overpayments raised in recent years has been around €100 million to €125 million annually. The value of Vote-funded overpayments raised has declined, but this was offset by the Department's work to identify pandemic unemployment payment (PUP) scheme overpayments, resulting in an increase in overpayments raised in schemes funded by the SIF.
- 15.53** Where the Department's control activities identify an excess payment, the Department calculates a control saving to estimate the impact of its work. The Department does not set a target for the value of overpayments to be raised each year. However, it does set a target for the value of control savings recorded, which incorporates the value of overpayments raised through control work initiated by the Department. A control saving is not recorded where the review is initiated by a claimant.
- 15.54** The value of overpayments being raised, as a proportion of the value of control savings, shows considerable variation for various schemes. This may reflect different scheme characteristics and the impact of different multipliers being applied to different schemes. However, it may also reflect the application of discretion afforded to deciding officers in different scheme areas. The Control Division reviews thirty claims each month to check whether the rationale for not raising an overpayment is being recorded, but there are limited other processes to identify inconsistencies in decision-making by deciding officers.

¹ This information is stated on returns to the probate office.

Recommendation 15.1

The Department should increase its analysis of claims to ensure that determinations by deciding officers, while independent, are consistent between schemes.

Accounting Officer's response

Agreed.

It is important that schemes that rely on discretion being afforded to deciding officers should retain that discretion and it would be inappropriate to seek to fetter that discretion.

Risk management/quality control is typically approached on a three lines of defence basis

- The first line of defence is the quality of training and guidance provided to staff. The Department already invests heavily in this.
- The second line of defence is quality control and checking by local/scheme management. Towards that end management in each scheme area routinely review a sample of all decisions as a quality control measure on an ongoing basis.
- The third line of defence is external oversight. The Department's central Control Division already sample checks cases as does the Department's Internal Audit function.

To further improve decision quality, Control Division will, in conjunction with the Decisions Advisory Office, remind relevant scheme owners to monitor the quality of decisions to ensure adherence to agreed policies and guidelines including Guidelines on the Management of Customer Overpayments and Recovery of Customer Debt and *Guidelines on Revised Decisions and their Date of Effect*.

Forthcoming changes in the operation of the appeals function, whereby the Appeals Office will be required to provide the Department with reasons why decisions are overturned will also assist in improving decision quality. (At present reasons for appeal decisions are only required to be provided to appellants in cases where a decision is upheld.)

Timeline for implementation

From now.

15.55 The rate at which risk-targeted control reviews detect excess payments varies, as is to be expected. Targeted reviews are significantly more effective on some schemes than randomly selected reviews. The analysis indicates that the risk-targeted review is much more effective on child benefit and jobseeker's allowance schemes than on the non-contributory State pension and the one-parent family payment.

15.56 The guidance provided to staff is comprehensive. However, each deciding officer exercises her/his own judgement when deciding a claim. Claimants can appeal these decisions, so the documentation of the deciding officer's rationale for decisions is critical, especially in complex cases.

- 15.57** The guidance provided to claimants clearly states, on application forms and subsequent award letters, the responsibility of claimants to inform the Department of changes in their circumstances (for example, starting a new job or an increase in employment income). However, given the ongoing volume of overpayments detected each year due to the Department discovering new facts or evidence, it is clear that many claimants are failing to inform the Department when such changes occur. This may be due to a lack of awareness of their obligations or claimants being aware of their obligation but choosing to be non-compliant.
- 15.58** The Department's plan to automate the process for sending 'change in circumstance' reminder letters to claimants in receipt of means-tested payments may improve claimant's engagement in that regard. The Department does not currently utilise the MyWelfare application to remind claimants of their obligations to inform the Department of a change in circumstances.

Recommendation 15.2

The Department should seek further opportunities to engage with claimants to ensure claimants are fully aware of their responsibilities to notify the Department of any relevant changes in circumstances. The potential for electronic reminders through the MyWelfare application should be considered to automate the process and avoid postal costs.

Accounting Officer's response

Agreed.

The Department is always conscious of the need to balance control activity against the need to provide a quality service to people and to not unnecessarily frustrate a person's entitlement to a service or call into question their continued access to a service through overly intrusive control activity. Accordingly, in accepting this recommendation the Department will seek to do so in a manner that balances the value of additional 'reminders' against the need to ensure that we do not unnecessarily call into question a person's entitlement to a benefit or create concerns/fears for people who are dependent on our payments, the overwhelming majority of whom are compliant with all requirements.

Timeline for implementation

From now.

- 15.59** In some communications, the Department requests that claimants notify the Department of changes in circumstance within three months. Allowing this much time could result in three months of overpayments that are either a loss to the State or which the claimant must repay, depending on whether a current date or retrospective decision is applied. In other communications, the Department does not give a timeline within which the claimant must notify it of a change in circumstance.

Recommendation 15.3

The Department should require all its communications include a timeline when informing claimants of their responsibility to notify the Department of changes in circumstances that may affect the claimants' entitlements. The length of time provided should be minimised to limit the risk of overpayments.

Accounting Officer's response

Agreed.

In line with legislation, and subject also to the need to balance control activity with a customer service ethos, claimants will be reminded of their responsibility to notify the Minister of any change in circumstances that may affect entitlement as soon as practicable.

Timeline for implementation

From now.

- 15.60** The Department is exploring steps to improve scheme controls by reducing the time permitted to register a death in the State (thereby reducing the risk of ineligible payments being made after death), increasing the use of real-time Revenue data and increasing the number of letters to claimants advising them of their obligation to advise the Department of changes in circumstances.
- 15.61** Work by the Control Division to encourage the documentation of the rationale for decisions is ongoing. The examination team reviewed a sample of 100 cases where an excess payment was detected in 2022 and had concerns about the case treatment in 21 cases, with
- a lack of documentation for the rationale for a decision not to raise an overpayment (ten cases)
 - no overpayment being recorded despite underlying evidence, on the basis the claimant was not engaging with the Department and had potentially left the country (six cases)
 - a control saving being raised despite the review being initiated by the claimant in three cases
 - a lack of supporting evidence for the decision made in one case
 - a lack of evidence to support a control saving being raised in one case.

Recommendation 15.4

The Department should continue its efforts to ensure that sufficient and appropriate evidence and documentation of decision rationale is recorded for each excess payment identified and that records clearly identify a potential overpayment to be investigated if a claimant were to contact the Department in the future.

Accounting Officer's response

Agreed.

The requested checks are already in place and the Department will continue to monitor compliance.

- 15.62** The value of overpayments detected on estate cases continue to be significant. Chapter 16, in relation to the recovery of overpayments, identified a significant proportion of estate-related debt being written off. Where the Department does not know who the deceased claimant's personal representative is, the recovery of overpayments is challenging. Legislation requires the personal representative for deceased claimants of assistance payments to submit a statement of assets to the Department, but does not provide for the same requirement in relation to claimants of benefit payments.

Annex 15A Control savings estimates

The Department of Social Protection calculates control savings by applying the following multipliers to the weekly or monthly excess payment identified, or in some cases, applying a flat rate per case. The multiplier value is typically higher where payment is terminated than when a reduction is made in the claimant's payment.

Scheme area	Termination of payment	Reduction in payment
Weekly payment schemes		
Carers		
Carer's allowance	136	52
Carer's benefit	36	52
Free schemes and allowances		
Fuel allowance (short term & supplementary welfare allowance)	16	
Fuel allowance (non-pension schemes)	26	
Fuel allowance (pensions)	68	
Living alone allowance	136	
Illness schemes		
Disability allowance	136	52
Disablement benefit	136	52
Illness benefit (final cert)	32	
Illness benefit (temporary suspensions)	9	
Medical review capables (illness benefit)	24	
Invalidity pension	136	52
Occupational injury benefit	32	52
Jobseeker schemes		
Jobseeker's allowance	52	52
Jobseeker's benefit	26	26
Part-time job incentive scheme	52	52
Back to education allowance	32	
Back to work allowance	32	32
Farm assist	52	52
Maternity benefit		
Maternity benefit	4	
One parent family		
One parent family payment	136	52
Pensions		
Widow(er)'s non-contributory pension/ deserted wife's (benefit/allowance)	136	52
Widow's, widower's or surviving civil partner's contributory pension	136	52
State pension contributory	136	52
State pension non contributory	136	52
Guardians contributory & non contributory	136	52
Blind pension	136	52

Scheme area	Termination of payment	Reduction in payment
Supplementary welfare allowance		
Supplementary welfare allowance (BASI)	32	32
Supplementary welfare allowance (rent & other supplements)	52	52
Working family payment		
Working family payment (was family income supplement (FIS))	52	52
Monthly payment schemes		
Child-related benefits		
Child benefit	34 (months)	12 (months)
Domiciliary care allowance	13 (months)	
Flat-rate payment schemes		
Carers		
Carer's support grant (previously called the respite care grant) (no multiplier)		€1,700
Household benefit and free travel		
Household benefit (no multiplier)		€580
Free travel (no multiplier)		€100

Source: Department of Social Protection

Annex 15B Guidance about overpayments provided to staff of the Department

The Decisions Advisory Office guidance about raising an overpayment issued to Department staff is that a revised payment decision should generally result in an overpayment being raised (that is, be retrospective) where the person could reasonably be expected to have been aware of the relevant facts, the person could reasonably be expected to have notified the Department of the position, and there was no error on the part of the Department.

The calculation of the amount to be recovered as an overpayment is limited to the amount of money received by the claimant. There is no minimum value for which an overpayment debt can be raised.

The guidance refers to the following circumstances where an overpayment should not be raised

- payment of supplementary welfare allowance while transitioning from receipt of a social welfare scheme to receipt of income from employment
- uncashed or uncollected payments
- an inter-scheme adjustment when the claimant is moving from one scheme to another, even if the new rate is less than the prior rate.

Calculation of overpayment value

The calculation of the amount to be recovered as an overpayment is limited to the amount of money received by the claimant. There is no minimum value for which an overpayment debt can be raised.

Key steps when calculating the value of an overpayment include determining the reason for the excess payment and the date at which the claimant's circumstances changed or a claimant's entitlement to a payment that has ended.

A claimant must be informed of a revised decision by a letter that sets out which condition(s) of the legislation were not met, the reason the condition was not met, the date from which the retrospective decision takes effect and the amount of the overpayment to be recovered. A claimant has a right to request the Department review the decision and may also appeal the decision to the Social Welfare Appeals Office.¹

An overpayment amount may be reduced to reflect where an overpayment is detected on one scheme but the claimant was entitled to a payment under a different scheme.²

¹ See *Report on the Accounts of the Public Services 2020*, chapter 10 Management of social welfare appeals.

² This does not apply where the overpayment was raised as a result of suspected fraud.

Annex 15C Guidance about overpayments provided to claimants

At claim award stage

At the application stage, claimants are required to declare “I understand that if any of the information I provide is untrue or misleading or if I fail to disclose any relevant information, that I will be required to repay any payment I receive from the Department and that I may be prosecuted. I undertake to immediately advise the Department of any change in my circumstances which may affect my continued entitlement.”

Claimants are also informed in all claim award letters of their responsibility to inform the Department when their circumstances change. For example, on assistance schemes such as the jobseeker’s allowance, the award letter draws attention to changes in circumstances that may impact on entitlement, such as changes to employment or an increase in means of the claimant or spouse/civil partner/cohabitant, changes related to a qualifying child or adult, or the claimant commencing education.

For claim award letters on benefit schemes such as the contributory State pension, claimants are provided with a list of events that the claimant is obliged to notify the Department of; for example, where the claimant is no longer supporting a qualifying adult. Claimants are informed that a failure to report such changes may result in an overpayment that is recoverable by the Department.

After an overpayment has been detected

The Department’s policies and procedures, set out by the Decisions Advisory Office, include a defined process for communicating with a customer after an excess payment has been detected.

Department staff prepare a ‘natural justice’ letter which aims to explain the circumstances around a proposed revised payment decision, and to allow the claimant an opportunity to comment. The Department stated that each letter is bespoke (rather than template based) as the details are different in each case. A natural justice letter will not be issued where the new information used in the revised payment decision was provided by the claimant.

The Department has developed a template for the decision letter which issues to a claimant after the natural justice process is complete, advising the claimant of the decision of the Department, the value of the overpayment and their right of appeal. The Department’s debt receipt IT system automatically issues a separate letter after the 21 days setting out the repayment process.

Each claimant is provided with an opportunity to propose a higher or lower repayment rate to reflect their personal circumstances, in which case a manual recovery plan is created.

The decision letter template advises each claimant that debt will remain until it is paid in full and recovery may include reductions of any future social welfare entitlements, including the State pension. The Department advises that it may also have a claim on the estate of a deceased person who has a social welfare debt.

16 Recovery of welfare overpayments

- 16.1** The Department of Social Protection (the Department) makes weekly or monthly social welfare payments to around two million claimants. Welfare scheme expenditure totalling €23.9 billion in 2022 was funded through the Vote for Social Protection and the Social Insurance Fund (SIF).
- 16.2** Welfare overpayments arise where a claimant receives a payment to which they are not entitled or the level of payment they receive exceeds their entitlement. Chapter 15 examines how overpayments can arise and the Department's processes to identify and quantify the level of overpayment debt.
- 16.3** At 31 December 2022, the Department had total outstanding debt of €495 million related to welfare scheme overpayments to claimants. The Department is obliged under legislation to make every effort to recover such overpayments in full and to determine the method and rate of repayment, which may take the form of a lump sum payment or periodic payments.¹ When determining the method and rate of repayment of an overpayment debt, the Department takes into account

- the amount of the overpayment and the circumstances in which it arose, and
- any facts or circumstances relevant to the recovery which have come to the attention of the Department.

- 16.4** This report focuses on

- the Department's debt recovery process, including guidance to staff and claimants
- trends in overpayments recovered, written off and outstanding
- legal enforcement to recover overpayments
- analysis of debts written-off in recent years
- other issues relating to overpayments.

¹ Statutory Instrument Number 142 of 2007, Article 243.

² The Compliance and Anti-fraud Strategy for 2019 to 2023 has four pillars

- to prevent fraud and error from entering the system, including through the provision of customer information
- to deter non-compliance, by the investigation of claims, overpayment recovery, and prosecution, supported by staff training and quality assurance processes
- to detect instances of suspected fraud and error as quickly as possible, incorporating frequent claim reviews
- to have appropriate governance and oversight arrangements in place.

- 16.5** The examination only reviewed the management of debts arising from mainstream welfare scheme overpayments to claimants. It did not examine management of other debt that the Department may raise, such as for the redundancy and insolvency scheme, or debt associated with the temporary Covid-related schemes (Temporary Wage Subsidy Scheme or Employment Wage Subsidy Scheme) administered by Revenue.

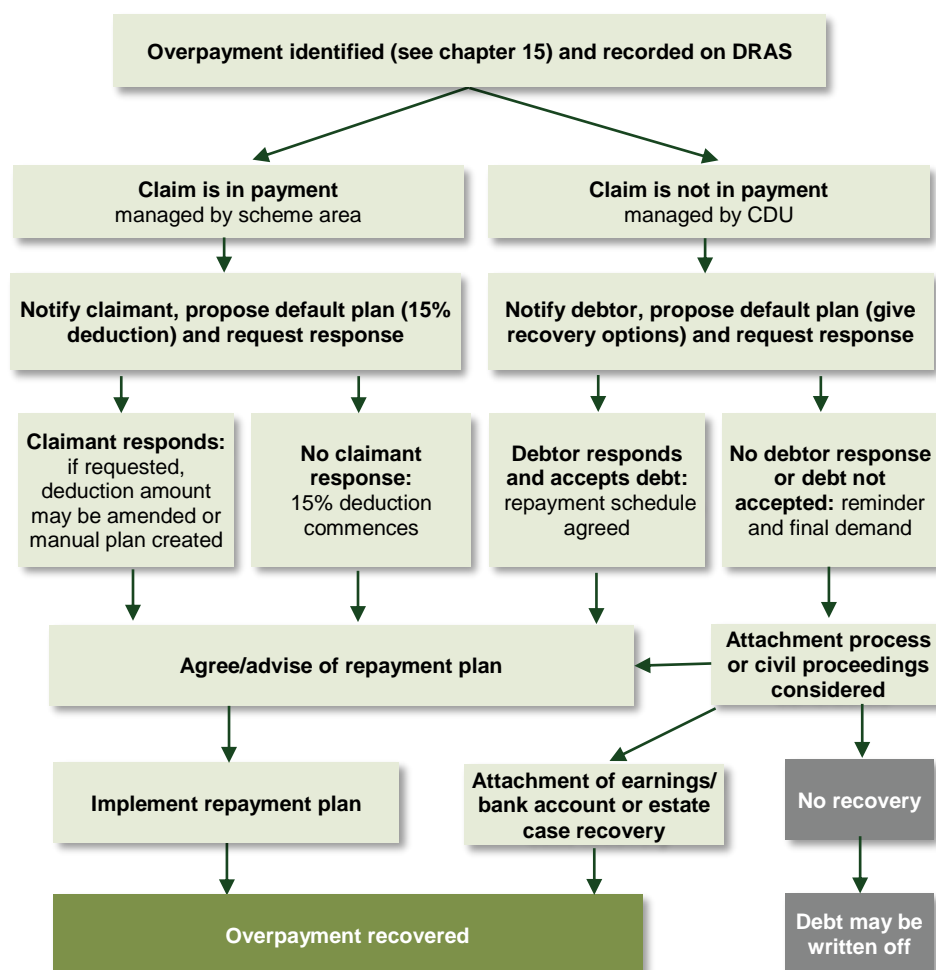
- 16.6** The examination reviewed key documents and data produced by the Department and interviewed relevant members of the Department's staff. The examination also reviewed a sample of debts written-off in 2022 to assess compliance with the Department's policy.

The Department's debt recovery process

- 16.7** The Department's *Compliance and Anti-fraud Strategy* sets out the steps it takes to combat social welfare fraud and payment error, including to deter non-compliance through the recovery of overpayments and prosecution of cases of fraud.²

- 16.8** Amounts of overpayment debts are recorded and recovery actions are managed on the Department's Debt and Receipts Accounting System (DRAS). The system automates many aspects of the processes to recover overpayments and to communicate with debtors.
- 16.9** The recovery of an overpayment is limited to the cash amount identified as having been overpaid. The Department cannot apply fines or interest charges, irrespective of the reason for the overpayment. A claimant may only incur additional costs where a civil or criminal prosecution is pursued.
- 16.10** There are several methods that the Department can use — individually or in combination — to recover debt, including
- deduction from ongoing and future social welfare payments¹
 - deduction from arrears or payments under other schemes
 - receipt of a lump sum
 - regular or instalment payments
 - attachment of earnings
 - recovery from the estate of a deceased claimant.
- 16.11** The Department's approach to each individual debt recovery is primarily dictated by whether the claimant is currently in receipt of a social welfare payment (referred to as 'in payment'). Figure 16.1 summarises the overpayment recovery process.
- 16.12** The Central Debt Unit (CDU) is responsible for coordinating the implementation of the debt recovery strategy in the Department, monitoring its operation and reporting in respect of claimant debt matters. Under the debt recovery strategy, CDU is solely responsible for pursuing the recovery of overpayments from claimants no longer receiving a payment from the Department. Scheme areas manage the recovery of overpayments where claimants are in receipt of payments.

¹ Legislation allows the Department to recover overpayments by deducting up to 15% of the personal rate from ongoing and future claims in payment. The 15% deduction cannot be applied to additional payments, for example for qualifying adults or children, even if the overpayment arose due to those additional payments. Overpayments are not deducted from the child benefit payment, unless that scheme was the cause of the overpayment.

Figure 16.1 Overpayment recovery process

Source: Department of Social Protection

Guidance for staff and claimants

- 16.13** The debt management process is relatively complex. Usefully, the Department has published guidance both for its own staff, and for welfare claimants, in relation to the recovery of overpayments.

Guidance for staff

- 16.14** The Department's latest guidance for staff on the management of claimant overpayments and the recovery of debt was updated in February 2023. The guidance addresses the process of raising an overpayment on DRAS; factors to consider when deciding whether an overpayment is due to claimant error, official error or suspected fraud; considerations for writing down or cancelling debt; the debt recovery process and managing estate cases.
- 16.15** The guidance is comprehensive, including references and links to supplemental information, forms, and training modules to support staff with the application of guidelines. Deciding officers are required to exercise judgement when applying these policies, so the documentation of the rationale for decisions is key.

- 16.16** In 2019, the Department's Control Division commenced conducting 'roadshow' events to educate control staff on the proper procedures for raising overpayments, documentation required and use of the DRAS system.¹

Guidance to claimants

- 16.17** Guidance on the Department's management of overpayment debt is available to all claimants through various social media channels, and information is sent to claimants as part of correspondence in relation to an overpayment.² In general, the guidance is comprehensive, but the guidance in relation to estate cases may be perceived as ambiguous.³

Collection of debt — good practice guidance

- 16.18** The Department of Public Expenditure, National Development Plan Delivery and Reform (DPENDPDR) issued a good practice guide for public bodies in relation to the collection of debts in 2017.⁴ The guide is based on a review that identified key success factors for debt management.

- 16.19** The Department's debt recovery procedures are mainly either adequate or good when assessed against each of the key success factors in the DPENDPDR guidance.⁵ However, the comparison with the guidance drew attention to the following features of the Department's practice.

- While debt management policies are in place, there are issues around compliance, and in particular, around documentation of the rationale for some decisions.
- While the single customer view allows all debt of an individual debtor to be viewed together, the treatment of debt when considered for write off is by individual component of the debt.⁶
- The tailoring of debt collection plans is limited and generally not determined by the level of debt outstanding. Collection from debtors who are current recipients of welfare payments is limited to up to 15% of the personal payment rate. For a debtor not currently in receipt of welfare payments, the maximum periodic recovery sought is €50 per week.⁷
- Communication is still predominantly by post.
- Where a debtor who is not in payment does not engage with the Department, enforcement options are limited. Pursuit of attachment notices or civil proceedings are both resource-intensive options, which may be uneconomic in many circumstances.
- A range of payment options is currently available, including direct debit, standing orders, attachment of earnings, and debit card payments. The Department is currently developing a mechanism to enable payments on the MyWelfare application.
- Key debt performance indicators are reported to the Department's Management Board. However, the reported value of debt that is recoverable from estate cases may be overstated where a deceased debtor has a number of components of debt, because all components are not subject to the same treatment at the same time. For example, one component can be written off while another may not meet the criteria for write off until a later date.

¹ Roadshow events were paused during the pandemic but resumed online in September 2022. These events now include briefing on changes in the updated overpayment guidance published in February 2023.

² Examples of such channels are websites of gov.ie, citizens information, Free Legal Advice Centre, and X (formerly Twitter).

³ See *Report on the Accounts of the Public Services 2022*, chapter 15, Raising social welfare overpayments.

⁴ *Collection of Debt by Public Service Bodies — Best Practice Guide*, Department of Public Expenditure, National Development Plan Delivery and Reform (DPENDPDR), 2017.

⁵ The DPENDPDR key success factor of using appropriate third-party collection methods was not considered to be applicable in relation to welfare debts.

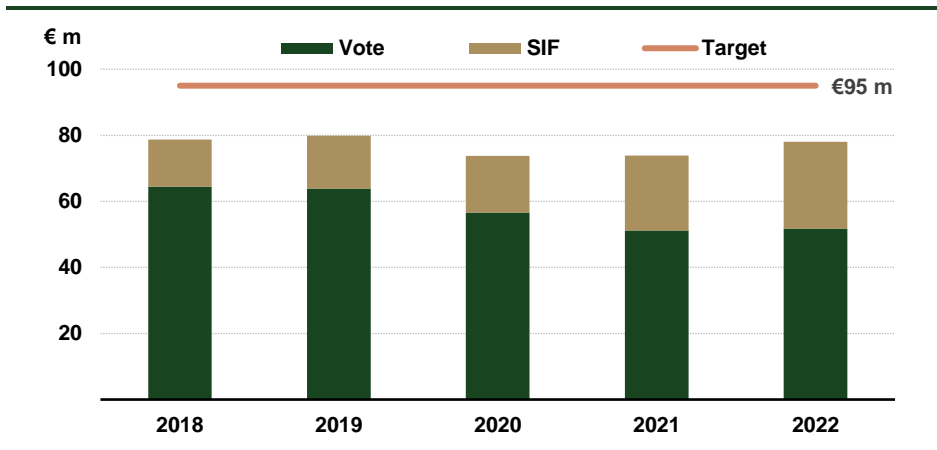
⁶ A separate debt component is raised for each instance of debt on a scheme. Where an overpayment relates to a number of schemes, a separate debt component will be raised for each scheme.

⁷ The recovery of overpayments of less than €100 is sought immediately in full. The recovery of overpayment debt of between €101 and €5,000 from debtors who are not in payment is sought at a rate of €20 per week. Each debtor has the option to agree a lower or higher repayment rate with the Department or to clear the debt in one lump sum payment.

Trends in overpayment debt recovery

- 16.20** In the period 2018 to 2022, on average, the Department recovered €76 million annually. The value of overpayments recovered was relatively consistent in the period 2018 to 2022, but was somewhat less than the Department's target every year (see Figure 16.2).¹ The Department stated that a challenging target was set to ensure that all efforts are made to maximise recoveries.

Figure 16.2 Overpayment debt recovery targets and actual^a

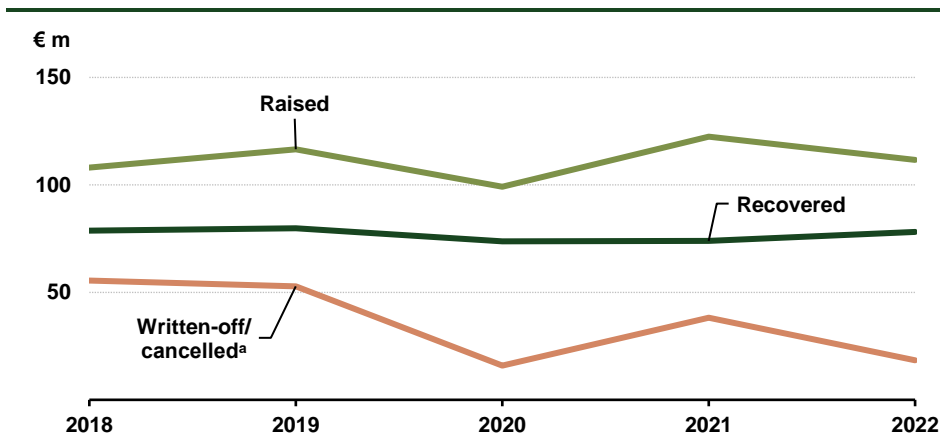


Source: Department of Social Protection

Note: a The targets are published in the Department's Compliance and Anti-Fraud Strategy Annual Target Statement and Strategy, for 2018 to 2023.

- 16.21** On average, the Department 'raised' or recognised welfare overpayments of €112 million annually in the period 2018 to 2022 (see Figure 16.3). This was around 0.45% of scheme expenditure in that period.
- 16.22** In total during the period 2018 to 2022, the Department also wrote off or cancelled overpayments of €181 million (an average of €36 million a year).² Combined with recoveries of around €76 million a year, this offset the new overpayments raised. There was only a marginal movement in the value of overpayment debts outstanding at the year end, which declined from €499 million at end 2017 to €495 million at end 2022.

Figure 16.3 Recorded debt trends 2018 to 2022



Source: Department of Social Protection. Analysis by Office of the Comptroller and Auditor General.

Note: a An overpayment is cancelled where it is clear that the overpayment should not have been raised, or the manner in which it was raised and recorded is in error. Of the debt written-off or cancelled in 2018 to 2022, over 79% was written-off and 21% was cancelled.

¹ The Covid-19 pandemic did not excessively impact the recovery of overpayments. Recoveries in 2020 and 2021 were only 8% less than in 2019.

² Debt written off in 2018, 2019 and 2021 was higher than in most years due to the batch write-off of older debt that met specific criteria, as sanctioned by DPENDPDR (paragraph 16.51 provides further details). The value of overpayments outstanding in December 2022 would have been higher without those write-offs.

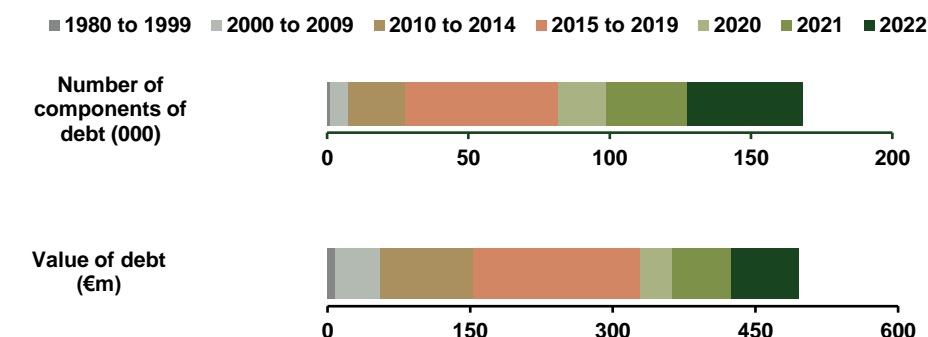
Components of debt and the number of debtors

- 16.23** At the end of 2022, there were 168,335 components of debt outstanding for 134,165 debtors. The vast majority (83%) of debtors had only one component of debt. Around one in eight (12%) of the debtors had two components of debt, 3% had three components, 1.7% (2,326 debtors) had four to ten components and 35 debtors had 11 or more components of debt.
- 16.24** Where stated, analysis for this examination used the individual components of debt instead of merging components by debtor. This provides better insight and more consistent comparisons in relation to the age of debt (a debtor's individual components may have been raised over many years) and the value of debt attributable to relevant schemes (a debtor's components of debt may have arisen across a range of schemes). Where a debtor has a number of components of debt, the Department applies any repayments received to the oldest debt first, but considers all the debtor's debts to be 'in repayment'.

Timeliness of recovery

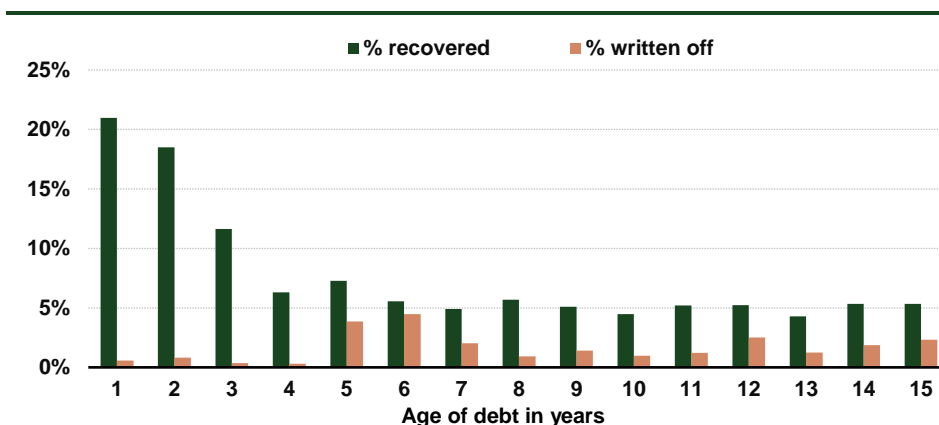
- 16.25** Outstanding overpayment debt recorded by the Department includes some debt that was detected and recorded many years ago — by value, 11% of debt was raised in 2009 and prior years and almost 20% was raised in 2010 to 2014 (see Figure 16.4).

Figure 16.4 Age of overpayment debt at end 2022, by number of components of debt and value



Source: Department of Social Protection. Analysis by Office of the Comptroller and Auditor General.

- 16.26** As is usually the case for debt, the Department's ability to recover overpayment debt decreases as the debt ages. Figure 16.5 shows the extent, in 2022, of debt recovery by the age of the debt. The recovery rate drops significantly after two years, with remaining debt generally being recovered at a rate of around 5% each year.
- 16.27** The recovery rate reflects the Department's approach to overpayment recovery, with
- lump sum payments being received from the estates of debtors (generally received within a few years of the debt being raised) and withholding of arrears due to entitlement under another scheme
 - ongoing, long-term recovery by deduction of up to 15% of a debtor's current social welfare payments and periodic repayments of up to €50 per week from debtors not in receipt of a welfare payment
 - some debtors not making repayments.

Figure 16.5 Extent of debt recovered during 2022, by age of debt component in years^a

Source: Department of Social Protection. Analysis by the Office of the Comptroller and Auditor General.

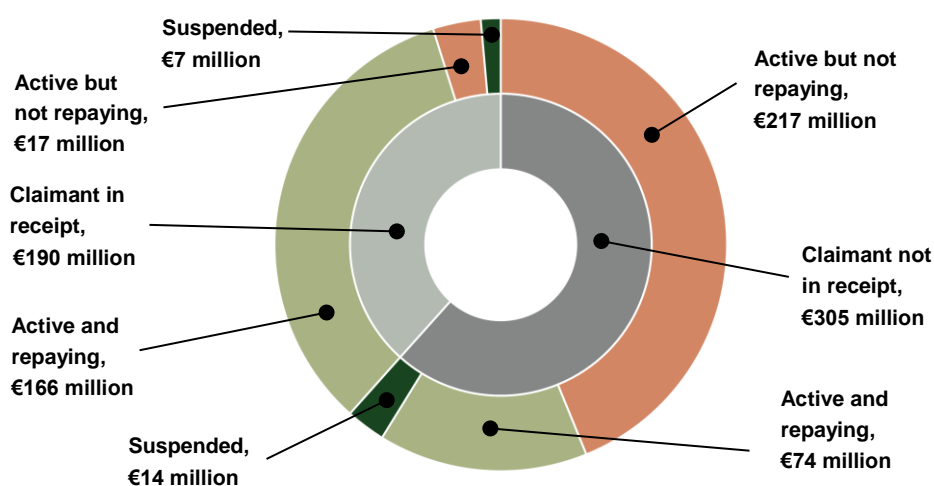
Note: a For example, point '5' on the horizontal axis shows that for debt created in 2017 (5 years prior to 2022) and still outstanding at the start of 2022, 7% of the outstanding debt was repaid during 2022 and 4% of the outstanding debt was written-off during 2022.

Status of debt outstanding

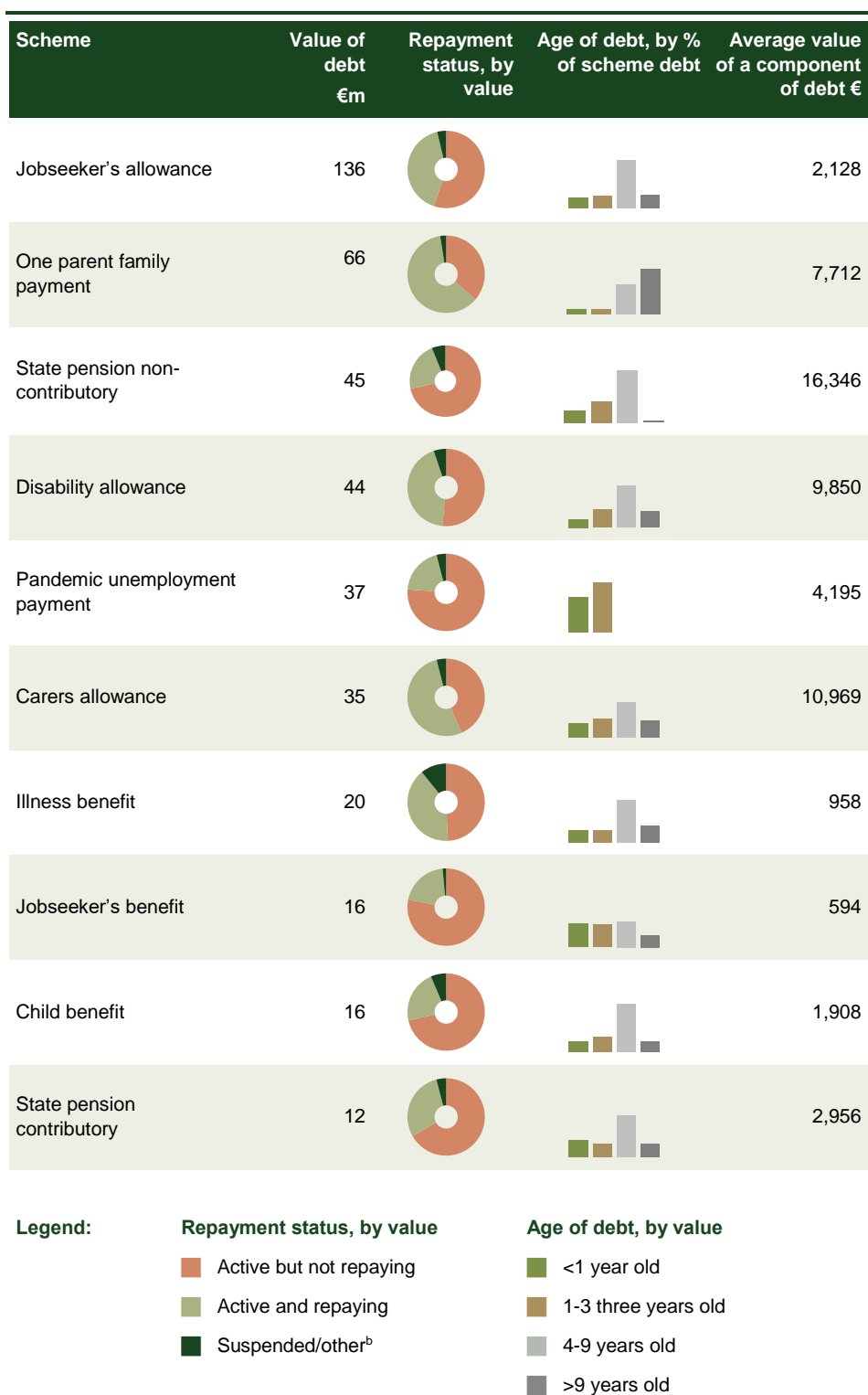
16.28 The Department classifies each debt record by the current status of the debt. The indicators used are

- active and repaying: a payment has been received from the debtor in the past five weeks
- active but not repaying: the debt is active but the debtor has not made a repayment in the previous five weeks or the debtor is repaying an older debt
- suspended: the debt is suspended so there are no recovery actions in place.

16.29 The Department has been more successful in putting in place repayment arrangements with debtors who are currently in receipt of welfare payments (see Figure 16.6). Repayment arrangements are more likely to be in place for debts related to certain schemes (for example, one parent family scheme, carer's allowance) as compared to others, such as pandemic unemployment payment, jobseekers benefit (Figure 16.7).

Figure 16.6 Status of overpayment debt at end 2022, by debtor

Source: Department of Social Protection. Analysis by the Office of the Comptroller and Auditor General.

Figure 16.7 Key indicators for the ten schemes with highest debt, at end 2022^a

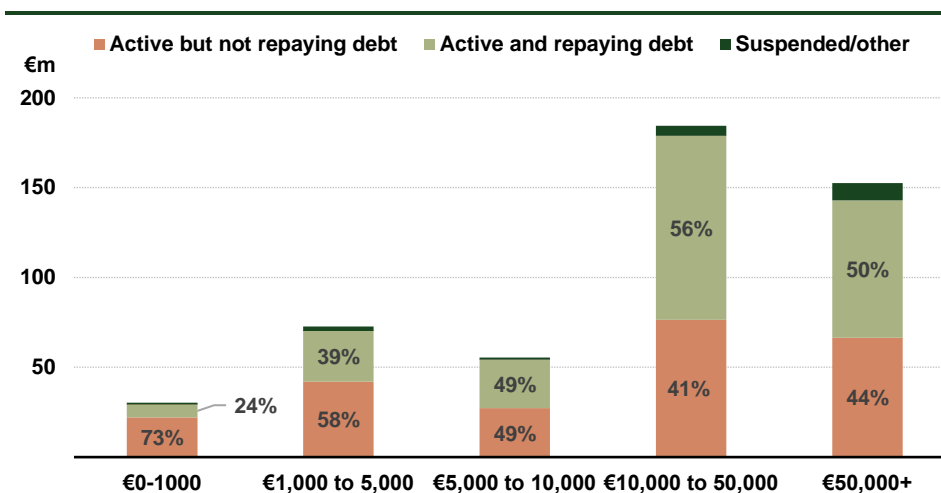
Source: Department of Social Protection. Analysis by the Office of the Comptroller and Auditor General.

Notes: a This analysis is based on each component of debt.

b 'Other' includes debts that were cancelled, repaid or written off where the transactions were not fully processed by December 2022 — the value of these classifications is less than 2% of the total value of suspended payments.

- 16.30** The largest debtor balances outstanding at end 2022 were more likely to be in an active repayment situation than lower value debts (see Figure 16.8). For example, more than half of debts averaging €10,000 to €50,000 were classified as ‘active and repaying’. This compares to less than 40% for debts averaging €1,000 to €5,000 each. However, since overpayment recovery by deduction from current social welfare payments is limited to 15% of the personal rate, the maximum recoverable in any year from a typical welfare recipient would be less than €2,000, unless a debtor makes a lump sum repayment or other scheduled repayments. At that rate, a debt of €10,000 would take five years to clear, and a debt of €50,000 would take 25 years to clear.

Figure 16.8 Total value of outstanding debt, by amount outstanding for each debtor, at December 2022^a

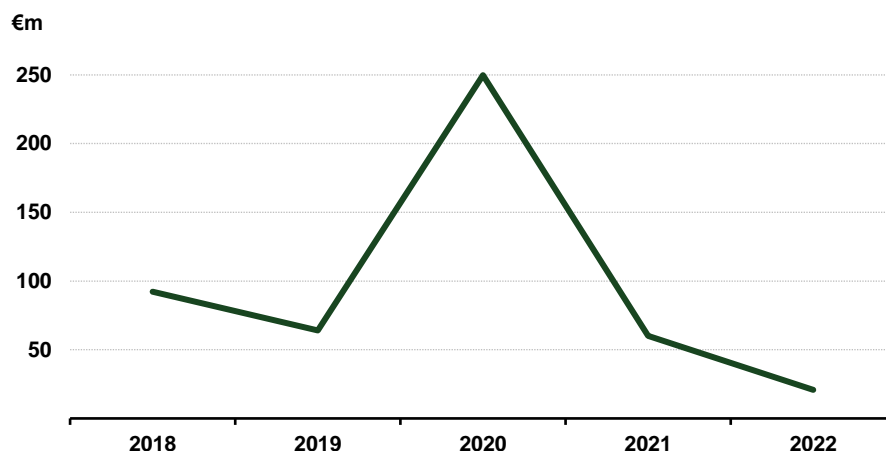


Source: Department of Social Protection. Analysis by the Office of the Comptroller and Auditor General.

Note: a Where a debtor is repaying any component of debt, all components have been classified as active.

Suspended debt

- 16.31** The Department’s guidance to staff provides for the suspension of debt in ‘limited circumstances’, for example where a decision is being appealed or for extenuating circumstances.
- 16.32** New overpayment debt raised between March 2020 and June 2021 was immediately suspended as part of the Department’s response to the Covid-19 pandemic. This resulted in a spike in suspended debt at December 2020. After June 2021, debt raised in that period was gradually ‘unsuspended’ and the Department commenced formally notifying the debtors.
- 16.33** The value of suspended debt was significantly less by end-2022 than in the period immediately preceding the pandemic (see Figure 16.9). Part of this reduction was due to a 2021 write-off, sanctioned by DPENDPDR, of €27 million in debt that had been suspended prior to 2014, when the Department transferred to the DRAS system.
- 16.34** The Department provides each debtor with an annual statement of their current debt status, except where the recovery of the debt is suspended or communication with the debtor is suspended. An annual debt statement was not issued in relation to overpayment debt that was suspended during the pandemic, but was issued when that debt was unsuspended.

Figure 16.9 Value of suspended debt, 2018 to 2022

Source: Department of Social Protection. Analysis by Office of the Comptroller and Auditor General.

Legal enforcement to recover overpayments and to deter fraud

Attachment notices and civil proceedings

16.35 Where a debtor is not in payment and does not agree to a periodic repayment schedule, the Department may pursue recovery through an attachment of earnings or civil proceedings.

16.36 The Department can initiate an attachment notice for a debt regardless of the amount or the cause of the overpayment.¹ Up to May 2023, the Department focused on attachments of earnings as the required information is more readily available, and has not sought an attachment notice to funds held by a financial institution. An attachment of earnings provides for a deduction of up to 15% of earnings on an ongoing basis with the current employer — if the debtor changes employer, the Department must initiate a new attachment process.

16.37 From 2016 to 2022, there were 129 attachment notices executed, of which²

- 24 attachment notices resulted in debts of €746,000 being fully repaid
- 76 attachment notices in relation to debt of €1,538,000 are active, with €207,000 being recovered to December 2022
- 29 attachment notices in relation to debt of €933,000 are no longer active — debt recovered in these cases amounted to €61,000.³

¹ The attachment notice can be to the debtor's wages or salary or to funds held in financial institutions by the debtor.

² These figures include attachment orders executed by June 2017 in 31 cases with a total value of €952,000 (of which €369,000 has been recovered).

³ Orders can become inactive for a variety of reasons, such as the debtor dying or changing employer.

16.38 The Department stated that the use of attachment notices was reduced during the pandemic, but a project which commenced in 2022 reviewed almost 4,000 potential cases resulting, by May 2023, in

- 158 notices of attachment issuing, of which 70 were issued in 2022 (included in count above) and a further 88 in 2023
- around 1,300 of these debtors commencing repayment prior to an attachment notice being executed
- around 2,500 cases being considered not currently suitable for an attachment notice due to insufficient debtor earnings.

- 16.39** The Department has stated that the statutory process to execute attachment notices is resource intensive and can take up to two months to complete. During 2022, there were nine staff members working full-time on attachment notices, but eight further staff were added by May 2023.
- 16.40** In civil prosecution cases, the person's ability to repay the debt is examined. The Department's policy is that it does not pursue a civil action if there is no real prospect of recovering the debt owed, for example, where the debtor is dependent upon social welfare payments and does not have other assets or income.¹ The Department has six years in which to initiate proceedings.²
- 16.41** In recent years, the policy of the Department has been to consider an attachment of earnings where a debtor has failed to satisfactorily engage with the Department. No civil prosecutions for the recovery of debt have been taken since 2016. However, in 2023, the Department commenced a review of cases where civil proceedings may be appropriate — 103 cases were reviewed, with 14% of debtors commencing repayment when informed that civil proceedings were being considered. This review was ongoing in April 2023.

Criminal prosecution

- 16.42** It is the Department's policy to consider cases for criminal prosecution where there is strong evidence of fraud. The Department's annual target in the period 2018 to 2022 was to consider 500 cases per annum (see Figure 16.10).³

Figure 16.10 Number of cases considered and referred for prosecution, 2016 to 2022

	2016	2017	2018	2019	2020	2021	2022
Number of cases considered for prosecution	N/A ^a	N/A ^a	435	505	315	274	425
Sent for prosecution							
Social Welfare Consolidation Act [2005] ^b	181	170	101	114	62	30	121
Criminal Justice Act [2001] ^c	160	130	74	86	82	49	38
Total sent for prosecution	341	300	175	200	144	79	159
Cases sent for prosecution as % of cases considered	N/A	N/A	40%	40%	46%	29%	37%

Source: Department of Social Protection

- Notes
- a Comparable data is not available. Prior to 2018, the Department measured the cases submitted for prosecution rather than the cases considered for prosecution.
 - b Potential cases under the Social Welfare Consolidation Act [2005] are forwarded to the Chief State Solicitor's Office for the issue of proceedings. Maximum penalties are a fine of up to €13,000 and/or three years in prison. These types of cases include where claimants fail to notify a change in circumstances; knowingly make false declarations or conceal material facts; obstruct a social welfare inspector; or fail to remit insurance contributions deemed to be due.
 - c Potential cases for prosecution under the Criminal Justice (Theft and Fraud Offences) Act 2001 are sent to An Garda Síochána for further investigation before being referred to the Director of Public Prosecutions for consideration to prosecute. The types of cases include impersonation; misuse of a public service number; living outside the State while claiming benefits or assistance only available to residents; fraud; making materially false statements; using false documentation to gain a welfare payment; misuse or unlawful destruction of documents; repeat offending; deliberate concealment, deception conspiracy or corruption.

1 Where a debtor is in receipt of a social welfare payment, an ongoing deduction from those payments would be made.

2 The proceedings must commence within six years from the 'cause of action' — this may be the date of a deciding officer or appeals officer decision, the most recent payment, or acknowledgement of the debt by the debtor. For estate cases, the six-year limit commences when a schedule of assets is received by the Department.

3 The target is set under the [Department's Compliance and Anti-Fraud Strategy for 2019 to 2023](#). The Department publishes an annual report showing the extent to which the various annual targets have been met (2021 report).

16.43 Where a case is referred to the Chief State Solicitor's Office for prosecution, any penalties imposed by the court are in addition to the recovery of overpayments by the Department. Over the period 2016 to 2022, there were 853 cases¹ finalised in court, with

- a fine being imposed in 404 cases (47%)
- the Probation Act being applied in 198 cases (23%)
- a custodial sentence imposed in 81 (10%) cases (sentence was suspended in 64 of those cases)
- other penalties (such as community service or an instalment order being granted) in 64 cases (8%)
- the cases being struck out, dismissed or withdrawn in 106 cases (12%).

Write off of debt

16.44 The Department's policy is to write off debt for accounting purposes where it is deemed no longer possible or economic to recover the debt, or where it is in the public interest. This includes where

- available evidence supports a conclusion that the debtor's ability to repay is limited
- the overpayment arose as a result of a mistake by an official of the Department and the amount of overpayment was such that the claimant would not have known they were overpaid
- the Department failed to act on information it had received within a reasonable time, which resulted in a claimant being overpaid.

16.45 Where the debt is written off, the record of the debt remains on the claimant's file and may still be recovered at a later time. Where the Department subsequently recovers the debt, the debt write-off is reversed (cancelled).

Sanction for write-offs

16.46 The write off of overpayment debt comprises both batch and manual processes. During 2022, the Department wrote off 9,917 components of debt with a value of €11.1 million, with

- 6,933 debts (70%) with a value of €7.5 million (average value €1,100) written-off through batch processes
- 2,984 debts (30%) with a value of €3.5 million (average value €1,200) written-off through manual case-by-case review of transactions by an authorised officer.

¹ Due to the time it may take to bring a prosecution to court, the cohort of cases prosecuted is not the same as the cohort referred for prosecution.

Batch debt write off

- 16.47** The Department has delegated sanction from DPENDPDR to write off debt in circumstances where the debt is considered unrecoverable, for example¹
- debt is considered unrecoverable as it relates to debtors who are deceased for a number of years, where the debt is old, and there has been no recovery for many years
 - overpayment debt components are below a threshold value where recovery is not considered economic and the debtor is not currently in receipt of a payment from the Department (other than child benefit) or repaying debt.
- 16.48** For the batch debt write-off process, the Central Debt Unit (CDU) management select cases based on specific criteria. The case listing is approved by the Principal Officer in the CDU, but does not require authorisation from the Department's Control Project Board or Management Board. There is no limit on the value of individual debts written off under this process.
- 16.49** The Department informs DPENDPDR of debts written off under the batch debt write-off process. In August 2022, the Department informed DPENDPDR of debt written off in 2020 and 2021, and this was acknowledged by DPENDPDR in February 2023. The Department also conducts targeted write-off projects for which the Department must obtain prior specific sanction from DPENDPDR.²
- 16.50** In 2017, the Comptroller and Auditor General recommended that the Department review outstanding debts with regard to whether they were economical to pursue given their value and the recoverability of the debt, in particular older debt.³
- 16.51** The Department stated that it engaged with DPENDPDR for three specific write-offs of older debt (in 2018, 2019, and 2021), involving around 50,000 debt components valued at €99 million (see Figure 16.11). There were no write-offs of this type in 2022 and the Department stated that it does not currently foresee further specific write-offs of this type in the immediate future as the debt processes in place enable CDU to manage the debt in an appropriate manner, while maximising recoveries.

¹ The Department was unable to provide the examination team with a copy of a 1991 delegated sanction from the (then) Department of Finance which set out the criteria under which debt could be written off. In August 2023, DPENDPDR issued delegated sanction to the Department to continue to write off debt on the same criteria that had previously been used by the Department.

² These are write-offs not covered by the sanction criteria, so specific sanction must be obtained from DPENDPDR.

³ See *Report on the Accounts of the Public Services 2016*, chapter 17, [Management of social welfare overpayments](#).

Figure 16.11 Specific debt write-off in 2018 to 2022

Year	Number of cases	Vote €m	SIF €m	Total €m
2018	33,290	28.9	12.6	41.5
2019	7,802	26.5	3.8	30.3
2020	—	—	—	—
2021	9,595	23.7	3.5	27.2
2022	—	—	—	—

Source: Department of Social Protection. Analysis by the Office of the Comptroller and Auditor General.

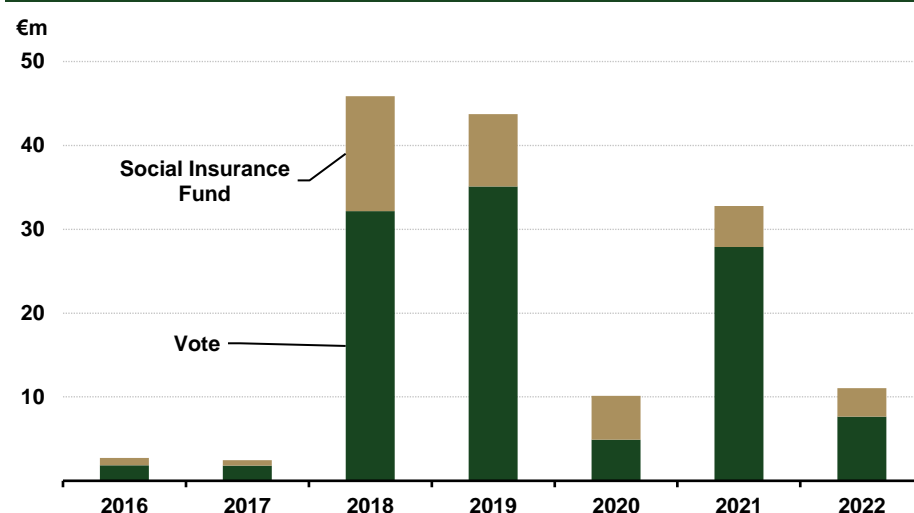
Manual debt write off

- 16.52** A deciding officer of the Department may review an individual case and write off a component of debt for that case.¹ Once appointed as a deciding officer, the authority to write off debt while working for the Department is retained.
- 16.53** The Department sets limits on the value of debt that can be written-off by each grade — these limits are implemented by IT controls. All write-offs are recorded on the DRAS system and the Department's policy is that the reason for the write-off must be clearly recorded, outlining the circumstances for the write-off. However, deciding officers are not restricted, via the IT system, from writing off debt on a scheme for which they have no current responsibility.
- 16.54** Other controls that are in place are
- a Department policy that all manual write-offs should be authorised by completion of a standard write-off template
 - since June 2020, review by the Central Debt Unit (CDU) of 5% of all manual write-offs, to assess their compliance with the Department's policies.

What has been the level of debt write-offs in recent years?

- 16.55** Between the period 2016 and 2022, a total of €149 million in overpayments have been written-off — €111 million from the Vote and €37 million for the SIF. The impact of the batch write-off projects requiring specific sanction in 2018, 2019 and 2021 is clearly evident in the annual write-off values (see Figure 16.12).

Figure 16.12 Value of overpayments written-off to Vote and Social Insurance Fund, 2016 to 2022

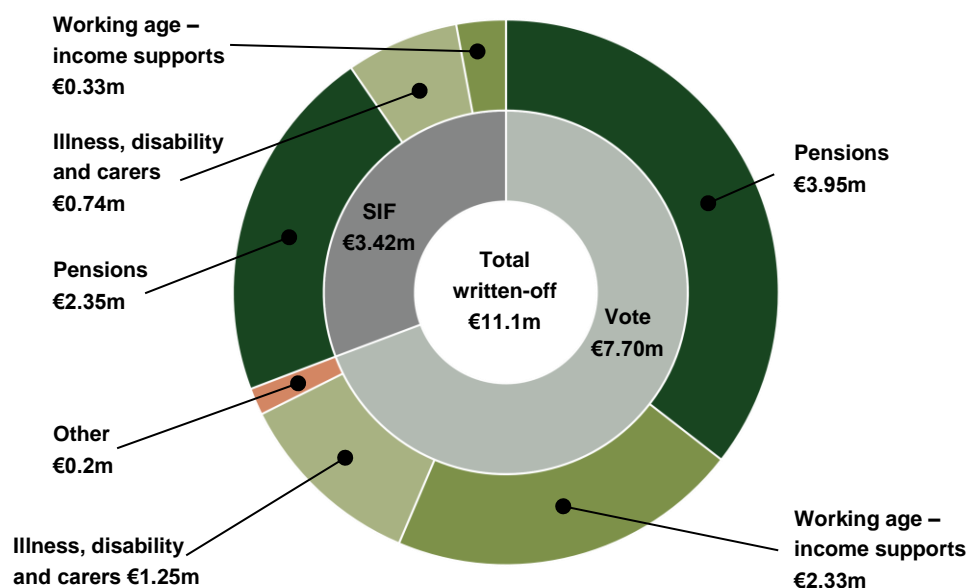


¹ Writing off the debt on a case-by-case basis is provided for by the Social Welfare Consolidation Act (2005), as amended.

Source: Appropriation Accounts of the Department of Social Protection and financial statements of the Social Insurance Fund. Analysis by Office of the Comptroller and Auditor General.

- 16.56** Figure 16.13 shows the scheme areas in relation to which debt written-off in 2022 arose. Most of the debt written-off in 2022 related to a small number of schemes. The Department has stated that 85% of write-offs on the State pension (contributory and non-contributory) and the disability allowance scheme are due to the death of the claimant, while 87% of write-offs on the jobseeker's allowance scheme are below a low value threshold.

Figure 16.13 Debt written-off in 2022, Vote and Social Insurance Fund



Source: Department of Social Protection. Analysis by the Office of the Comptroller and Auditor General.

Analysis of individual cases of debt written-off

- 16.57** The examination team reviewed a sample of 100 write-offs of overpayment debt recorded during 2022 for compliance with Departmental policy. Of the initial 25 randomly selected write-offs reviewed, nine (36%) were below the allowable threshold for low-value write off. A further 75 randomly selected write-offs, from which low-value write-offs were excluded, were examined. In total 63% of the sample had been written-off via the batch write off process.

Figure 16.14 Key findings of sample testing of overpayment debt write-offs

An overview of the total debt status of the debtor was not taken, resulting in some illogical outcomes. For example, a deceased debtor may have an old debt component written-off as irrecoverable due to difficulty in recovering from the estate, while other components of debt of the same debtor were not simultaneously written-off because they were more recent.

Consistent with previous reports^a, there was a lack of documentation in seven cases to support the original debt. Where the debt had been queried (by the debtor or their representative), it was written off in two cases, and in two other cases, refunds had been given to the debtor or debtor's estate. However, these cases with inadequate documentation related to debts raised prior to the publication of the previous reports.

Of 36 manual write-offs, the required template form was not present on 50% of cases. However, in 17 of the 18 cases where the submission was not present, there was a case note (which in some instances was very brief) in relation to the write-off, for example to document the authority for writing off the debt.

In one case, the Department had sought to recover a small overpayment (€900) that occurred between the date of death and when the Department was notified of the death. However, the Department did not seek to recover a benefit-related debt already owed when the claimant died which was in excess of €10,000. This latter debt was subsequently written-off in 2022. The smaller overpayment was recovered from the solicitor of the deceased after a number of years.^b

Legislation provides for the Department to recover payments to claimants in the weeks after death (until it was made aware of the death) from the financial institution (normally banks or An Post) the funds were paid to. However, the Department did not seek such repayments in all cases reviewed. Also, in two cases, the Department sought but was unable to recover these funds from the financial institution, because it could not produce a death certificate.

In eight of the cases examined, debts were written off after the solicitor or personal representatives of the deceased debtor did not engage with the Department. There was no evidence of the Department seeking further engagement prior to these debts being written-off in three cases, other than checking if probate had been filed.

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

- Notes:
- a Chapter 17, *Report on the Accounts of the Public Services 2016*, Comptroller and Auditor General (2017), and *Fair Recovery*, Office of the Ombudsman (2019).
 - b The smaller debt had been cancelled as it met the criteria for inclusion in the batch write off — the debt was restored when the payment was received.

Lessons learned by the Department

- 16.58** The Comptroller and Auditor General previously recommended that the Department review the reasons recorded for write off of debt and establish whether practices and procedures need to be revised to improve recovery and thus minimise the level of write-offs in future.¹
- 16.59** The Department has not undertaken a formal review of the reasons why some debt could not be recovered and was written off. The Department pointed out that the main reasons why debt could not be recovered are detailed in the guidelines on overpayments. These include: financial/social hardship; customer vulnerability; lack of documentation to support the original overpayment; and inadequate decision making.

Other issues

- 16.60** In addition to overpayments that arise in the normal course of business, overpayments may arise as a result of specific events.

Illness benefit

- 16.61** Overpayments were made to claimants of the illness benefit scheme as a result of two specific administrative control failures.

Overpayments due to IT system transition

- 16.62** Overpayments of €11.4 million arose in relation to 11,800 claimants as a result of issues arising when the illness benefit scheme was transferred to a newer IT system, during the period August 2018 to mid-2019. This was raised as overpayment debts in 2019.²
- 16.63** As at December 2022, the Department stated that, of the €11.4 million in overpayments due to the IT system transition, €5.1 million (45%) remains outstanding.

- €3.6 million of the original debt has been fully repaid by 4,600 debtors.
- In respect of a further €2.2 million, €1 million (44%) has been repaid with repayments ongoing by 1,300 debtors.
- In respect of €3.1 million of debts due from 2,300 debtors, €750,000 (24%) has been partially repaid but the debtors are not currently repaying the outstanding balance.
- Of €1.7 million original debts of 1,300 debtors, €230,000 (13%) has been repaid but the balance is suspended — the Department stated that this includes cases where recovery was delayed due to the Covid-19 pandemic but are expected to be complete by the end of 2023.³
- €0.8 million for 2,200 debtors were written off.⁴

Overpayments due to duplicate payment run

- 16.64** Overpayments of €2.4 million were made to 11,000 claimants in December 2019, due to duplication in scheduling of a payment run. These cases were raised as overpayment debt in early 2020.

¹ See *Report on the Accounts of the Public Services 2016*, chapter 17, Management of social welfare overpayments.

² The Department stated that there were an additional 1,325 cases valued at €1.5 million which were initially raised as overpayment debts but found to be correct payments when reviewed, so the overpayment debt was cancelled.

³ These cases had fallen to 1,000 cases, with a value of €1.3 million outstanding, by end-April 2023.

⁴ This was predominantly in 2021 under sanction from DPENDPDR.

- 16.65** The Department has been more successful in recovering the debt arising from the duplicate payment. Of the €2.4 million debt raised, €2 million (83%) has been recovered, with €0.35 million outstanding from 1,500 debtors who are not currently repaying. A further €50,000 is outstanding from debtors who are repaying (the original overpayment in these cases was €130,000). Debt written off in relation to duplicate payments amounted to €70,000 (3% of the total).

Pandemic unemployment payment

- 16.66** The pandemic unemployment payment (PUP) commenced in March 2020 and the scheme closed (with remaining claimants transferred, where eligible, off the scheme) in April 2022. Expenditure on the PUP scheme in the period 2020 to 2022 was around €9.2 billion. The Comptroller and Auditor General previously reported on controls implemented for the PUP and the risk of overpayments to claimants.¹ In relation to employed PUP claimants in 2020, the report found that over 9% of a sample of claimants were not eligible for the payment received on the date tested. The examination could not conclude, at that time, in relation to self-employed claimants.
- 16.67** Total PUP scheme overpayments raised to December 2022 amount to €50.5 million (0.5% of scheme expenditure), of which
- €8.6 million (9,400 cases) relates to voluntary disclosures to the Department and 99% of these overpayments have been recovered
 - €41.9 million (10,500 cases) relates to a revised decision by the Department, with 13% of these overpayments recovered.² The Department suspect fraud in around 10% of these cases.
- 16.68** In 2022, the Department stated its intention to review cases in co-operation with Revenue, with that process to commence by the start of Quarter 4 2022.
- 16.69** In April 2023, the Department stated that the focus is now on ‘working and claiming’ overlaps between PUP and employment. In relation to claimants who were an employee, extensive analysis against Revenue records had been conducted to identify such overlaps. This analysis to date has identified 14,000 cases with a potential recovery of €47 million. Further analysis is ongoing for PUP claimants who had more than one employer.
- 16.70** In total, the Department expected around 20,000 cases to be identified, with a potential recovery of €70 million. The Department intends to commence writing to a sample of these claimants in September 2023. In addition, 58,000 cases have been identified (but no potential recovery amount estimated) where there is no social insurance record — this includes cases where the individual claimed the PUP payment but was not eligible and cases with a tax compliance issue where the individual or their employer failed to make the appropriate returns to Revenue.
- 16.71** In relation to self-employed claimants, the Department has focussed on the detection of individuals with no prior record of social insurance (a requirement for PUP eligibility). While a number of such cases have been identified, work is ongoing to account for subsequent returns to Revenue.

¹ See *Report on the Accounts of the Public Services 2020*, chapter 11, [Controls over the Covid-19 pandemic unemployment payment](#).

² Overpayment debt of €14,300 has been written off.

Conclusions and recommendations

- 16.72** The Department is obliged to seek to recover overpayments made to claimants and has a number of tools available to enable that recovery. The Department's *Compliance and Anti-fraud Strategy 2019 to 2023* sets the approach, key performance indicators and targets, with central themes of preventing overpayments, deterring and detecting non-compliance and accounting for performance.
- 16.73** The Department's procedures are mainly either adequate or good when assessed against the key success factors set out in best practice guidance issued by DPENDPDR in respect of debt recovery by public bodies. There are some opportunities for further improvement in that regard. For example, the debt of deceased claimants is managed on the basis of components of debt, whereas all such debt should be considered either recoverable from the estate or irrecoverable — as a result, the reliability of the valuation of some outstanding debt is reduced. A review of a sample of claims also identified staff are not always compliant with the Department's guidance to document the rationale for a write off using a prescribed template form.

Trends in overpayment debt

- 16.74** At 31 December 2022, the Department had total outstanding debt of €495 million related to scheme overpayments to claimants. The total outstanding debt amount has changed little over the last five years. In those five years, for every Euro of new overpayment raised, an amount equivalent to approximately two-thirds was recovered and one-third written-off.
- 16.75** The total value of overpayment debt recovered each year was not significantly impacted by the Covid-19 pandemic, despite the recovery of new debt raised during the pandemic being suspended during the pandemic — this was a result of the ongoing deductions from claims in payment for which the recovery period is long-term.
- 16.76** A large proportion of debtors are not repaying their debt to the Department. Key factors that determine the success of the Department in recovering overpayments are the age of the debt, whether the claimant is currently receiving a payment from the Department and the value of the debt. As a result, the timeliness of the Department's actions to detect and initiate the recovery of overpayments is key. Some schemes, and in particular the jobseeker's allowance scheme and one-parent family payment, have a high value of debt, a lot of which is not being repaid and a significant proportion of which is more than four years old.

Analysis of debt written-off

- 16.77** In August 2023, DPENDPDR provided delegated sanction to the Department to write off debt that met certain criteria — this replaced a 1991 sanction that governed arrangements in prior years. Around 70% of debts written off were batch write-offs where those criteria were met.
- 16.78** The analysis of a sample of debts written-off in 2022 found a lack of documentation in case files and also that the actions of the Department are limited where the claimant does not engage with the Department and is not currently in receipt of a payment from the Department. This was especially evident from the volume of estate case debts written off. When dealing with estate cases, the Department has a legislative basis for recovering overpayment debt arising from assistance payments but does not have the same powers for benefit payments.

- 16.79** The Department has taken actions to address previous recommendations in relation to guidance to staff and advising claimants of the value of debt with an annual statement. However, the Department has not addressed the previous recommendation to analyse the reasons why debt could not be recovered and subsequently had to be written off. Doing this may inform amendments to policies and procedures and reduce the requirement for write-offs in future years.

Recommendation 16.1

The Department should formally review the reasons recorded for write off of debt and establish whether practices and procedures need to be revised to improve recovery and thus minimise the level of write-offs in future.

Accounting Officer's response

Agreed.

The Department has agreed procedures in place in relation to the write off of debt and will keep these under review to ensure their appropriateness and effectiveness. The formal review requested by the recommendation will be carried out in Quarter 1 of 2024 and reported to the Department's Control Programme Board and Management Board on completion.

Timeline for implementation

Quarter 1 2024.

Recovery of overpayment debt arising from specific events

- 16.80** In relation to overpayments arising on the illness benefit scheme in recent years, the Department
- has recovered around €5.5 million (49%) of the confirmed overpayment debt due to issues on the transition to a newer IT system, and has written off a further 7% of this debt
 - has recovered virtually all the overpayment debt arising from a duplicate scheme payment in December 2019.
- 16.81** The Department is continuing to analyse payments to both employed and self-employed PUP claimants, to identify potential overpayments. Where claimants made a voluntary disclosure of overpayment by December 2022, the Department has recovered virtually all of the overpayment of €8.6 million.
- 16.82** The Department identified PUP overpayments in 10,500 cases with a value of €41.9 million by December 2022, but had recovered only 13% of this to April 2023. In addition, the Department is analysing cases to identify where an overlap of PUP and employment occurred, and it estimates up to 20,000 cases may be identified with a potential recovery of €70 million. The Department intends to write to a sample of these cases from September 2023. The Department is also analysing cases where a PUP recipient did not have a prior social insurance record but declared themselves to be an employee or self-employed.

Recommendation 16.2

The Department should expedite the identification and raising of PUP overpayment debt, given the increased difficulty recovering older debt and from debtors who are not currently receiving social welfare payments.

Accounting Officer's response

Agreed.

The volume of PUP payments with over 29 million payments, representing the unprecedented disruption to the economy and society, means that this has been a complex project. Work is progressing.

Timeline for implementation

The expected date for completion of this work is by end 2024.

17 Actuarial review of the Social Insurance Fund

- 17.1** The Minister for Social Protection is required by law to commission and publish an actuarial review of the financial condition of the Social Insurance Fund (the Fund) at least every five years.¹ The purpose of the review is to assess the extent to which the contributions to the Fund are likely to be able to meet the projected payment of benefits in the future. The review of the Fund's position as at 31 December 2020 included projections from 2021 to 2076.²
- 17.2** The report 'base case' (best estimate) projections for annual Fund receipts and expenditure are shown in Figure 17.1. The review projects that there will be an increasing annual shortfall in the Fund from 2034 to the end of the projected period (2076) and that Exchequer subventions will be required in the long-term to meet ongoing expenditure requirements in the absence of any changes to Pay Related Social Insurance (PRSI) rates. The review projects a shortfall of €10 billion a year by 2050, rising to €16 billion a year by 2060 and €20 billion a year in 2070 (when projected receipts would cover only 63% of projected expenditure).³ The shortfall reflects the amount that the Fund would need to receive in annual subvention from general taxation in the year.
- 17.3** In terms of the overall economic output of the State, the Fund shortfall is expected to rise from 2.4% of GNI* in 2050, to 3.3% in 2060 and 4.1% in 2076.^{4,5}
- 17.4** The main component of Fund expenditure is pension-related expenditure, which is projected to rise from 73% of Fund expenditure in 2022 to 80% in 2035 and 85% by 2050.

1 Required under Section 10 of the Social Welfare Consolidation Act 2005.

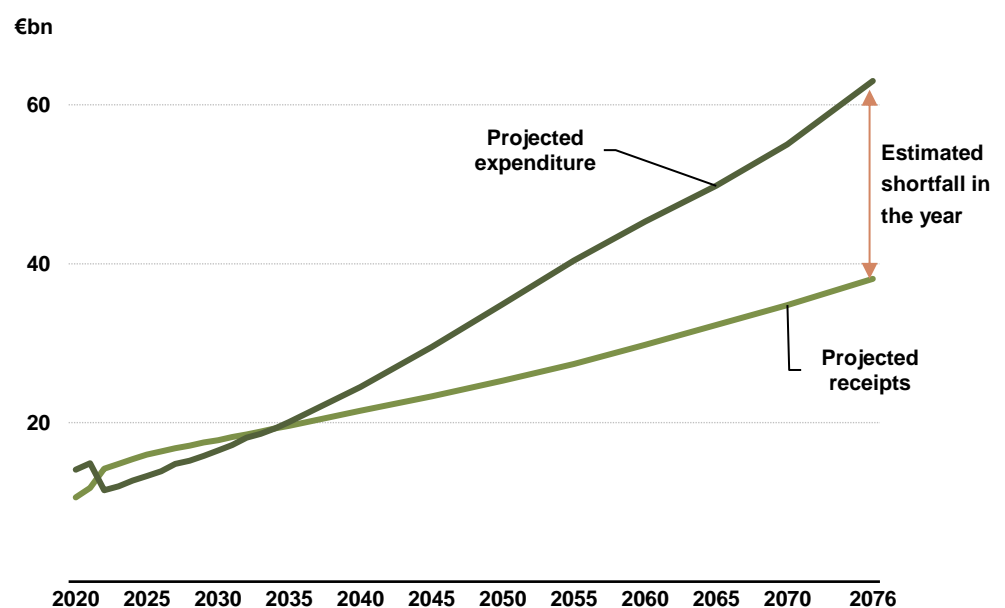
2 The review was completed in September 2022.

3 These values are in 2022 real price terms.

4 The Central Statistics Office (CSO) defines GNI* as an indicator designed to exclude globalisation effects that are disproportionately impacting the measurement of the size of the Irish economy.

5 The review states that in practice, the actual experience is likely to differ from best estimates due to factors such as changes in the economic environment, demographics, regulation, economic, operational and other factors. Therefore, it must be recognised that actual results will differ, perhaps materially, from those inherent in the values given.

Figure 17.1 Projected Fund receipts and expenditure, 2020 to 2076^a



Source: Actuarial Review of the Social Insurance Fund as at 31 December 2020

Note: a The review included a projection for each year until 2035 and every five years thereafter.

Assumptions used in the review

- 17.5** The expected Fund receipts and expenditure are predicated on the assumptions made for factors such as economic growth, inflation, the number of people working and the number of people receiving benefits. Figure 17.2 shows how the review projected the key assumptions would change over the course of the review period (to 2076).

Figure 17.2 Key assumptions used in Fund actuarial review^a

Factor	2023	2024	2025	2026 to 2076
Economic and labour assumptions				
GDP	4.4%	4%	3.8%	1.5% to 1.8%
GNI*	3.1%	3.2%	3.3%	1.5% to 1.8%
Inflation	3%	2.2%	2.1%	2%
Real earnings growth	2.3%	2.2%	2.1%	1.2% to 1.5%
Employment growth	2.1%	1.7%	1.7%	0% to 0.9%
Unemployment rate	5.4%	5.2%	4.9%	6.4% to 6.8%
Demographic assumptions				
Population	5 million in 2020, rising to 5.9 million in 2040, 6.4 million in 2060 and 6.6 million by 2076			
Net immigration	33,000 in 2019, falling thereafter to 19,000 in 2030, 14,000 in 2050 and 10,000 in 2070			
Fertility rate	1.78 to 1.81 in the period 2019 to 2076			
Life expectancy at birth	In 2019, males = 81.1, females = 84.8, by 2050 m/f = 84.6/88.3, by 2070 m/f = 86.8/90.4			
Pensioner support ratio	4.4 in 2020, falling thereafter to 2.9 in 2040, 2.1 in 2060 and 1.9 by 2076			

Source: Actuarial Review of the Social Insurance Fund as at 31 December 2020

Note: a The review used 2022 estimates for income and expenditure and short-term (2023 to 2025) projections set out by the Department of Finance in the *Stability Programme Update* (SPU) of April 2022. The assumptions underpinning the long-term projections (2026 and later years) were based on projections by the European Commission which formed the basis for the *2021 Ageing Report*. Mortality improvement factors are based on Eurostat population projections. Other assumptions used were published by the Department of Finance.

Assumptions used in prior Fund reviews

- 17.6** Since 2000, actuarial reviews of the financial position of the Fund have been conducted every five years. The reviews have consistently included some assumption categories, while others have varied (see Annex 17A). The format of the reviews has also evolved, with the later reviews providing more detail than the review in 2000.
- 17.7** Certain indicators are projected to fluctuate in the short-term, and then to move to a long-term rate that has been consistent in the reviews. These include
- long term price inflation at 2% (other values used in the shorter term) per annum
 - long-term real earnings growth at 1.5% per annum
 - unemployment rate (in the longer term) of 6.2% to 6.4%
 - fertility rates (in the longer term) of 1.75 to 2 children per woman.

17.8 Key changes in longer-term assumptions were

- real GDP of 1.5% to 1.8% in the 2020 review, compared to 1.5% to 2.2% in the 2015 review; in 2020, the review used GNI* growth as a key assumption
- net migration projections fluctuated between negative 21,500 (net outflow) and 40,000 (net inflow) across reviews.

Assumptions used by other Irish public sector entities

17.9 Public sector bodies with pension schemes are required to conduct reviews of the financial position of the pension schemes — this includes a range of bodies audited by the Comptroller and Auditor General, such as universities, the National Transport Authority and Teagasc.

17.10 For the purposes of this examination, we compared the assumptions used by over 30 public sector bodies in projecting pension scheme liabilities with the assumptions for the 2020 review of the Fund, as shown in Figure 17.3. The analysis shows that the assumptions used in the review of the Fund are within the range of values used by public sector bodies generally.

Figure 17.3 Comparison of assumptions used by the Fund and public sector bodies

Assumption	Fund long-term assumption	Range of assumptions by public sector bodies ^c
Rate of salary increase	3.2% to 3.5% ^a	2.7% to 4.65%
Rate of inflation	2%	1.9% to 2.7%
Discount rate	3.5% ^b	2.25% to 4.3%

Source: Office of the Comptroller and Auditor General and the Actuarial Review of the Social Insurance Fund as at 31 December 2020

- Notes:
- a The review's rate of salary increase (3.2% to 3.5%) comprises the 'real' earnings growth rate (1.2% to 1.5%) plus the impact of expected inflation (2%).
 - b The review's nominal discount rate (3.5%) comprises a 'real' discount rate (1.5%) plus the impact of expected inflation (2%).
 - c The assumptions used by other public sector bodies were extracted from accounts with a financial year ending in 2022.

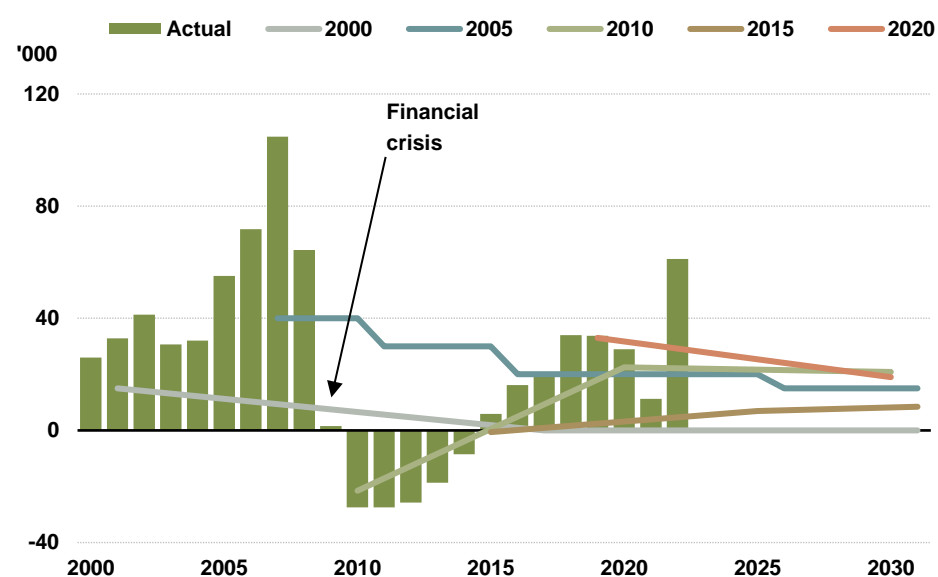
Pensioner support ratio

17.11 The pensioner support ratio is a key measure of the ability of the Fund to meet its obligations and reflects the impact of fertility rates, life expectancy and other variables. This is projected to decline significantly, from around 4.4 insured contributors per pensioner in 2020, to around 2.3 insured contributors per pensioner in 2050. As a result, pension-related expenditure is projected to rise from 59% of total PRSI receipts in 2022, to 81% by 2035 and 117% by 2050.

Migration projections

- 17.12** The review states that high historical volatility over time and between countries makes assumptions on migration the most difficult methodological aspect of demographic projections — this view is supported by Figure 17.4, which shows the migration projections included in each review. The models used by Eurostat to produce immigration and emigration projections, which combine into net migration, take account of past migration trends, the most recent data, underlying demographic factors as well as assumptions about future developments in migration flows.

Figure 17.4 Annual net migration projections, by review date, and actual migration 2000 to 2030



Source: Actuarial reviews of the Social Insurance Fund

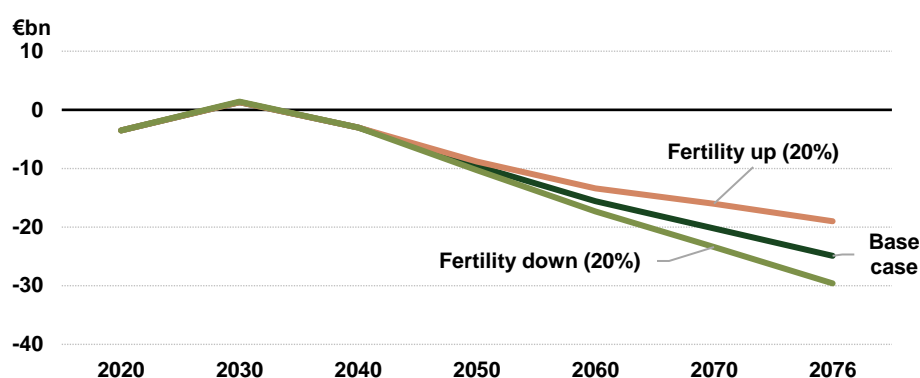
Sensitivity analysis

- 17.13** Because of inherent uncertainty in assumptions underpinning long-run projections, the review included a number of sensitivity tests in addition to the base case, so as to quantify the responsiveness of projection results to changes in key underlying assumptions.
- 17.14** The macroeconomic and demographic scenarios and key modelling assumptions varied were
- fertility changes
 - life-expectancy
 - migration
 - labour market
 - earnings growth rates
 - adverse scenarios and shocks (for example the impact of conflict in Ukraine).
- 17.15** Changes to fertility rates and real earnings growth rates resulted in the most significant impact on projections.

Fertility rates

- 17.16** The fertility rate in Ireland is projected to be broadly unchanged, rising gradually from 1.78 in 2019 to 1.81 by 2076, which is below the natural replacement rate.¹ As shown in Figure 17.5, if the fertility rate was 20% higher for the duration of the projection period, the projected deficit in 2076 is €19 billion rather than the €24.9 billion assumed in the base case — the deficit reduces because of an expectation of more individuals working and contributing to the Fund.

Figure 17.5 Sensitivity of projected Fund deficit to change in fertility rates

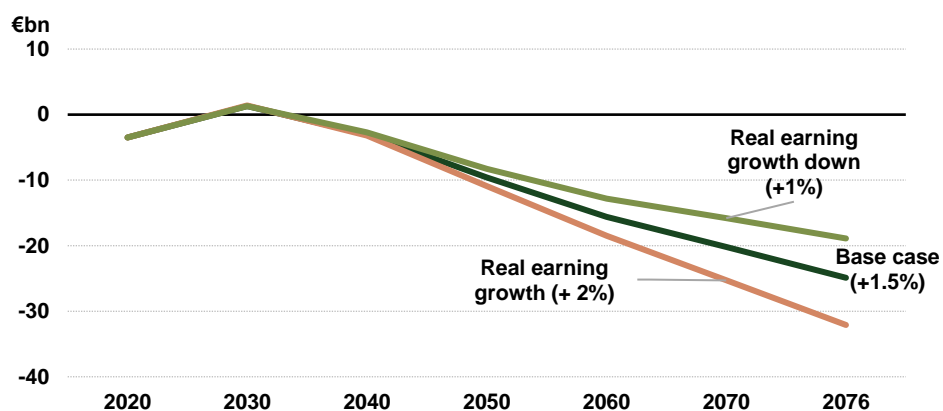


Source: Actuarial Review of the Social Insurance Fund as at 31 December 2020

Real earnings growth

- 17.17** Changes to assumptions around real earnings growth have the biggest projected impact on the Fund. While projected earnings growth would result in higher contributions, this is linked to growth in pension payment levels.
- 17.18** The base case assumption is that, in the longer term, real earnings grow at an annual rate of 1.5%. By comparison, if real earnings were to grow at 2% per annum instead, the projected deficit in 2076 is €32.1 billion rather than the €24.9 billion deficit projected under the base case. However, as economic growth (in terms of GNI*) is assumed to increase (or decrease) at the same rate as real earnings, the deficit as a percentage of GNI* does not change.

Figure 17.6 Sensitivity of projected Fund deficit to change in real earnings growth



Source: Actuarial Review of the Social Insurance Fund as at 31 December 2020

¹ Replacement level fertility is the level of fertility at which a population exactly replaces itself from one generation to the next. In developed countries, replacement level fertility is taken as 2.1 children per woman.

Other variables

17.19 The projected Fund deficit is impacted to a lesser extent when other assumptions are varied. For example,

- changes to life expectancy (increase of one year or decrease of two years) results in a 2076 impact of around €2 billion increased/reduced deficit
- changes to projected migration – up 50% or down 50% – result respectively by 2076 in a lower deficit of €5 billion or higher deficit of €3.4 billion
- labour market estimate variances were that the employment rate would be 2% higher in the long term (reducing the 2076 deficit by around €0.9 billion) or 2% lower (increasing the deficit by €0.9 billion); the review also estimated that a 10% increase in the employment rate for those aged 55 to 74 would reduce the deficit in 2076 by €1.2 billion.

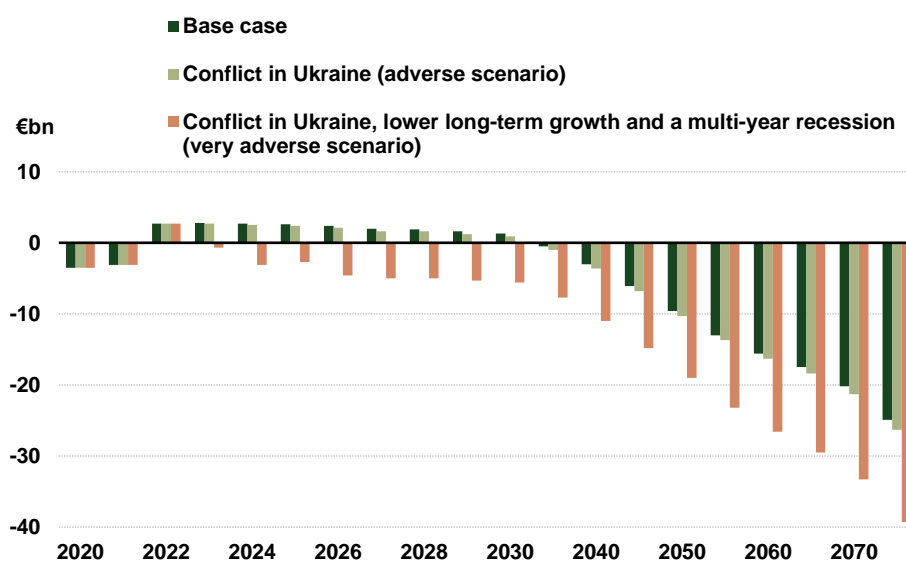
Adverse scenarios and shocks

17.20 In reality, the factors that influence the financial position of the Fund are interconnected in many ways, and are more likely to move in various combinations. For this reason, the impacts of various potential adverse scenarios (shocks) were also calculated as part of the actuarial review. The scenarios considered were

- the conflict in Ukraine resulting in higher inflation, higher unemployment and lower economic growth¹
- a multi-year (2023 to 2027) recession, resulting in lower economic growth, higher unemployment and lower PRSI receipts
- a multi-year recession and the conflict in the Ukraine continuing
- a very adverse scenario of the Ukraine conflict continuing and the recession resulting in permanently lower long-term economic growth.

17.21 The very adverse scenario results in an additional annual shortfall of €14.4 billion in 2076 (see Figure 17.7).

Figure 17.7 Impact of two adverse scenarios on the Fund, 2020 to 2076

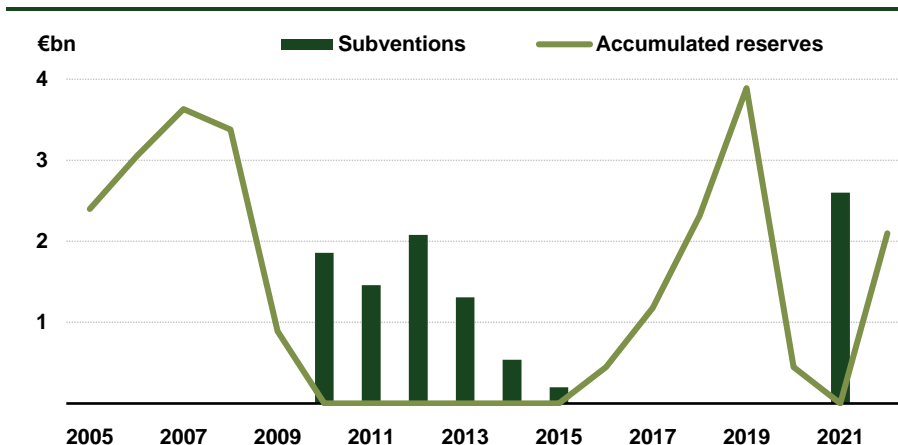


¹ The review is based on estimates of the impact included in the Department of Finance's *Stability Programme Update*.

Fund subventions in recent years

- 17.22** Where Fund expenditure exceeds receipts in any year, there is a reduction in the value of Fund reserves. Where Fund reserves have been exhausted, a subvention has been paid from the Vote to ensure that benefit entitlements continue to be paid.
- 17.23** The accumulated reserves of the Fund were depleted in 2008-2010, following the financial crisis. In the years 2010 to 2015, Exchequer subventions totalling €7.4 billion were made to the Fund. The Fund returned to surplus in 2016 and by the end of 2019 had accumulated reserves of €3.9 billion. All of those reserves were used in 2020 and 2021 to deal with the impact of the Covid-19 pandemic, and a subvention of €2.6 billion was required in 2021. In 2022, receipts into the Fund exceeded expenditure by around €2.1 billion.

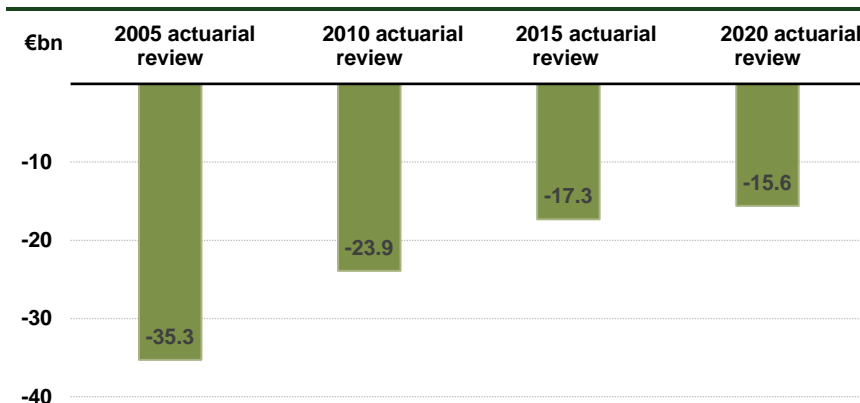
Figure 17.8 Accumulated reserves and subventions, 2005 to 2022



Source: Department of Social Protection. Analysis by the Office of the Comptroller and Auditor General.

- 17.24** Each actuarial review of the Fund published to date has projected an increasing annual shortfall in the resources of the Fund over the long term, reflecting the underlying trend of increasing demographic pressures. However, the rate of increase in the projected Fund shortfall — as indicated in the base case in each projection — has moderated significantly over the successive reviews (see Figure 17.9). The projections reflect the impact of legislated changes in policy and the use of different assumptions reflecting the latest view on long-term demographic, labour market and economic trends.

Figure 17.9 Fund shortfall projections, in the year 2060, by review



Source: Actuarial reviews of the Social Insurance Fund

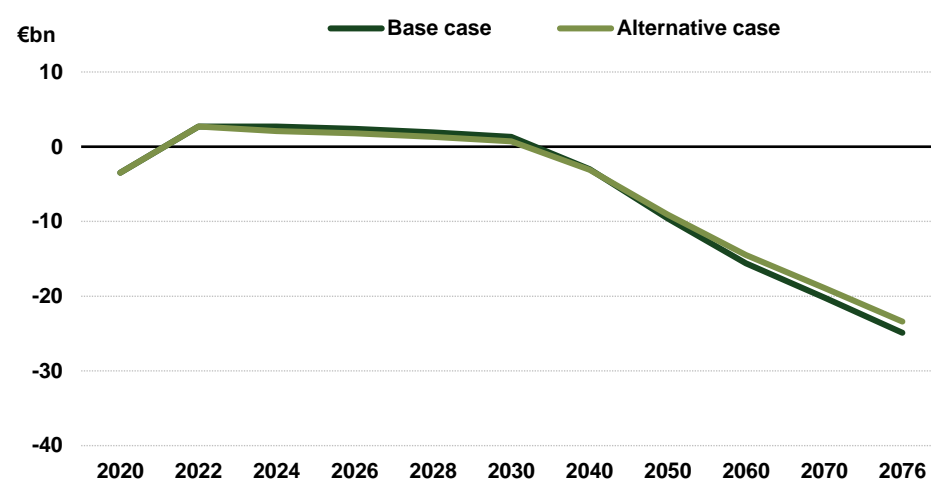
Reform of State pension system

17.25 In September 2022, the Minister for Social Protection announced reforms (see Annex 17B) to the State pension system including

- a move to a 'total contributions' approach, where the total number of PRSI contributions paid, instead of when they were paid, is used for calculation of individual pension entitlements¹
- introduction of a new flexible pension age.²

17.26 The review assessed the impact on future Fund deficits of the pending changes included in the State pension reform announcement, as well as introducing smoothed earnings benchmarking of pension payments.³ The review projected that the annual deficit, by 2076, will be around €1.5 billion less under the new arrangements (alternative case).

Figure 17.10 Impact of pension reforms announced September 2022



Source: Actuarial Review of the Social Insurance Fund as at 31 December 2020

Conclusions

¹ The move to a total contribution approach was recommended by the Pension Commission and is intended to align a person's contributory pension more closely with the contributions they make. The move is to commence in January 2025 on a phased basis over 10 years.

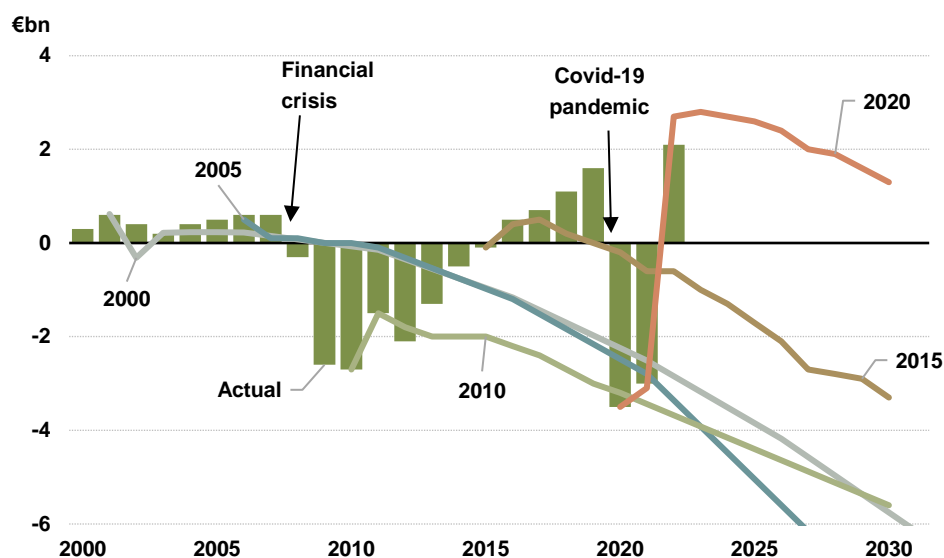
² From January 2024, people will have the option to continue working up until the age of 70 in return for a higher pension.

³ Smoothed earnings benchmarking of pension payments links future increases in pension payments to increases in average earnings.

17.27 The periodic actuarial review of the Social Insurance Fund (the Fund) provides a detailed projection of the Fund's receipts and expenditure that is necessary to inform discussion about the expected long-term sustainability of the Fund.

17.28 The assumptions used by the 2020 review utilise projections by Eurostat and the European Commission including those used by the Department of Finance in its *Stability Programme Update*. The review assumptions are within the range of assumptions used by other public sector bodies when conducting reviews to estimate the future cost of their pension liabilities.

17.29 The projections of each review reflect the position and policy in place at a point in time. Assumptions vary over time to reflect changes in policy as well as macroeconomic changes. The most recent review states that long-term projections are unlikely to be borne out in practice and emphasises that focus should be placed on the relative trends and the difference in outcomes under various scenarios.

Figure 17.11 Actual and projected Fund excess/shortfall of receipts, 2000 to 2030^a

Source: Actuarial reviews of the Social Insurance Fund

Note: a The data for each review commences at the known value for the year of the review (e.g. 2020) as the reviews are published up to two years after the end of that period.

- 17.30** When previous projections are compared to outturns, the Fund appears to have performed better in the past decade than was projected in the reviews for 2000, 2005 and 2010, notwithstanding the impacts of the 2008 financial crisis and of Covid-19 (see Figure 17.11).
- 17.31** While the projections for the performance of the Fund have been improving in the short-term, the latest review indicates there will be an increasing annual shortfall from around 2034, and that a recurrent and increasing subvention from the Vote to the Fund will be required, all other things being equal, from around 2043 onwards.

Annex 17A Assumptions used in reviews

Assumption	2000	2005	2010	2015	2020
Economic and labour assumptions					
GDP				✓	✓
GNP		✓	✓		
GNI*					✓
Price inflation	✓	✓	✓	✓	✓
Real earnings growth	✓	✓	✓	✓	✓
Unemployment	✓			✓	✓
Employment		✓	✓	✓	✓
Demographic assumptions					
Life expectancy	✓	✓	✓	✓	✓
Net migration	✓	✓	✓	✓	✓
Fertility	✓	✓	✓	✓	✓

Source: Actuarial reviews of the Social Insurance Fund. Analysis by the Office of the Comptroller and Auditor General.

Annex 17B State pension system reforms announced in September 2022

- maintaining the State pension age at 66 and introducing a new flexible pension age: from January 2024, people will have the option to continue working up until the age of 70 in return for a higher pension
- as recommended by the Pensions Commission, move to a 'Total Contributions Approach' for calculation of individual pensions entitlements on a phased basis over 10 years starting in January 2024
- there will be enhanced State Pension provision for long-term carers to be introduced from January 2024 — claimants who had to give up work over a long duration to look after another person will have their time spent caring recognised in the pension system
- the Department of Enterprise, Trade and Employment will introduce measures that allow, but do not compel, an employee to stay in employment until the State pension age
- workers will be provided with access to a PRSI contribution statement service each year in a manner that enables them to understand their entitlements
- the long-term sustainability of the State pension system will be addressed through gradual, incremental increases in social insurance rates over time — the level and rate of increase in social insurance rates will be determined on a structured basis every 5 years informed by the outcome of the statutory actuarial review
- a commitment to explore the design of a scheme that would modify the current benefit payment for 65-year-olds to provide a benefit payment for people who, following a long working life, 40 years or more, are not in a position to remain working in their early 60s.

18 Health Service Executive funding and financial reporting

- 18.1** Exchequer grant funding for the Health Service Executive (HSE) is channelled through Vote 38 Health annually. Payments from the Health Vote to the HSE in 2022 totalled €23.3 billion, comprising both capital and non-capital funding elements. Voted grant funding accounts for the bulk of the HSE's receipts each year. Only around 4% of the HSE's overall annual funding comes from other 'own' income e.g. receipts arising from charges to patients for services.

Funding: determining the HSE's resources

- 18.2** The Minister for Health (the Minister) is required by law to issue a formal 'notice of determination' to the HSE in respect of each year of account. The capital and non-capital (recurrent) funding determination amounts are subject to different approval processes.
- **Capital funding determination:** The Minister must seek and receive the approval of the Minister for Public Expenditure, National Development Plan Delivery and Reform (the Minister for Public Expenditure) before making a determination of capital funding available to the HSE for the year.
 - **Recurrent funding determination:** Section 30A(1) of the Health Act 2004 (the Health Act) states that the Minister "*shall determine the maximum amount of net non-capital expenditure that may be incurred by the Executive for a financial year.*"¹ The Act further states that the Minister "*may amend a section 30A(1) determination by varying the maximum amount of net non-capital expenditure that the Executive may incur for the financial year or part of the financial year to which the determination relates.*"² Once amended, that amount "*shall apply and have effect as so amended.*"
- 18.3** In 2022, the recurrent funding determination was for €22.5 billion.

Putting the HSE in funds

- 18.4** The funding transferred from the Health Vote to the HSE, by way of a grant from the Department of Health (the Department), is subject to the appropriations process and voted on by the Oireachtas.
- 18.5** However, for the HSE, the amount in the letter of determination is the relevant amount i.e. the income for the year that the HSE validly expects that the Department will make available to it.

Revisions of determinations

- 18.6** The Health Act provides for the Minister to adjust the determination amounts if considered necessary. A number of notices of determination may be issued, as successive funding changes are approved. Generally, this revision process has allowed the Department to fully align the determination amounts and the amounts of funding issued to the HSE from the Vote each year.

¹ 'Executive' means the Health Service Executive established under section 6 of the Health Act 2004.

² Section 30A(1) of the Health Act 2004 as inserted by section 7 of the Health Service Executive (Financial Matters) Act 2014. Section 30A(1) subsequently amended by section 23 of the Health (Miscellaneous Provisions) Act 2022. This act came into operation on 1 March 2023.

- 18.7** The initial notice of determination for 2022 issued to the HSE in November 2021, with a number of revised determinations issuing up to May 2023. The revised recurrent determination in December 2022 increased the recurrent funding for 2022 by €1.78 billion.
- 18.8** Subsequent to December 2022, two further letters of determination made revisions to the capital funding determinations and did not change the recurrent determination. The final notice of determination for capital funding issued on 17 May 2023 to include €104 million of a carry forward from 2021 not included in previous letters, identified during the audit of the 2022 HSE financial statements (see Figure 18.1).¹ This change required the approval of the Minister for Public Expenditure as it was a change to the capital determination.

Figure 18.1 Funding determination notices from the Minister for Health to the HSE, 2022 financial year

Date of letter	Recurrent (including holdbacks) ^a	Recurrent (excluding holdbacks)	Capital allocation
	€000	€000	€000
2 November 2021	20,683	20,519	1,045
15 June 2022	20,682	20,522	1,045
23 December 2022	22,458	22,362	1,160
22 February 2023	22,458	22,362	1,145
17 May 2023 ^{b,c}	N/A ^d	N/A	1,249

Source: Department of Health

- Notes:
- a Holdbacks of €164 million were retained by the Department to fund specific initiatives set out in the November 2021 and June 2022 letters. The revised allocation in the December 2022 and February 2023 letters included €96 million of the funding previously retained by the Department.
 - b Revised letter issued to include carry forward capital funding from 2021 of €104 million identified during the audit of the HSE's 2022 financial statements.
 - c The change in capital allocation required the consent of the Minister for Public Expenditure.
 - d The May 2023 letter noted that there was no change in the net recurrent allocation of €22,458 million for the year.

Financial reporting: accounting for HSE funding

HSE financial statements

- 18.9** The determination amounts (both capital and recurrent) are recognised by the HSE in its accrual-based annual financial statements as Exchequer grant income. Under the accruals system, the HSE correctly recognises its grant income in the year it is earned, irrespective of when the funds are paid over by the Department.
- 18.10** The accruals basis of accounting also recognises HSE expenditure when it has been incurred i.e. the underlying transaction has taken place and there is an obligation to discharge the liability. The timing of the cash outflows in respect of the obligations can be over a broader period than that of the year of account meaning that the HSE is required to recognise obligations incurred but yet to be paid at the year end.

¹ The HSE's 2022 financial statements can be found [here](#).

- 18.11** The expenditure incurred and charged to the HSE's statement of revenue income and expenditure for 2022 was €23.4 billion. After taking account of own resource income and the previous year's deficit, the operating deficit reported for the year was €185 million.

HSE recognition of grant funding debtor

- 18.12** In 2021, there was a net difference of €25 million between the letter of determination amounts recognised by the HSE as income and the amount of funding issued from the Vote. In line with standard accrual accounting principles, the HSE recognised a debtor for that amount.
- 18.13** The net difference between the determination amounts for 2022 and the funding drawn was more significant, at €438 million. Consequently, a grant funding debtor of €464 million was recognised in the HSE's statement of financial position as at 31 December 2022.

Health vote appropriation account

- 18.14** The Department reports in accordance with the estimates process in an annual appropriation account in the format and in compliance with accounting standards directed by the Minister for Public Expenditure. Because government departments operate a cash-based system, grant funding is paid out and accounted for as it falls due. Amounts not yet due are not taken into account.¹
- 18.15** In line with the cash-based accounting standards for appropriation accounts, the statement of financial position of the Vote does not recognise the existence of any liability to the HSE in respect of grant funding at the end of 2022. However, a note to the appropriation account discloses the HSE's recognition of a debtor of €464 million.

HSE's accumulated deficit

- 18.16** The HSE has carried a deficit since it was established in 2005. The opening deficit of €838 million arose due to authorised expenditure incurred by the former health boards for which the cash grants had not been provided from Vote 38 Health when the HSE was established. So while the money was spent by the health boards prior to 2005, it forms part of the deficit rolled forward each year by the HSE.
- 18.17** Since 2005, a number of matters have impacted this deficit
- HSE subsuming agencies that were also carrying accumulated deficits
 - technical accounting adjustments, including a holiday pay accrual, and
 - deficits incurred in a number of years.

The HSE recorded a significant surplus of €200 million in 2020 which, if retained, would have decreased the accumulated deficit. However, the Minister directed the HSE to surrender those funds.

- 18.18** At the end of 2022, the HSE has an accumulated deficit of €1.24 billion for expenditure already incurred, which eventually will need funding to meet the liability.

¹ *Public Financial Procedures* require that grant funding to a State body in a financial year needs to be approved by the Oireachtas in the first instance. This is reflected in the accounting policy, which does not allow accrual of grant funding in the statement of financial position of the vote.

Health Budget Oversight Group

- 18.19** The Health Budget Oversight Group (HBOG) was established in 2019 as part of a plan to improve oversight arrangements for health expenditure. The group is chaired by the Department of Public Expenditure, National Development Plan Delivery and Reform (DPENDPDR) and comprises senior officials from DPENDPDR, the Department of Health and the HSE. Its main purpose is to monitor and control health spending and staffing; and to act as an early warning mechanism for any deviations. The group meets monthly.
- 18.20** Other oversight arrangements include the submission by the Department of monthly financial performance reports for greater oversight of expenditure and staffing trends; and quarterly expenditure reports to update the Government on the overall health expenditure position. As the Department accounts on a cash basis and the HSE accounts on an accruals basis, the accruals-based expenditure reports are accompanied by cash profiles.
- 18.21** A DPENDPDR review of HBOG in January 2023 identified several positive aspects regarding the HBOG engagement in 2022.¹ However, it also found that the provision of comprehensive full-year expenditure forecasts was very limited and that no expenditure management measures were proposed to the group in response to the emergence of mid-year core pressures. The review identified a number of actions, including a programme of work for 2023 and the identification of improved ways for more effective oversight.
- 18.22** The examination team found that the HBOG minutes do not record any discussion of the proposed letter of determination in December 2022, or of the impact of the determination amount to be included in the letter prior to its issue. DPENDPDR stated that the letter of determination is a statutory matter between the Department of Health and the HSE, not for HBOG, and that the primary focus of HBOG is on in-year expenditure management.
- 18.23** DPENDPDR also stated that when it became aware of the difference between the amount in the letter of determination and the voted amount in March 2023, it raised its concerns, on a number of occasions, at HBOG and as part of subsequent bilateral engagements with the Department of Health.

Parliamentary Budget Office report

- 18.24** The HSE is required to formally respond to the Minister's letter of determination each year with a detailed national service plan. This sets out the HSE's service delivery priorities and activities for the forthcoming year, taking account of the determination amount(s).
- 18.25** In 2018, the Parliamentary Budget Office (PBO) published a briefing paper on the relationship between the HSE's national service plan and the Health Vote.² The paper concluded *inter alia* that
- The framework of accountability for expenditure under the HSE to the Dáil is highly complex and technical and that further clarification would enhance the Dáil's oversight role.
 - The key requirement for improving the accountability framework is the ease with which the different performance, budgetary and accounting records prepared by the HSE and the Department of Health can be compared and/or combined.

¹ Review: Health Budget Oversight Group – January 2023.

² The HSE National Service Plan and its Relationship with the Health Vote (Briefing paper 14 of 2018).

- The reporting of performance and financial information on different bases — the key difference being between accruals and cash-based accounting — makes the results of changes in one part of the framework difficult to quantify and evaluate.
- To increase the effectiveness of the Dáil's oversight of the Vote, a reconciliation of the income and expenditure allocation of the national service plan with the indicative appendices to the *Revised Estimates for Public Services* should be presented to the Dáil as part of its scrutiny of the *Revised Estimates* for the Vote.
- Monthly and quarterly management data and performance reports are an indispensable tool for policy makers, and should be produced regularly.

18.26 The paper also noted that, while the level of funding to be provided to the HSE — as notified in the letter of determination — is not separately set out in the *Revised Estimates*, the alignment of the programmes in the Vote has been a recommendation for reform since at least the *Considine Report* in 2008.¹ The PBO paper noted that in the absence of such alignment, reporting that reconciles the voted current expenditure with the service areas of the national service plan would improve the accountability framework for health expenditure.

18.27 In response to enquiries on the actions taken in response to the PBO's findings, the Department stated that

- The requirement for the health system to report expenditure and budgetary matters in a more transparent and accessible manner is well recognised, but this has been impeded by legacy HSE financial reporting systems, and by the overall complexity within the health system.
- Although the first phase of the HSE's new Integrated Financial Management System (IFMS) went live in July 2023, it will take a number of years before the system is fully rolled out throughout the HSE.
- The intention was to restructure the Health Vote for 2024 along performance reporting lines but this had to be deferred to 2025 to accommodate the impact of the new health regions to be introduced from 2025.
- The *Revised Estimates* for the Health Vote now include additional detailed indicative performance KPIs and funding allocations for individual service areas.

18.28 Both the Department and the HSE pointed out that there are a number of significant expenditure lines which are reflected in discrete subheads in the Department's Vote; and on which the HSE provides data to the Department. The Department stated that it is engaging with the HSE to consider how to achieve greater clarity in linking the HSE's national service plan to the *Revised Estimates*.

18.29 The HSE also stated that the IFMS will, over time, positively contribute to the reporting process.

Views of the Accounting Officers

Department of Health

18.30 The Department has ongoing engagement with both the HSE and DPENDPDR on financial reporting by the HSE, to ensure that voted monies are accounted for correctly and afforded the proper level of scrutiny. The Department will continue to work to enhance these processes.

¹ *Study of certain accounting issues relating to the Health Service Executive (HSE)*, September 2008.

HSE

- 18.31** The HSE works closely with the Department on an agreed reporting cycle, outside of the HBOG structure, to provide timely financial information based on current performance and cash requirements. Over the period 2021 to 2022, the HSE adhered to this reporting arrangement the majority of the time; and where there were reporting delays, they were for specific issues and appropriately communicated. Also, throughout 2022, the HSE provided regular re-forecasts and there was extensive engagement through the expected level of service and national service plan processes.

Department of Public Expenditure, National Development Plan Delivery and Reform

- 18.32** The primary framework governing the budgeting and expenditure management process, which applies to all public expenditure, encompasses the revised estimates, the supplementary estimates and the appropriation act, all of which are voted on by the Oireachtas. The HSE's annual financial statements are a matter for the HSE Board and the Department of Health's appropriation account is the responsibility of the Department's Accounting Officer.
- 18.33** There are established processes, including HBOG, that allow for robust engagement between DPENDPDR, the Department of Health and the HSE to monitor and control health expenditure. These processes focus on monitoring and controlling the very significant expenditure and staffing in the health sector, and are dependent on the accurate, timely and transparent reporting of the Department of Health.

Conclusions

- 18.34** Under the Health Act 2004 (as amended), the Minister for Health (the Minister) determines the resources available to the HSE. The Minister is required to obtain the consent of the Minister for Public Expenditure in determining the amount of capital funding to be made available to the HSE each year. However, the Minister is not required by law to obtain the consent of the Minister for Public Expenditure, or any other entity or process, in determining the HSE's non-capital (recurrent) funding, even though this is many times greater than the capital funding amount.
- 18.35** These legislative requirements dealing with the determination of the HSE's resources operate in conjunction with the appropriations and estimates process as the funding for the HSE is channelled through Vote 38 Health. Once voted upon by the Oireachtas, the Department of Health (the Department) can transfer the funds to the HSE, usually by way of grant payments throughout the year.
- 18.36** The Department uses the cash-based system currently in place for government departments and accounts for the transactions in the year, in the format and in compliance with accounting standards directed by the Minister for Public Expenditure. Only amounts paid over by year end are brought to account in this system.
- 18.37** Up to 2021, the grants paid to the HSE from the Health Vote were generally fully aligned with the determination set by the Minister for Health.
- 18.38** The HSE accounts for its income and expenditure in the year under an accrual-based system. Income allocated or earned and expenditure incurred in the year are accounted for under this system irrespective of when funds are received or paid out.

- 18.39** The HSE's financial statements for 2022 recognise the total recurrent amount determined by the Minister of almost €22.5 billion as part of its income for the year. By year end 2022, the actual cash issued from the Health Vote to the HSE totalled just over €22 billion — €438 million less than the amount included in the December letter of determination but broadly in line with the Oireachtas approved estimates.
- 18.40** Consequently, the net €438 million income not paid over to the HSE by year end 2022 is included as a debtor in the HSE's 2022 financial statements. The total debtor recognised by the HSE is €464 million which includes €25 million due in respect of 2021.
- 18.41** The statement of financial position of the Health Vote does not include this liability, in line with legal provisions in regard to the annual appropriation by the Oireachtas of voted funding.
- 18.42** The expenditure incurred and charged to the HSE's financial statements was €23.4 billion. After taking account of own resource income and the previous year's deficit, the operating deficit for the year was €185 million.
- 18.43** At the end of 2022, the HSE's accumulated deficit totalled €1.24 billion — €838 million of which it inherited on its establishment for authorised expenditure incurred by the former health boards. Eventually, the HSE will require funding to meet the liability as the expenditure has already been incurred.
- 18.44** Despite the level of engagement between DPENDPDR, the Department and the HSE, through the HBOG meetings in particular, DPENDPDR did not become aware until March 2023 that the allocation for 2022 set out in the letter of determination to the HSE exceeded the amount approved by the Oireachtas.
- 18.45** Better alignment between the HSE's national service plan and the Health Vote has been a recommendation for reform since the *Considine Report* in 2008. The PBO also recommended improvements and better alignment of the budgeting and reporting systems in 2018.
- 18.46** The HSE's legacy financial reporting systems, combined with the overall complexity of the health system, has heretofore impacted the reporting of expenditure and budgetary matters in a more transparent and accessible manner. It is expected that the roll out of the HSE's new Integrated Financial Management System will improve the reporting process.
- 18.47** While the integrated system is being implemented, revision of the Vote structure is being planned for the 2025 estimate to achieve better alignment between the HSE's national service plan and the Health Vote.

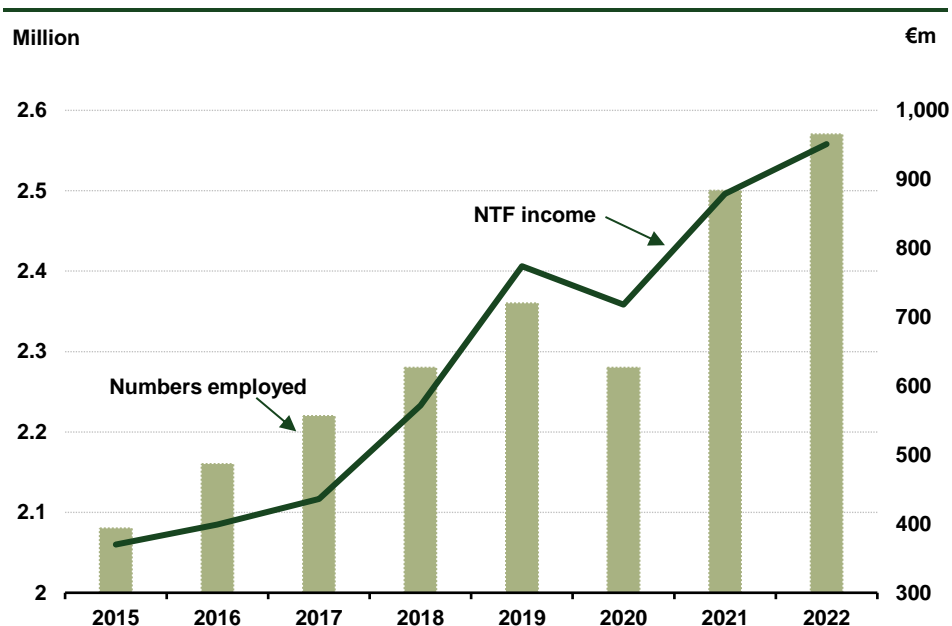
19 National Training Fund

- 19.1** The National Training Fund (NTF) was established by the National Training Fund Act 2000 (the Act) as a dedicated fund to support employment-focused training. The Department of Further and Higher Education, Research, Innovation and Science (the Department) has responsibility for the management and utilisation of the resources of the fund, and for the related annual financial reporting.
- 19.2** Section 7 of the Act provides that payments may be made from the fund in respect of schemes which are established to
- raise the skills of those currently in employment
 - provide training to those who wish to acquire skills to take up employment, or
 - provide information in relation to existing, or likely future, requirements for skills in the economy.
- 19.3** The NTF is funded by way of a levy on employers collected through pay related social insurance (PRSI). The income of the fund in 2022 amounted to €951 million, and there was a surplus for the year of €269 million. By the end of 2022, the fund had an accumulated surplus of €1.372 billion.
- 19.4** This examination was undertaken to review the factors giving rise to the accumulated surplus, and the progress made in the implementation of recommendations to reform the NTF.¹

Funding the NTF

- 19.5** The Act provides for funding of the NTF through the imposition of a levy on employers in respect of certain employees. The levy is currently set at a rate of 1% of reckonable earnings in respect of employees in Class A and Class H PRSI employments who represent approximately 75% of all insured employees. The levy is paid by the employers i.e. it is not a deduction from the employees' gross incomes.
- 19.6** The levy is collected by Revenue as part of the PRSI collection system and is remitted with the PRSI receipts to the Social Insurance Fund (SIF) managed by the Department of Social Protection (DSP). Each year, DSP undertakes statistical analysis of the PRSI collection data to apportion the receipts between the SIF and the NTF.
- 19.7** Income allocated to the NTF has increased significantly in recent years (see Figure 19.1). NTF income in 2022 (€951 million) was more than double that reported in 2017 (€436 million). The increase is the result of the combined impacts of higher numbers in employment, increases in reckonable earnings and increases to the levy rate.
- 19.8** The fund income is generally pro-cyclical, increasing during periods of high employment and decreasing when employment levels fall. An increase in the numbers employed in the State increases the income base upon whom the levy may be charged. A total of 490,000 more people were employed in 2022 than in 2015, an increase of 24%.

¹ A review of the NTF was carried out in 2018, and in 2019, the Department published [an implementation plan](#) to address the 14 recommendations made in the review.

Figure 19.1 NTF income and numbers employed, 2015 to 2022

Source: Central Statistics Office, Labour Force Survey. Analysis by the Office of the Comptroller and Auditor General.

Note a Numbers employed are shown at a national level to provide context. The NTF levy applies to reckonable earnings of Class A and Class H PRSI employees, estimated at 75% of all insured employees.

Levy rate increases

19.9 In 2016, the Expert Group on Future Funding for Higher Education produced a report (the Cassells report) which examined the long-term sustainable funding of higher education.¹ The Group recommended an increase in core funding of the higher education sector to €600 million in 2021, rising to €1 billion in 2030. They also recommended that the NTF levy rate be increased as a means of employers contributing to the increase in higher education funding.

19.10 As part of the annual budgetary process, the rate of the levy was increased by 0.1% per annum in each of the years 2018 to 2020, from a baseline rate of 0.7% in 2017 (see Figure 19.2). This represents an increase of 42% between the levy rate applied in 2017 and the levy rate applied from 2020 on.²

Figure 19.2 Rate of the levy charged on reckonable earnings (Class A and Class H PRSI employments), 2017 to 2020

Year	Rate of levy
2020 and later	1.0%
2019	0.9%
2018	0.8%
2000 to 2017 incl.	0.7%

Source: NTF Act 2000 and Social Welfare Acts 2017 to 2019. Analysis by Office of the Comptroller and Auditor General.

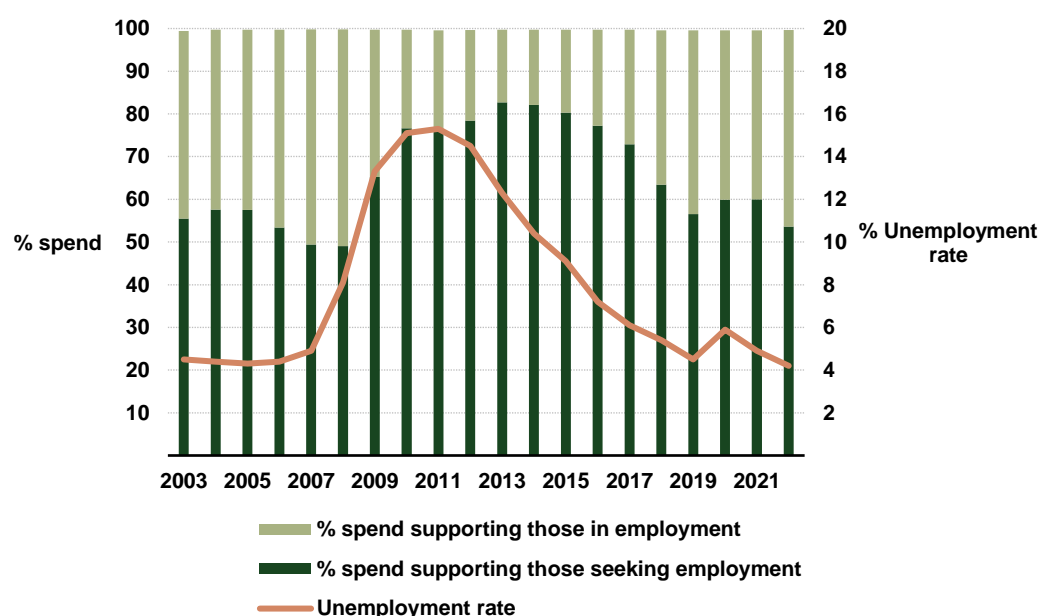
¹ [Investing in national ambition: a strategy for funding higher education](#), was published in March 2016.

² The rate increases were implemented through the Social Welfare Acts 2017 to 2019.

Schemes funded by the NTF

- 19.11** Funding from the NTF is allocated by the Minister for Further and Higher Education, Research, Innovation and Science with the consent of the Minister for Public Expenditure, National Development Plan Delivery and Reform, in accordance with the provisions of the Act. The allocation is generally determined as part of the annual estimates process. The NTF does not form part of the vote of the Department but is presented as an annex to the published estimates.¹
- 19.12** A broad range of types of schemes can be funded under the terms of the Act. This is intended to facilitate flexibility and agility in responding to economic and labour market conditions. Expenditure from the NTF is categorised mainly as: expenditure to support those in employment; and expenditure to support those seeking employment.² In practice, NTF funding has generally been allocated in response to changes in unemployment rates (see Figure 19.3).

Figure 19.3 NTF expenditure allocation and rate of unemployment, 2002 to 2022

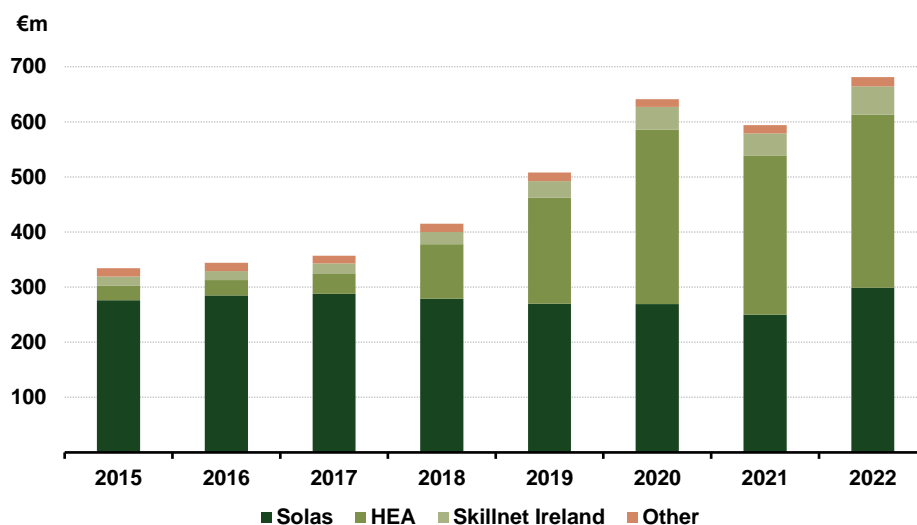


¹ In presenting estimates and reports on voted expenditure, the Department of Public Expenditure, National Development Plan Delivery and Reform (DPENDPDR) includes the Social Insurance Fund and the NTF in total gross voted expenditure. These are not voted appropriations, but DPENDPDR considers that their inclusion provides a more complete picture of overall Government expenditure.

² A small amount of funding is also allocated to research on the provision of skills.

Source: NTF financial accounts, Central Statistics Office, Labour Force Survey. Analysis by the Office of the Comptroller and Auditor General.

- 19.13** The NTF funds training programmes through a number of grantee bodies. The Higher Education Authority (HEA) and SOLAS are the main recipients of NTF funding in recent years, together accounting for over 90% of annual allocations. This funding includes the cost of providing apprenticeships/training courses, training allowances paid to apprentices (and other NTF funded programmes within SOLAS), enterprise-focused higher education provision and the 'human capital initiative' (see Annex 19A).
- 19.14** Expenditure allocated from the NTF has almost doubled over the period 2017 to 2022 (see Figure 19.4). Annual funding allocated to the HEA has increased from 10% of annual NTF expenditure in 2017 (€37 million) to over 46% in 2022 (€314 million). This is reflective of the decision to use additional income from levy rate increases to provide substantial funding to the higher education sector.

Figure 19.4 NTF expenditure per grantee, 2015 to 2022

Source: NTF annual financial statements 2015 to 2022. Analysis by the Office of the Comptroller and Auditor General.

Monitoring and oversight of grantees

- 19.15** In accordance with the *Code of Practice for the Governance of State Bodies*, the Department is required to have an oversight agreement and a performance delivery agreement (PDA) in place with state bodies under its aegis. Figure 19.5 compares the oversight and reporting arrangements in place with the three main recipients of NTF funding.
- 19.16** End of year reviews are completed (by grantees) on a standardised form. Each one includes information on the purpose of the funded initiatives, a summary of planned and actual expenditure and a declaration that the NTF grantee has
- complied with the conditions assigned to the allocation of funding from the NTF and
 - used the funds in accordance with the provisions of the Act.

Figure 19.5 Monitoring and oversight of grantees for 2022

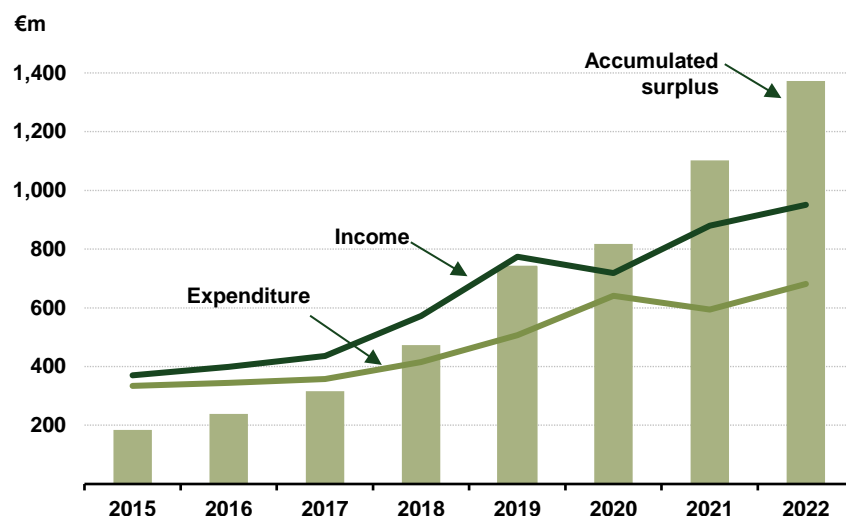
Grantee	Allocated €000	Oversight agreement refers to NTF	Reporting mechanism for NTF funding
Higher Education Authority	313,591	No	End of year review for each programme funded via the NTF
SOLAS	299,281	Yes	No direct reporting on NTF funded programmes References to NTF included in SOLAS published annual report
Skillnet Ireland	51,155	Yes	Consolidated year-end review reporting on targets as set out in performance delivery agreement.

Source: Department of Further and Higher Education, Research, Innovation and Science. Analysis by Office of the Comptroller and Auditor General.

- 19.17** However, we found a lack of consistency in the oversight and reporting mechanisms in place for the bodies in receipt of NTF funding.
- Prior to 2023, the annual oversight agreements and PDAs in place between the Department and the HEA did not specifically refer to NTF funding, despite the HEA receiving over €1 billion from the NTF since 2019. However, NTF references have been introduced in the 2023 agreements. The Department stated that the 2023 PDA agreement with the HEA makes reference to administration of funds from the NTF, and NTF related targets.
 - The HEA provided a separate year-end review for each programme funded by the NTF. However, as there was no reference to NTF performance indicators or associated targets included in the PDA between the Department and the HEA (prior to the 2023 agreement), it is difficult to assess the reported delivery for the year.
 - SOLAS does not complete year-end reviews to report on the use of NTF funds to the Department. Instead, the Department relies on its monthly monitoring of SOLAS funding drawdowns and information published by SOLAS in its annual accounts to monitor the use of NTF funds.
- 19.18** SOLAS receives a combination of Exchequer funding and NTF funding. It is not readily identifiable from the SOLAS annual report how NTF funding has been allocated across their programmes. The Department stated that expenditure allocated to SOLAS is monitored through the Department's on-going close working relationship with SOLAS.
- 19.19** SOLAS does not make an explicit declaration that the NTF funds have been applied for the uses intended. The oversight agreement in place with SOLAS, for the period 2022 - 2025, sets out the responsibility of SOLAS to manage NTF funding in line with the requirements of current NTF policy. The Department has stated that it will engage with SOLAS to ensure that a certificate of assurance in relation to NTF expenditure is included in future annual reports produced by SOLAS.

NTF surplus

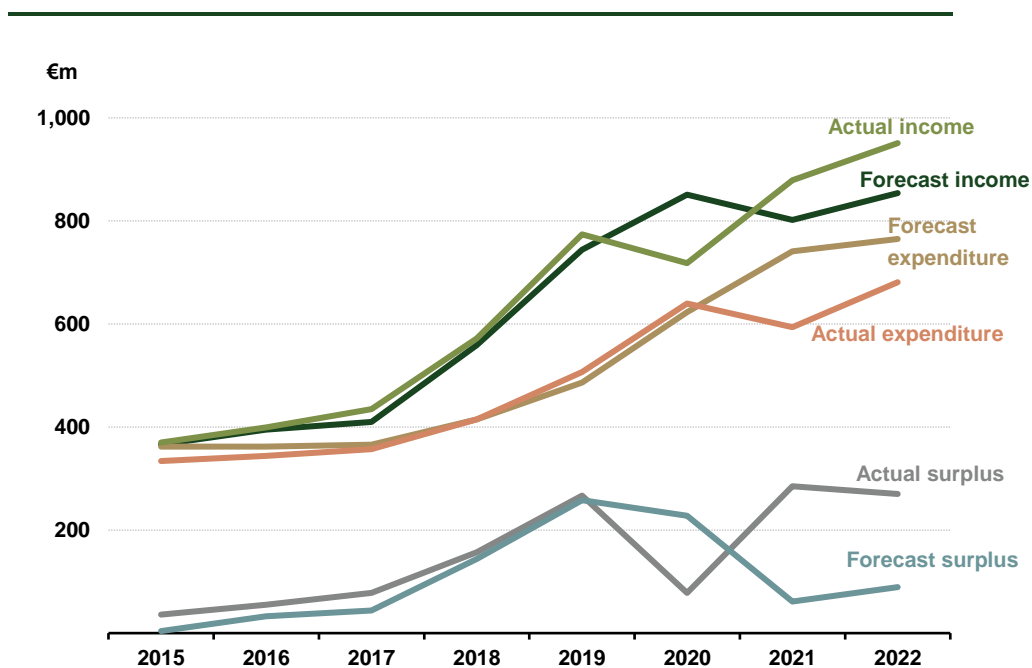
- 19.20** In the period of the fund's operation, a surplus of income over expenditure has been reported in all but four years. The last year expenditure exceeded income was 2014, when a deficit of €7.9 million was reported (see Annex 19B).
- 19.21** As shown in Figure 19.6, the year-end accumulated surplus of €1.37 billion in 2022 is over seven times that recorded in 2015 (€184 million). Income has grown faster than expenditure, and by 2022 expenditure was equivalent to just 72% of annual income. The Department has stated it is anticipated that the surplus will continue to grow to €1.5 billion at the end of 2023 and potentially €2 billion by 2025, based on current projections.
- 19.22** A prudent level of reserves in the NTF is necessary to guard against the uncertainties of the economic cycle and to ensure sufficient resources are available to deliver programmes when required. However, the level of surplus of almost €1.4 billion at year-end 2022 would be sufficient to fund total 2022 expenditure twice over, and exceeds the amount required for a prudent reserve.

Figure 19.6 NTF income, expenditure and accumulated surplus 2015 to 2022

Source: NTF annual financial statements 2015 to 2022. Analysis by the Office of the Comptroller and Auditor General.

- 19.23** The Act requires that moneys standing to the credit of the fund, not required to meet current expenditure, should be held in an investment account of the fund.¹ At 31 December 2022, the accumulated surplus was lent to the National Treasury Management Agency (through the purchase of Exchequer notes). This short-term lending maintains the liquidity of the fund and minimises risk exposure of the assets.
- 19.24** Figure 19.7 compares the forecast NTF income and expenditure (as per the initial estimates) with the actual outturn for recent years. Until 2019, the level of surplus achieved was broadly in line with that planned. The Covid-19 pandemic impacted on income collected due to a fall in the numbers in employment, and on expenditure due to a reduction of in-person training places funded.
- 19.25** In both 2021 and 2022, income exceeded forecast levels, and expenditure was lower than anticipated. The additional funding is not problematic, but the shortfall in planned delivery of training is.
- 19.26** The Department acknowledges that the current level of accumulated surplus is in excess of the level required to maintain programme funding in a period of economic decline. In addition, it has accepted that the continuous increase in surplus is not a sustainable position. It has put forward proposals for increasing spending through the annual estimates processes. As part of 2024 process, the Department has submitted a plan to government to increase NTF expenditure through training initiatives targeted at future skills requirements and more extensive funding of the higher education sector.

¹ The Minister for Finance manages and controls the investment account of the Fund.

Figure 19.7 Forecast and actual income, expenditure and surplus, 2015 – 2022

Source: NTF annual financial statements 2015 to 2022 and Estimates for the Public Services 2015 to 2022. Analysis by the Office of the Comptroller and Auditor General.

Spending the surplus

19.27 The estimated expenditure of the NTF is included within the expenditure ceiling limit of the Department, and is reported on as part of total government expenditure. In 2022, forecast NTF expenditure was €765 million, representing 25% of the Department's 2022 core expenditure ceiling, and around 1% of core government expenditure forecast for that year.¹

19.28 Increased levels of spending funded from the NTF accumulated surplus would increase the Department's expenditure, and in turn, total government expenditure, unless offset by a reduction in spending elsewhere. Therefore, plans to spend the NTF surplus must be considered within the context of budgetary policy and EU fiscal rules.^{2,3}

1 Based on forecasts set out in the 2022 revised estimates and the budget expenditure report 2022.

2 Current budgetary policy as per *Summer Economic Statement, July 2023* is to limit growth in government expenditure levels (between 2023 and 2024) to 6.1%.

3 EU fiscal rules under the Stability and Growth Pact, include an expenditure benchmark rule that contains the growth rate of government spending at or below a country's medium-term potential economic growth rate.

Reform of the NTF

19.29 As part of the Government's decision to increase the levy rate, a commitment was given to reform the NTF. In 2017, the Department embarked on a consultation process with employers and subsequently commissioned an independent review of the NTF (the 2018 review).

19.30 The 2018 review examined the existing operation of the NTF and highlighted four key areas of reform (see Figure 19.8). The review made 14 detailed recommendations across these four areas. Annex 19C sets out the current status of each of the recommendations.

Figure 19.8 Timeline of planned reforms

Year	Report / event	Reforms recommended
2016	<i>Investing in National Ambition</i> (Cassells report)	Extend the scope of the NTF to include greater support for programmes in higher education. Increase the levy to support this.
2017	Employer consultation process	Carry out a comprehensive review of the NTF. Additional and refocused expenditure on programmes relevant to employers. Align the NTF better with employer needs. New funding models in higher and further education and training incorporating performance agreements aligned with local, regional and national priorities.
2018	<i>Review of National Training Fund</i>	Reform the future direction of the NTF. Utilise the NTF to support investment in higher education. Enhance enterprise engagement and input into NTF priorities. Improvements in monitoring/evaluation of the NTF.

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

- 19.31** Following publication of the 2018 review, an implementation plan was developed and published. The timeline set out in the plan was to address the majority of the recommendations in 2018 and 2019, so that all agreed reforms would be implemented when 2020 expenditure decisions were being made. This aligned with the full implementation of the levy rate increase.
- 19.32** The examination found that in three of the four key reform areas, there is evidence that the planned reforms have been implemented.
- The recommendations focused on the future direction of the NTF, and using the fund to support investment in higher education have been, and continue to be, addressed through the annual estimates process and the allocation of expenditure from the fund.
 - Improvements have also been made to enhance enterprise engagement and input into NTF priorities. An NTF advisory group was established in 2018, chaired by an employer representative. The views of the NTF advisory group are shared as part of the estimates process through an advice note issued to the Department.
- 19.33** However, recommendations focused on the final key reform — improving monitoring and evaluation of the NTF — have not progressed in line with the timelines set out in the implementation plan. The Department has stated that these are still in progress.

NTF performance measurement

- 19.34** Since 2018, the Department has produced an annual report setting out the expenditure allocations, targets and indicators for each programme in receipt of funds from the NTF. The targets and indicators included in the NTF annual reports relate to measuring input and activity levels. For example, the reports include information on actual spend against estimated spend, and actual numbers of scheme places taken/people enrolled against targeted numbers.

- 19.35** The 2018 review stated that performance measures were required in order to provide an evidence base to inform prioritisation of NTF expenditures. The review also recommended that performance measures should focus not just on activity levels, but also on outcomes and impacts. Examples of suggested metrics include
- rate of progression of trainees to employment
 - frequency of employment placements
 - education progression outcomes
 - certification or qualifications achieved by trainees as part of funded training
 - training course completion rates.
- 19.36** One of the agreed actions following the 2018 review was to publish an NTF evaluation report on an annual basis from 2020 onwards, to allow programmes to be funded on an outcome-based approach. This has not been actioned to date.
- 19.37** Formal evaluation is ongoing or has been completed on a number of NTF funded programmes. However, these evaluation reviews are commissioned by the grantees. The Department has no involvement in selecting the programmes to be reviewed, and is not involved in the evaluation process. The Department has stated that it reviews the findings and recommendations of the evaluations and gives consideration to any policy issues arising.

Conclusions and recommendations

- 19.38** NTF income has increased in recent years due to the impact of higher numbers in employment, increases in the levy rate and rising incomes. The levy rate was increased over the period 2018-2020, but associated planned reforms to the NTF have taken longer to implement than originally intended.
- 19.39** NTF funding allocated to the higher education sector via the HEA has increased almost ten-fold in recent years. However, the oversight agreement and performance delivery agreement in place with the HEA did not reflect NTF-related performance indicators, or associated targets.
- 19.40** Furthermore, SOLAS receives a significant portion of NTF funding each year (44% in 2022), but there is no formal reporting process in place between the Department and SOLAS on the use of NTF funds.

Recommendation 19.1

The Department should review the performance delivery arrangements in place with each of the NTF grantees to ensure that specific NTF performance targets are included. The Department should also ensure that there is a clear reporting link between the end-of-year reviews and the targets agreed in the performance delivery agreements.

Accounting Officer's response

Agreed

The Department will review the performance delivery agreements in place with aegis bodies — SOLAS, Skillnet Ireland and the service level agreements with the remaining NTF grantees

Timeline for implementation

Quarter 1 2024

- 19.41** The NTF had an accumulated surplus of €1.372 billion at 31 December 2022 which has grown considerably since 2015. The Department has projected that the surplus will continue to increase.
- 19.42** The accumulated surplus is acknowledged by the Department as being in excess of the level required to maintain programme funding in a period of economic decline. However, plans to spend the accumulated surplus may be constrained in the context of budgetary and EU fiscal policies.
- 19.43** The NTF has been subject to a comprehensive external review which made a number of recommendations, the majority of which have been implemented through the annual estimates process and the allocation of funding. However, there has been little progress on the recommendations aimed at improving the monitoring and evaluation of the NTF.
- 19.44** The NTF does not have a standard approach or a standard set of performance metrics to assess the effectiveness of its own performance or that of its grantee bodies. The performance metrics currently used by the NTF are input or activity based rather than results/output based.

Recommendation 19.2

The NTF should develop a series of standard metrics against which to evaluate the effectiveness of its overall performance and the performance of the bodies it funds. The performance metrics developed should focus on the effectiveness of the NTF spend by measuring outcomes rather than levels of activity in schemes/programmes and numbers participating in schemes.

Accounting Officer's response

Agreed

The Department recognises that performance metrics are currently focused on activity levels, and do not include metrics which measure progression outcomes achieved by programme participants. As part of the Department's joint research programme with the ESRI for the period 2022-2024, we will engage with our partners on the development of a set of metrics to underpin an ongoing evaluation of the NTF

Timeline for implementation

Quarter 3, 2024

- 19.45** A number of NTF funded programmes have been evaluated through reviews commissioned directly by the grantees. However, the Department had no role in selecting which programmes are evaluated, and it is unclear what action, if any, the Department takes on review of the evaluation reports.

Annex 19A National Training Fund spending, by grantee, 2015 – 2022

Grantees	Programmes/ Schemes	2015	2016	2017	2018	2019	2020	2021	2022
		€000	€000	€000	€000	€000	€000	€000	€000
Training for those in employment									
HEA	HEA — Springboard+	—	—	—	—	6,888	27,550	25,113	31,050
	HEA — Apprenticeship	—	435	4,286	32,000	37,000	44,000	44,000	59,599
SOLAS	Apprenticeship	42,600	54,665	65,599	86,650	122,954	112,480	106,696	150,191
	SOLAS Traineeship	—	—	—	1,500	2,900	2,900	2,900	2,900
	Employee and CPD ^a	2,800	2,799	2,800	3,000	12,893	20,300	13,241	15,386
Skillnet Ireland	Training Networks Programme	12,636	12,636	16,380	19,530	27,649	35,549	35,449	45,706
IDA	Training grants to industry	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Enterprise Ireland	Training grants to industry	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500
The Wheel	Community and Voluntary Organisations	375	375	375	375	600	900	1,140	1,140
Institute of Engineers Ireland	Employee and CPD	75	75	75	75	250	250	400	400
SPEE ^b	Regional Skills Innovation	—	—	—	445	544	292	294	539
Training for those seeking employment									
HEA	Enterprise focused HE provision	—	—	5,598	37,000	120,100	177,587	148,352	152,555
	Springboard	22,438	20,438	26,753	30,170	27,550	20,888	10,238	10,388
	ICT Skills Conversions course	5,000	7,380	—	—	—	—	—	—
	Human Capital Initiative	—	—	—	—	—	46,883	60,000	60,000
SOLAS	Training People for Employment	212,008	216,266	218,489	187,738	130,485	132,626	126,996	130,174
	VTOS ^c	6,000	6,000	—	—	—	—	—	—
	LMETF ^d Momentum	11,800	5,100	834	—	—	—	—	—
Skillnet Ireland	Training Networks Programme	3,564	3,564	1,820	2,170	2,351	5,449	5,449	5,449
European Globalisation Fund	European Globalisation Fund	—	180	75	—	—	—	—	—
Department of Social Protection	Training Support Grants	3,200	2,900	2,486	2,223	2,169	1,203	1,812	2,352
	Community Employment Training	4,200	4,200	4,200	4,200	4,200	3,336	3,147	3,684
	Work Placement Experience Programme	—	—	—	—	—	—	103	819
Miscellaneous	NTF Research/Miscellaneous	79	5	19	—	—	—	—	—
Provision of information on skills requirements									
SOLAS	Skills and Labour Market Research Unit	370	370	480	480	480	580	580	630

Grantees	Programmes/ Schemes	2015	2016	2017	2018	2019	2020	2021	2022
		€000	€000	€000	€000	€000	€000	€000	€000
Department of Enterprise Trade and Employment	Expert Group on Future Skills Needs	336	278	343	460	483	448	523	487
Skills Planning and Enterprise Engagement	Regional Skills Fora	—	—	—	845	1,047	1,154	1,201	1,349
Miscellaneous	NTF Research and miscellaneous	—	—	—	—	—	3	—	—

Source: Department of Further and Higher Education, Research, Innovation and Science. Analysis by the Office of the Comptroller and Auditor General.

Notes:

a	CPD	Continuous Professional Development.
b	SPEE	Skills Planning and Enterprise Engagement.
c	VTOS	Vocational Training Opportunities Scheme.
d	LMETF	Labour Market Education and Training Fund.

Annex 19B NTF income, expenditure and surplus to end 2023

Year	Income	Expenditure	Annual surplus/ (deficit)	Accumulated surplus
	€m	€m	€m	€m
2001	200	169	31	31
2002	241	205	36	68
2003	252	234	18	86
2004	275	277	(1)	84
2005	330	313	17	101
2006	374	353	21	122
2007	433	395	39	161
2008	419	399	20	181
2009	375	366	8	189
2010	310	395	(85)	104
2011	400	326	74	178
2012	318	341	(23)	155
2013	350	349	1	156
2014	339	347	(8)	148
2015	370	334	36	184
2016	399	344	54	238
2017	436	357	78	317
2018	572	415	157	473
2019	774	507	267	740
2020	718	641	77	817
2021	879	594	285	1,103
2022	951	681	269	1,372
2023 ^a	1,021	901	120	1,492

Source: National Training Fund annual accounts. Apparent differences in totals are due to rounding.

Note: a Revised Estimates 2023.

Annex 19C Status of recommendations of 2018 external review report at end August 2023

#	Recommendation	Status end August 2023
Reform of future direction of the NTF		
1.	There is a need to set direction for the NTF as a strategic national asset, to focus on investment in close-to-labour market skill requirements, and in targeted interventions to support enterprise training and preparing individuals to take up employment opportunities.	The Pact for Skills paper has been developed in consultation with NTF advisory group and the Department of Enterprise, Trade and Employment. The paper has been submitted to the Department of the Taoiseach for consideration.
2.	Part of the NTF surplus should be prioritised to support additional higher education/further education and training expenditures and the development of labour market skills, subject to the availability of fiscal space for this purpose.	The Human Capital Initiative, involving investment of €300 million over 2020 – 2024 administered by the HEA, is delivering an investment targeted towards increasing capacity in higher education in skills focused programmes designed to meet priority skills needs.
3.	There should be an increased focus on supporting in-company training underpinning increased productivity and innovation capacity particularly in SMEs, including through introducing a new innovative pilot initiative to reflect refocussed objectives of the NTF.	Skills to Advance, launched by SOLAS in 2018, has been expanded significantly with additional funding and supports to SMEs to invest and develop their workforce and industry sectors with particular skills needs. Support for Skillnet Ireland has increased with the number of companies assisted reaching 24,747 in 2022. In addition, Skillnet's MentorWork 12-week business programme provides targeted supports to SMEs.
4.	There should be a reallocation of NTF funding of further education and training for employment programmes below NFQ Level 5 to the Exchequer and substitute these with close-to-labour market programmes.	Process complete — Post Leaving Certificate programmes transferred to NTF funding from 2023.
Utilising NTF to support higher education		
5.	NTF should be deployed to support close-to-labour-market skills programmes in areas of identified skills need.	Support for enterprise focused higher education programmes has been increased significantly with 44,500 participants supported in 2022.
6.	In principle, the NTF should fund complete programmes rather than partially funding wider expenditure. In higher education, the NTF should fund all of some programmes as was the case for 2018 rather than providing small levels of partial funding for a much wider range of Higher Education programmes. These funded programmes should be clearly identified each year.	The student numbers in the identified skills areas are included within total student numbers returned for funding on an annual basis by the HEA. In 2022, the funding was directed towards the following skills needs areas: financial services, construction, science and engineering, and ICT.
7.	NTF should fund SME upskilling as a target theme in higher education competitive fund programmes.	84 higher education institutions with 427 enterprise partners are involved in individual and collaborative projects including the Human Capital Initiative.
Enhancing enterprise engagement and input to NTF priorities		
8.	While recognising legislative requirements for public expenditure programmes, measures to significantly enhance enterprise input to governance and prioritisation of NTF investments should be implemented.	NTF advisory group established to inform enterprise engagement process. Views of the group are shared in the estimates process and with the Minister.

#	Recommendation	Status end August 2023
9.	Greater information sharing and coordination across programmes should be introduced to increase employer buy-in.	Dedicated webpage currently being finalised. Indecon review of career guidance published in 2019 and implementation task force established. The Right Course one stop shop being developed. Work ongoing on a single portal approach for the entirety of the skills offering. SmartChoices platform developed by SOLAS supporting links to education and training options in Education and Training Boards on CAO website. Interdepartmental group established with a view to development of an overarching strategy on lifelong career guidance.
10.	A structured process should be implemented to facilitate NTF-focussed inputs from employers, employees and representative bodies prior to annual expenditure decisions.	Facilitated through the NTF Advisory Group.
11.	Consideration should be given to establishing an NTF Advisory Group, chaired by an employer representative, to submit recommendations to the National Skills Council.	NTF Advisory Group established in 2019.

Improvements in monitoring and evaluation of NTF

12.	The Department of Further and Higher Education should organise and publish an NTF evaluation report on an annual basis, to include counterfactual modelling of the programmes' impacts.	Arising from the diversity of NTF funded programmes, the Department considers that there are significant methodological and technical issues to be examined in determining how an NTF evaluation report would be effective. The Department has engaged with the ESRI by way of joint research programme for the period 2022–2024 to develop a set of metrics which will underpin an evaluation of the NTF. The current overall framework of monitoring and evaluation for the NTF includes individual service level agreements and performance delivery agreements with funded agencies. Targets are adjusted on an annual basis to reflect level of funding and previous performance. Evaluations are carried out on individual programmes by funded agencies and these are made available to the NTF.
13.	Performance metrics should be expanded to support enhanced monitoring of outcomes of all NTF-funded programmes. Metrics should include measures which track progression outcomes including <ul style="list-style-type: none"> • progression to employment • educational progression, including certification achieved • employment placement and sustainment following programme participation • completion rates. 	The Department recognises that performance metrics are currently focused on activity levels, and do not include metrics which measure progression outcomes achieved by programme participants. It is anticipated that as part of the joint research programme with the ESRI for the period 2022–2024, that the ESRI will advise on the development of progression focused metrics.
14.	Priority should be given to drive continued enhancement of data to inform evaluation of NTF.	The Department intend to engage with funding recipients on arrangements in place to collect and share data. The Department will examine any issues arising in the context of its data strategy and usefulness of data collected in evaluating performance against identified metrics.

Revenues of the State

20 Assessment and collection of Local Property Tax

- 20.1** Local Property Tax (LPT) on residential properties in the State was introduced in 2013 under the Finance (Local Property Tax) Act 2012 (the Act). The Revenue Commissioners (Revenue) are responsible for the collection of LPT.
- 20.2** The amount of LPT due each year is based on the market value of a property as at the valuation date.¹ Because it is a self-assessed tax, the property owner is responsible for assessing the current market value of their property at the relevant valuation date.
- 20.3** The first valuation date of 1 May 2013 determined the amount of LPT due from 1 July 2013 to December 2016. When the tax was introduced, it was envisaged that homeowners would be required to revalue their properties every three years i.e. 2016, 2019, etc. However, following reviews of LPT in 2015 and 2019, the revaluation date was postponed to 1 November 2020.² Due to the global pandemic, revaluation was again deferred and took place in November 2021. As a result, the first valuation date of 1 May 2013 dictated the amount of LPT liability for each year 2013 to 2021.
- 20.4** In parallel with the 2021 revaluation process, a number of changes were made to the way LPT operates. The following changes were provided for in the Finance (Local Property Tax) (Amendment) Act 2021

- 1 November 2021 was set as the new valuation date for LPT purposes for the period 2022 to 2025, with property values to be reviewed every four rather than every three years.
- Certain valuation bands were widened by 75% from 2022 onwards.³
- A number of exemptions to the payment of LPT were ended (e.g. for certain properties purchased in 2013 and houses in unfinished housing estates) and properties built since 2013 were brought into the charge for the first time.
- Income limits to qualify for LPT payment deferrals were increased and interest charged on deferred payments was reduced from 4% to 3%.

- 20.5** Operational changes were also made to the conditions when seeking clearance from Revenue prior to the sale or transfer of a residential property to take account of a second valuation period.

- 20.6** Between 2013 and 2022, just over €4.7 billion was collected by Revenue — an average of around €470 million per year (see Figure 20.1). However, the receipts indicate some significant variations in the amounts of prepayments and arrears of LPT. There was a surge in prepayments in 2021 in respect of 2022 liabilities — an additional 200,000 payments, compared to 2020 or 2022. This may reflect taxpayers' direct engagement in re-declaring property values in November 2021.

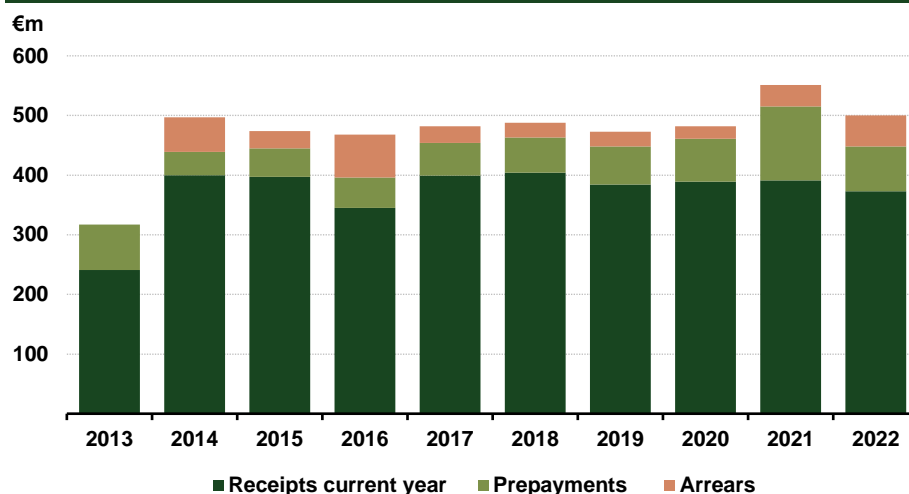
- 20.7** There is also a significant level of payment of arrears of LPT, especially marked in 2014, 2016 and 2022, when arrears amounted to 10%–15% of overall receipts.⁴ Revenue have attributed the surge in arrears in 2016 to the introduction of a new automated LPT compliance programme, and in 2022 to the resumption of compliance activity following the Covid-19 pandemic.

1 Market value is the price that would be agreed between a willing seller and a willing purchaser conducting a transaction at arm's length. The valuation date is the date by reference to which the chargeable value of a residential property is to be established.

2 Design of a local property tax, (the Thornhill report), 2015 and Review of Local Property Tax, by an interdepartmental review group in 2019.

3 Annex 20A sets out the valuation bands and charges for the first and second valuation periods.

4 A large portion (64%) of the arrears figure for 2014 related to arrears of the household charge which was payable from January 2012. From 1 July 2013, any outstanding household charges were converted to LPT and payable to Revenue.

Figure 20.1 Local property tax receipts, 2013–2022

Source: Revenue Fund Accounts 2013 to 2022

Focus of the examination

20.8 The operation of controls over LPT was previously examined and reported on in 2014.¹ Because of the substantial changes to LPT implemented in respect of 2022, it was considered timely to re-examine the operation of those controls. This report therefore focuses on Revenue's controls over

- the completeness of the database of residential properties
- the accuracy of the valuations declared by taxpayers
- the collection of LPT due from liable persons in a timely manner.

Completeness of Revenue's property register

20.9 It is challenging to maintain a fully up-to-date database on the scale involved for residential properties, which inevitably will have a degree of turnover each year, and which, in Ireland's case, contains many non-unique addresses.

20.10 When LPT was introduced in 2013, there was no existing complete database of all residential properties and their owners available to Revenue. Revenue therefore used a number of external sources of data to compile its property register including

- the Department of Social Protection
- the Residential Tenancies Board
- the Local Government Management Agency
- certain utility providers, for example, ESB
- GeoDirectory.²

20.11 Revenue also used data from its own internal sources including its systems for electronic stamp duty and tax relief at source for mortgage interest relief.

20.12 As at August 2023, Revenue's property register contained just over two million residential properties.

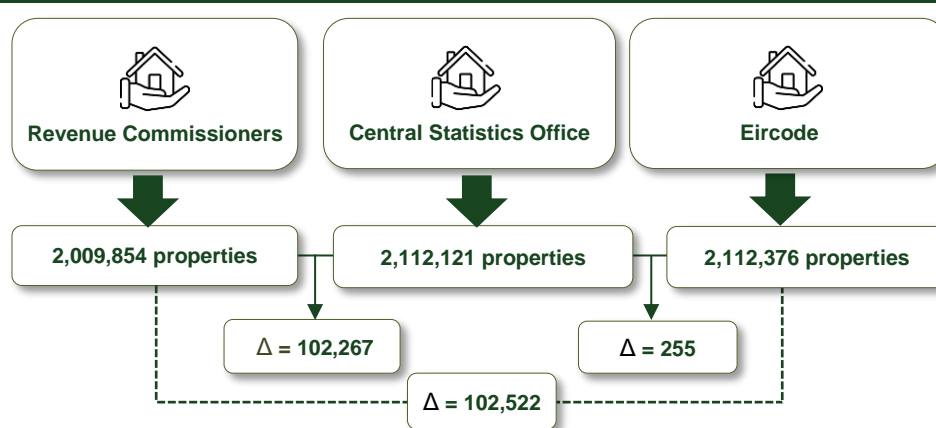
¹ See *Report on the Accounts of the Public Services 2013*, chapter 15, Local Property Tax.

² The GeoDirectory is a service, jointly established by An Post and Tailte Éireann that provides a geo-coded points database of all of the buildings that receive post in the State. Tailte Éireann is a state agency in Ireland responsible for property registrations, property valuation and national mapping services. It was established on 1 March 2023 from a merger of the Property Registration Authority, the Valuation Office and Ordnance Survey Ireland.

Data held by other Departments/State bodies

- 20.13** A number of government departments hold data on residential properties including the Central Statistics Office (CSO), and the Eircode system owned by the Department of the Environment, Climate and Communications. Both provided the examination team with information in relation to the number of properties on their property registers and how they were established and maintained.
- 20.14** Comparison of Revenue's property register with other national databases indicates a variance of up to 5% between the number of residential properties in the CSO and Eircode databases and the estimate of Revenue's residential properties (see Figure 20.2).

Figure 20.2 Registers of residential properties, 2022^a



Source: Revenue Commissioners. Central Statistics Office. Department of the Environment, Climate and Communications.

Note: a Revenue as at March 2022, Central Statistics Office as at April 2022 and Eircode as at Quarter 1 2022.

Census address register

- 20.15** The CSO carries out periodic censuses of population and housing, normally every five years. It uses its census address register (CAR) for delivery of the census forms. The CAR from the previous census is the starting point for each census cycle and it is augmented by data from the GeoDirectory database. The CSO combines additional data from external sources, within the framework of the Statistics Act 1993, to verify and enhance the register. External sources include *inter alia*
- Health Information and Quality Authority
 - Dublin Regional Homeless Executive
 - local authorities
 - Fáilte Ireland
 - Higher Education Authority and universities
 - An Garda Síochána
 - the Irish Prison Service
 - Ordnance Survey Ireland Prime2 buildings database.

- 20.16** The latest census, on 3 April 2022, found that the housing stock of 2,112,121 had increased by 5% between 2016 and 2022. Housing stock is defined as the total number of permanent residential dwellings that were available for occupancy at the time of the census. It consists of permanent private households, holiday homes and vacant houses or apartments.
- 20.17** Revenue noted that a direct comparison between the CSO's CAR and Revenue's property register is difficult as the criteria used in each are different. For example, the CSO's criteria includes dwellings such as mobile homes and shared residential care facilities which may be exempt from or not liable for LPT.

Eircode database

- 20.18** The Eircode database contains state-owned intellectual property from An Post, Tailte Éireann and the Department of the Environment, Climate and Communications, accessed through the GeoDirectory database. Information contained in the GeoDirectory database is used to assign Eircodes and develop the Eircode database and is updated each month. As of the quarter 1 2022 update, there were 2,285,580 property addresses with an Eircode on the Eircode database. Of these, 2,112,376 related to residential properties.
- 20.19** The difference between the Revenue register and the Eircode database at quarter 1 2022 was also over 100,000 premises, or around 5% as there are now minimal difference between the Eircode and CSO databases.
- 20.20** In October 2022, a comparison between the properties added to the Eircode database and Revenue's property register in the previous 12 months found almost 4,000 properties on the Eircode database without a match on Revenue's property register. Revenue concluded that these properties did not represent 'residential properties' under the terms of the Finance (Local Property Tax) (Amendment) Act 2021 as they were not yet habitable. Properties are added to the GeoDirectory database by An Post for the purpose of obtaining an Eircode. Many service providers require an Eircode as it solves the significant challenges associated with identifying the 35% of all properties in the State that share non-unique addresses. LPT liability in a calendar year only applies to properties that were habitable on 1 November of the preceding year.

Variances between databases

- 20.21** In October 2022, a National Residential Property Register Cross Departmental Group was established with representatives from Revenue, the CSO and the Department of the Environment, Climate and Communications. The initial terms of reference focussed on developing a greater understanding of the reasons for the differences in the residential property databases.
- 20.22** Revenue confirmed that the group has evolved and has become a valuable network with associated tangible outputs. For example, the CSO used ESB Networks data to produce a report in February 2023 on vacant dwelling indicators based on metered electricity consumption and the group has facilitated collaboration to ensure that Revenue uses the same methodology in establishing its preliminary vacant homes tax register.
- 20.23** Revenue has proposed that the terms of reference for the group should be amended so that it will continue to meet and to collaborate on an ongoing basis.

Maintaining the property register

- 20.24** As LPT is a self-assessed tax, Revenue relies, in the first instance, on notifications from property owners when there is a change in circumstances for their property e.g. a transfer of ownership, or a change of use. These notifications lead to a review by Revenue in all cases in order to improve the integrity and accuracy of its property register and to reduce the risk of duplicates. For example, in some cases, both spouses may separately register a property, or a builder and the new owner may each register a property subject to a sale. In addition to information received from homeowners, Revenue also uses electronic stamp duty updates from its own systems to assist with updating its property register.
- 20.25** Revenue stated that additional properties are also identified from a range of sources on an ongoing basis. These include searches for new developments, virtual checks on existing housing estates using Google maps and notifications in respect of newly liable property owners when they register their property online. While additional properties have been added to the property register following these checks, Revenue cannot confirm the number added because data is not maintained on this work.
- 20.26** Revenue also carries out specific projects to improve the accuracy and completeness of its property register (see Figure 20.3). While the main aim of the projects is to verify data already held on the register, they can also contribute towards the identification of properties that should be on the register.

Figure 20.3 Revenue projects to update its property register^a

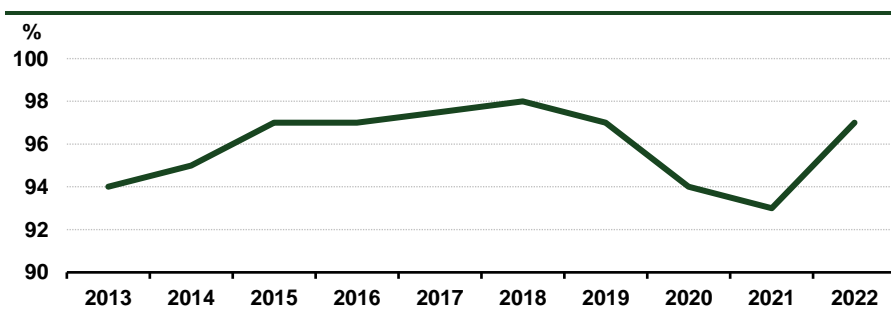
Project	Outcome
Eircode project, October 2020 – September 2021 Around 829,000 properties (42%) on Revenue's property register with no Eircode. Revenue conducted a data matching exercise between the GeoDirectory and its property register.	As at August 2023 — 89% of properties on the property register were matched to an Eircode. As the purpose of the exercise was to identify Eircodes for properties already on Revenue's property register, very few new liable properties were identified.
GeoDirectory list, July – August 2021 Revenue carried out a matching exercise between the GeoDirectory and its property register — 1,411 cases were identified as requiring further work.	57 additional properties registered for LPT. Revenue identified that just one of these properties was deemed to have been liable, and should have been registered, with effect from May 2013. The other properties became liable from November 2021.
Uninhabitable list, August – October 2021 A list of 16,136 cases which had an 'uninhabitable' marker on Revenue's property register were extracted for review.	The review identified 361 cases that were no longer regarded as uninhabitable, and are liable to LPT from 2022 onwards. The remaining 15,775 cases remained on the property register marked as uninhabitable.
Ceased stamp duty list, August – September 2021 A list of 6,621 properties where a stamp duty document was filed since 2013 using a ceased property ID was reviewed.	329 ceased residential properties were reactivated and became liable for LPT from 2022 onwards. Data was not readily available to confirm if any of these properties was liable to LPT in 2013, but a spot check did not identify any such cases.
Properties with uninhabitable status, January 2023, phase 1 completed March 2023, phase 2 is ongoing^b There are approximately 18,000 properties marked as uninhabitable on the property register — a planned 200 of these were selected for review with the aim of checking compliance with the criteria required to retain uninhabitable status.	243 cases were reviewed in total. 88 (36%) of the properties reviewed were accepted as fulfilling the criteria for uninhabitable status; 59 taxpayers (24%) have filed returns or taken some action to reach compliance and 96 taxpayers (40%) made no contact.

Source: Office of the Comptroller and Auditor General

Notes: a Revenue did not complete specific LPT projects in 2022 due to implementing systems and processes to meet its obligations in relation to the revaluation process that year.
 b This project is being completed in preparation for the introduction of the Vacant Homes Tax.

LPT payment compliance rate

20.27 The LPT payment compliance rate reported by Revenue for 2022 was 97% (see Figure 20.4). This indicates a return to the payment compliance rates reported between 2015 and 2019, following a dip to 94% and 93% in 2020 and 2021.

Figure 20.4 LPT payment compliance rates reported by Revenue, 2013 to 2022

Source: Annual reports of the Revenue Commissioners

- 20.28** The LPT payment compliance rate for each year is published by Revenue in its annual report, which normally issues in quarter 2 of the following year, and reflects the position at that point in time. The compliance rates for individual years can increase further over time as a result of the compliance programmes carried out by Revenue.
- 20.29** Revenue's normal compliance activity for LPT includes the issuing of automated compliance letters reminding homeowners of their obligations. Automated letters were not issued in 2020 or 2021 due to the suspension of Revenue's general enforcement activity as a result of the Covid-19 pandemic. This coincided with a 3%-4% reduction in payment compliance rates reported for those years when compared with 2019.
- 20.30** Revenue resumed the issuing of automated compliance letters to homeowners in 2022, including those who had outstanding returns and/or payments for 2020 and 2021. As a result, payments of LPT were made in respect of arrears, and the payment compliance rates for both 2020 and 2021 had increased to 98% at August 2023.

Calculation of LPT payment compliance rates

- 20.31** Figure 20.5 sets out the basis of calculation of the LPT payment compliance rate for 2022. The rate takes account of
- almost 176,000 properties that paid LPT and do not need to submit a return — local authorities and approved housing bodies
 - almost 24,000 payments received but no LPT return was filed
 - just over 45,000 properties where an annualised payment arrangement is in place but an LPT return was not filed
 - an estimated 10,000 properties that are assumed will result in payment, but as yet processing is incomplete.

Figure 20.5 Calculation of LPT compliance rate for 2022, as at August 2023

Properties registered on Customer Registration System	2,018,671	
Less identified uninhabitable properties	(19,089)	1,999,582
Properties with return filed and payment made		1,697,245
Paid and fully filed compliance rate		85%
Estimate of unprocessed compliant cases ^a	10,000	
Local authority-owned properties	148,578	
Approved housing bodies' properties	27,336	1,883,159
Return compliance rate		94%
Payment received with no return yet	23,868	
Annualised payment properties	45,536	1,952,563
Payment compliance rate		98%
Non-engagers	47,019	2%

Source: Revenue Commissioners

Note: a As at August 2023, there were approximately 60,000 work items related to LPT in progress or awaiting attention. Revenue include a notional number in respect of work items in the calculation to represent homeowners that may have submitted a return/payment that is included in the work items but that has not yet been processed by Revenue.

- 20.32** By August 2023, the owners of only around 47,000 identified liable properties had not engaged (equivalent to 2% of the liable properties). Based on the LPT charge of €225 per property for the average valuation band (band 2), nearly €11 million in LPT receipts may not yet have been collected as a result of non-compliance for 2022. Any outstanding LPT amounts remain as a charge on the property.

Accuracy of property valuations

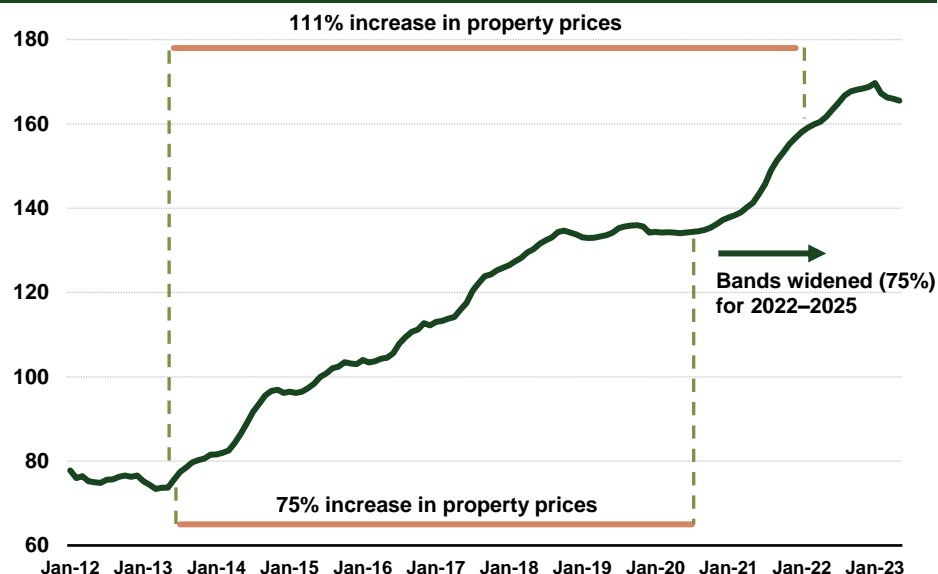
- 20.33** As a self-assessed tax, property owners are obliged to value their property (or properties) at the statutory valuation date, for LPT purposes. The value is declared by reference to valuation bands specified by law.
- 20.34** In 2013, Revenue developed an online interactive valuation guide to help property owners determine the market value of their property (or properties). This provided an estimated valuation band for residential properties in each area, as at May 2013. The valuation guide informed the 'notice of estimate' issued by Revenue to property owners at that time.¹ Revenue's estimated valuation band did not relieve property owners of their responsibility for valuing their property, and the notified band was displaced on submission of a return filed by the property owner.
- 20.35** The second valuation reference date was November 2021, which is effective for the LPT liability for the calendar years 2022 to 2025 inclusive. One of a number of changes to the LPT regime implemented by the Finance (Local Property Tax) (Amendment) Act 2021 was the adjustment of the LPT bands and the associated payment amounts, in view of the substantial increase in house prices since 2013, with the intention that most homeowners would face no increase in their LPT liability.² Adjustments to the rate of LPT payable were implemented in a progressive manner.³ While increasing the aggregate LPT yield was not the general aim, some increase in yield was expected as certain exemptions that applied for the 2013-2021 period are not available from 2022, and some properties that were outside the charge to LPT became liable to the tax for the first time from 2022.
- 20.36** The change to the valuation bands broadly involved a 75% increase in the band thresholds based on movements in the CSO's annual residential property price index (RPPI) from 2013 to 2020. Revenue has stated that due to a requirement for legislative amendments as well as the need for essential technical and administrative preparations, decisions by Government on changes to the valuation bands had to be made as early as possible to ensure readiness for the November 2021 revaluation date.
- 20.37** Notwithstanding the long-term price trend indicated by the RPPI, the increase to the LPT bands did not include a forward projection to attempt to account for the further increase in property prices that was likely to occur between the reference period upon which the new bands were based and the November 2021 valuation date (see Figure 20.6 below).
- 20.38** While the data for 2021 was not available at the time the decision was made to widen the bands, subsequent CSO data shows that
- the annual RPPI indicates that, on average, residential property prices increased by around 90% from 2013 to 2021
 - the monthly RPPI indicates that average residential property prices increased by around 111% from May 2013 to November 2021.⁴

1 A 'notice of estimate' is an estimated valuation band that is applied by Revenue until an LPT return is filed by the homeowner.

2 Statement by the Minister for Finance on publication of the Finance (Local Property Tax) (Amendment) Bill 2021, June 2021 (see [here](#)).

3 While the LPT charges for the first 11 bands remained the same, the amounts payable for properties in higher valuation bands increased.

4 The CSO advises care should be taken when interpreting monthly changes which may indicate residual short-term volatility rather than underlying change in longer-term price trends.

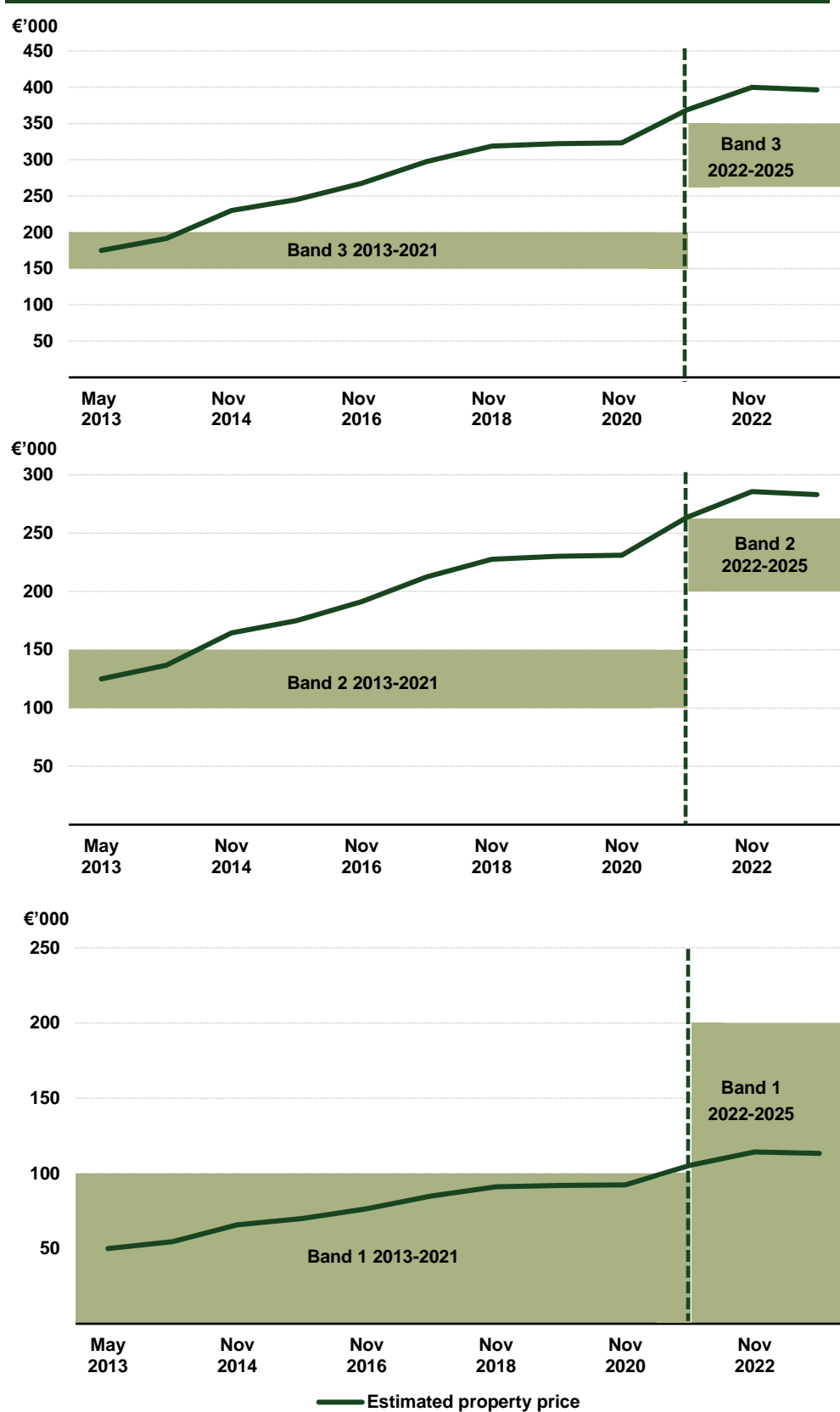
Figure 20.6 Monthly residential property price index, January 2012 to May 2023

Source: Central Statistics Office, analysis by the Office of the Comptroller and Auditor General

- 20.39** Because average house prices, as tracked by the CSO's RPPI, increased more between the valuation dates than the LPT bands, a significant proportion of properties registered in a band as at May 2013 may have needed to move up to a higher band as at November 2021. For example, if a property with a value at the mid-point of band 2 in May 2013 had increased in value in line with average market prices, it would have been just within the upper limit of band 2 at November 2021 (see Figure 20.7). A property at the mid-point of band 3 in 2013 would have been above the upper limit of band 3 in November 2021. On that basis, it could reasonably be expected that properties with values in the upper halves of most LPT bands in 2013 would have moved up a band in November 2021.
- 20.40** Properties registered in band 1 would be less likely to require upward adjustment, because the upper limit for that band was increased by 100% (from €100,000 to €200,000) for the November 2021 valuation. As a result, properties in this band with a market value of up to approximately €95,000 in May 2013 would be expected to remain in band 1 following the revaluation.
- 20.41** As taxpayers were obliged to declare the valuation band of their properties based on their property's market value as at November 2021, the discrepancy between the band widening and the movement in the monthly RPPI suggests that a significant level of up-rating of properties — moving to a higher LPT band — would have been expected for the period 2022 to 2025, with a consequent increase in aggregate annual LPT receipts.
- 20.42** When the changes in the LPT regime, including the band widening, were announced in June 2021, it was estimated (based on economic modelling) that 53% of homeowners would remain within the same valuation band; 11% would move down at least one band, and 36% of homeowners would move up by one band or more.¹

¹ Statement by the Minister for Finance, 2 June 2021 [here](#).

Figure 20.7 Impact of the increase in property prices between May 2013 and November 2021 on band values

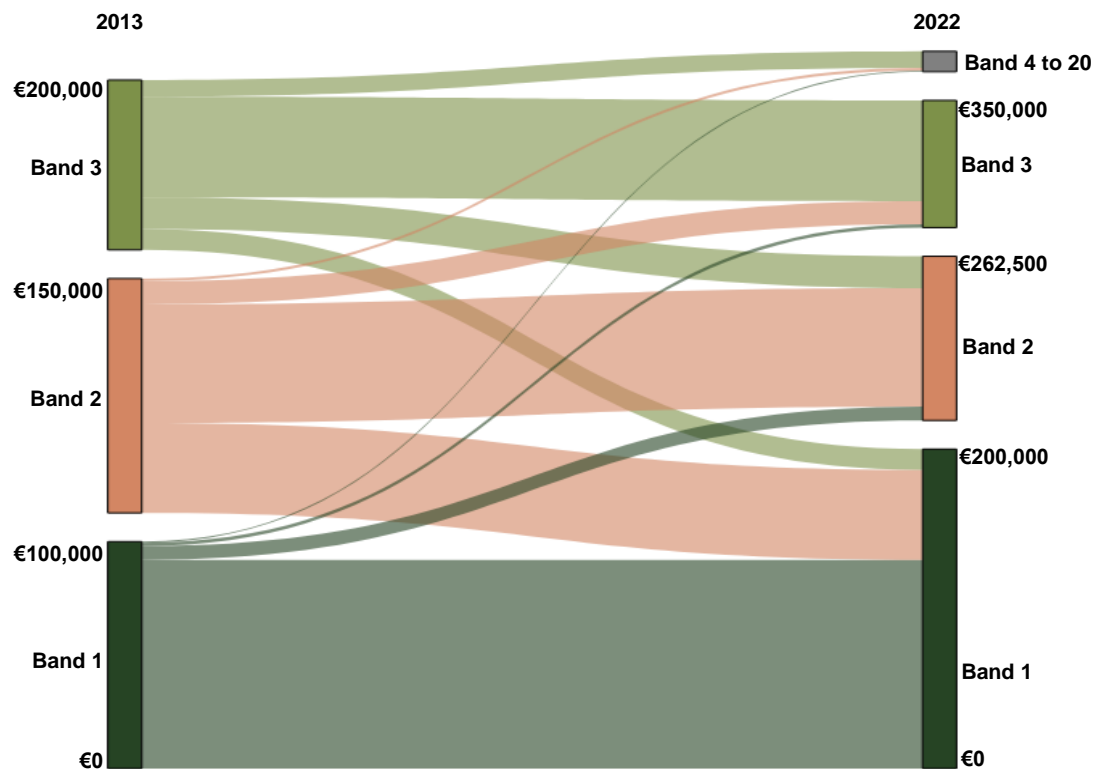


Source: Office of the Comptroller and Auditor General

20.43 Using data held on Revenue's property register, the examination team sought to establish where properties that declared in valuation bands 1 to 3 in May 2013 (around 1.46 million properties) had been declared in November 2021. We found that the number of properties in band 1 had increased by over 40% (from 526,257 to 740,685) between 2013 and 2022.

20.44 The majority of this increase relates to properties (208,555) moving from band 2 (LPT €225) in 2013 down to band 1 (LPT €90) in 2022 (see Figure 20.8).

Figure 20.8 Where properties declared in bands 1, 2 and 3 in 2013 ended up in 2022



Source: Analysis by the Office of the Comptroller and Auditor General of data held on Revenue's property register

20.45 Clearly, the value of an individual residential property is affected by factors other than general market price movements. Rates of property price change can vary between regions. Extension, retrofitting for energy efficiency reasons or other improvements may result in a very sizeable increase in the value. Conversely, inadequate maintenance, property damage or adverse impacts on the adjacent amenities may result in falls in value. Nevertheless, since these factors also affect the value of properties that are actually traded, movements in market prices are likely to be the best available indicator of how property values overall have moved.

20.46 Revenue stated that the widening of the bands was a policy matter and as such their role is to implement the legislation in place and the legislation in this instance was amended on foot of a policy decision.

Verification of valuations by Revenue

20.47 The 'notice of estimate' issued by Revenue was an estimated valuation band for each property, rather than an actual assessment of the property's market value. Taxpayers self-declare and (in most cases) value their property within a valuation band, which may be different to Revenue's estimated valuation band for that property.¹ There is no requirement on taxpayers to submit supporting evidence when declaring a different valuation.

20.48 Revenue analysed the 2013 valuations returned by property owners used to determine LPT payments from 2013 to 2021 and found that

- 43% of property owners self-assessed the same valuation as Revenue's notice of estimate
- 57% self-assessed a different valuation band — 41% returned a lower valuation and 16% returned a higher valuation.²

20.49 A similar analysis was also carried out on the 2021 valuations and Revenue found that

- 65% of property owners self-assessed the same valuation as Revenue's notice of estimate
- 35% self-assessed a different valuation band — 22% returned a lower valuation and 13% returned a higher valuation.³

20.50 In December 2021, Revenue published findings of an analysis it carried out comparing the average LPT valuation band returned by property owners for the 2022-2025 LPT to the average sales prices for September 2021, by local authority area.⁴ Nationally, the average valuation band for LPT was band 2 (€200,001 – €262,500) and the average sales price as per the CSO was €295,000 — about 12% higher than the upper limit of band 2.⁵

20.51 Revenue's analysis found that the average September 2021 sales price fell within the average LPT valuation band returned in 25 local authority areas. In the remaining six areas, the average sales price was higher than the upper limit of the average valuation band returned, by up to 13%.⁶

20.52 Revenue stated that differences between the (November 2021) LPT valuations and the (September 2021) CSO average sales prices are to be expected given the nature of the two data sources and possible differences in the characteristics of the properties sold. Revenue further stated that the results of this analysis give confidence that property owners made reasonable efforts to determine the appropriate valuation band for their property.

1 From 2022 to 2025, for property values over €1.75 million, owners are required to declare an actual valuation which is assessed at 0.1029% on the first €1.05 million in value, 0.25% of the portion of the value between €1.05 million and €1.75 million and 0.3% of the portion of the declared market value above €1.75 million.

2 *Local Property Tax (LPT) Valuation for 2022 – 2025 Technical Paper, Revenue Strategy, Evaluation and Reporting Branch, September 2021.*

3 *Local Property Tax (LPT) Statistics update, preliminary analysis of valuations, April 2022.*

4 *Local Property Tax (LPT) Statistics update, preliminary analysis of variations, December 2021.*

5 The CSO average sales price of €295,000 was based on 4,300 sales in September 2021.

6 Dublin city (13%), Cork county (12%), Wicklow (7%), South Dublin (6%), Dun Laoghaire/Rathdown (4%) and Offaly (4%).

Property sale or transfer

20.53 When a property is being sold or transferred, confirmation that all LPT obligations on the property are correct and up-to-date is an important due-diligence issue for the purchaser. Any outstanding liability for unpaid, or underpaid, LPT remains a liability associated with the property.

20.54 The steps required by Revenue to 'clear' a property in respect of LPT liability depend on the sale price, relative to thresholds that have been adjusted over time. Clearance for LPT purposes may be 'general' or 'specific'. Up to the end of October 2021, general clearance applied where

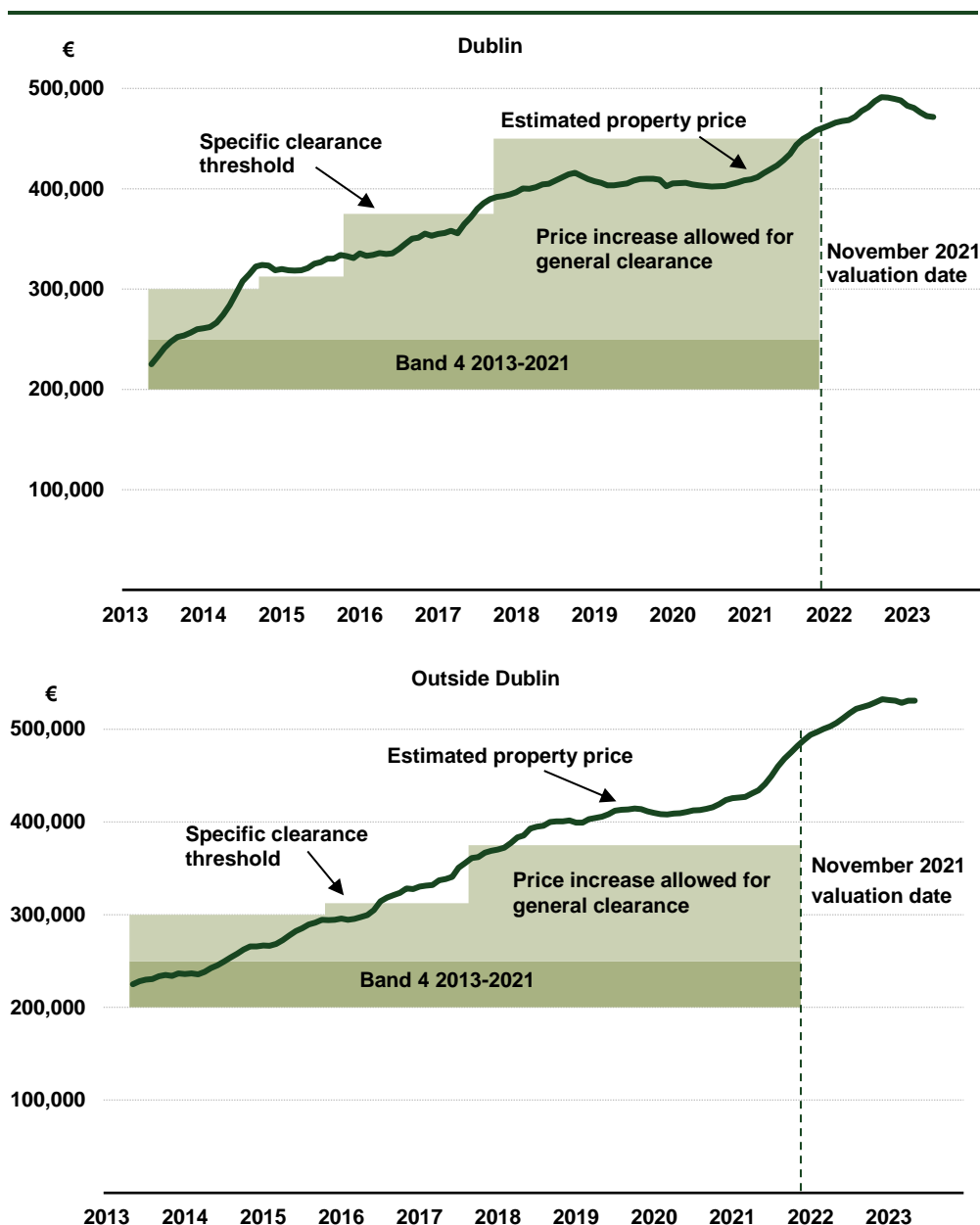
- the sale price was less than €350,000, or
- the sale price did not exceed 50% of the upper limit of the LPT valuation band declared if the property is located outside Dublin, or 80% for properties located in Dublin.¹

Where the sale price of the property exceeded the limits set for general clearance, purchasers are advised to make an application to Revenue for specific clearance. This may require provision of additional information to explain why a property has increased in value e.g. significant refurbishment costs incurred since 2013.

20.55 Applications to Revenue for general clearance are not required. Instead, a liable person can access the LPT online system and print the payment history showing that all LPT obligations are up-to-date for the property. This can be provided to the person purchasing the property (or their solicitor) as confirmation that the seller of the property is fully compliant for LPT purposes.

20.56 Figure 20.9 shows the impact of the increase in house prices on the specific clearance thresholds for a property valued at the mid-point (€225,000) of band 4 €200,001-€250,000 in May 2013. Using the CSO's monthly property price index, the average price for a mid-point property had increased by approximately 104% in Dublin and 114% outside Dublin by November 2021. While the thresholds for specific clearance were increased in September 2017 from 50% to 80% for properties located in Dublin, the threshold for properties outside Dublin remained at 50%. This indicates that — if above a price of €350,000 — a residential property sale outside of Dublin would have been more likely to exceed the specific clearance threshold, given the significant increase in house prices since the first valuation date.

¹ As per LPT guidelines effective from 1 September 2017 to 31 October 2021 for the sale or transfer of ownership of a relevant residential property (see [here](#)).

Figure 20.9 Impact of house price increases on band 4 properties in Dublin and outside Dublin, May 2013 to May 2023

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

20.57 The specific clearance thresholds for the 2022-2025 period have been revised, and there is no longer a distinction between properties in Dublin and those outside Dublin. Instead, the conditions focus on whether a property was liable for LPT on 1 May 2013 or only liable from 2022.¹ The sales price of the property must still be greater than €350,000, before specific clearance is required.

20.58 Residential property owners (other than local authorities, in certain circumstances) have a statutory obligation to complete a stamp duty return to Revenue containing details of any sale or transfer of property. As stamp duty obligations on the sale or transfer of a property are separate from LPT obligations, it is not a legal requirement for a vendor to seek clearance (general or specific) from Revenue prior to finalising a sale.

¹ The clearance procedures for the 2022-2025 period are explained [here](#).

- 20.59** However, since any outstanding LPT liability attaches to a property, and could transfer to a new owner, clearance is usually sought as part of due diligence prior to completion of a sale. Revenue stated that, in practice, the purchaser's solicitor should not finalise a sale until the process of LPT clearance has been completed to ensure that the purchaser receives an unencumbered asset. However, Revenue is aware that 861 properties changed ownership in 2022 with outstanding LPT liabilities. The issue of some solicitors failing to comply with the LPT clearance obligations was raised by Revenue with the Law Society and the Law Society issued a note to its members on this matter in June 2023.
- 20.60** The examination team reviewed a targeted sample of 43 properties with sales prices in excess of €350,000 — 28 sold in 2019 and 15 sold in 2022 — which was extracted from stamp duty data and met the criteria for specific clearance. The aim of the review was to determine whether specific clearance was sought from Revenue prior to the sale of properties and if adequate supporting documentation was provided by the taxpayer to support their application.
- 20.61** For five properties, specific clearance did not apply to the sale under review due to a previous sale of the property in the 2013–2021 period. Clearance is established in the first sale/transfer of the property in the relevant valuation period. In two of the five cases, general clearance applied to the first sale, so it also applied to the later sales of these properties. Specific clearance was applied for, and granted, at the time of the first sale in the other three cases.
- 20.62** An application for specific clearance had been made and granted for 19 properties.
- Two properties — the LPT band declared in 2013 was increased by one band as part of the specific clearance process. Interest on the arrears was applied in one case but not in the other. In the case where interest was not paid, the interest due (for the period 2013 to 2017) was approximately €120.
 - One property — the declared 2022 valuation for the property was increased by two bands as part of the specific clearance process. In this case, the increased valuation was notified to Revenue and the associated LPT was paid in full within the current year, therefore no interest was applicable.
 - Two properties — LPT and the household charge had not been paid for the properties prior to the 2019 sale. Payment of the outstanding LPT, household charge and interest was made as part of the specific clearance process.
 - One property — the homeowner amended the LPT declaration made in 2013 from band 4 to band 5 and paid the additional LPT due. The homeowner then applied for specific clearance and it was granted. Interest of €295 due for the 2013 to 2021 period was not paid in this case.
- 20.63** No application for specific clearance had been made for 12 of the properties. Revenue confirmed that these cases will be included in their 'sold without clearance' programme of work which includes writing to the vendors and requesting an application for clearance along with supporting documentation for the sale. One of these cases also had an outstanding amount of €1,400 due for the household charge since 2012.¹ Revenue confirmed that it intends raising a charge for this.
- 20.64** For seven properties sold in 2022, the declared LPT valuations had been amended by the property owner on the LPT online system prior to the sale. In all seven cases, additional LPT liabilities were paid in arrears; and while interest applied in four cases, it was only paid in full in one case and part-paid in another.

¹ The household charge was €200 per residential unit. This charge refers to seven units.

- 20.65** The examination team noted that although Revenue's LPT and stamp duty systems are linked so that the ownership details of a property are updated following the sale/transfer of a property, they are not linked for valuation purposes. This means that there is no automated detection or notification when there are significant variations between the valuation bands declared and the actual sales prices of properties, which may warrant investigation.

Identifying the liable persons

- 20.66** In general, the owner of a property is responsible for payment of LPT. Landlords are liable for LPT in relation to short-term leased properties. However, in cases where a lease is over twenty years, the lessee is liable for payment.¹
- 20.67** On receipt of a stamp duty return, Revenue may identify previously unidentified owners. Ownership is not verified in each individual case when an LPT payment or return is received as LPT is a self-assessed tax. Where a caseworker decides that confirmation of ownership is needed when reviewing an LPT case, a range of sources are used including
- the Land Registry/Registry of Deeds
 - stamp duty records
 - Capital Acquisitions Tax (CAT) records
 - Capital Gains Tax (CGT) records.
- 20.68** Local authorities and approved housing bodies are also liable for LPT in relation to social housing within their control, unless an exemption applies. However, all local authority and approved housing body properties are liable to LPT based on valuation band 1, regardless of the location or market value of the property.

Local authorities and approved housing bodies

- 20.69** Thirty-one local authorities and seven approved housing bodies are categorised as 'super users' of the LPT system. Each such owner has a specific 'super user ID' for LPT administration purposes, and rather than submitting individual returns for each property, they submit spreadsheets listing their housing stock in bulk.
- 20.70** Solicitors who act on behalf of local authorities in the purchase of properties are not legally obliged to file stamping documents. As a result, Revenue is dependent on local authorities submitting complete and accurate listings. Revenue has a dedicated team that works with local authorities in relation to their LPT liabilities. Local authorities submit annual listings to Revenue to identify residential properties which have been bought or sold. Revenue stated that because of the ongoing and significant engagement with local authorities to verify properties in their ownership, the register of properties deemed to be 'local authority housing stock' is considered to be accurate.

¹ The only exception to this is where the lessee is a local authority or approved housing body, in which case the landlord remains liable to pay LPT regardless of how long the lease is for.

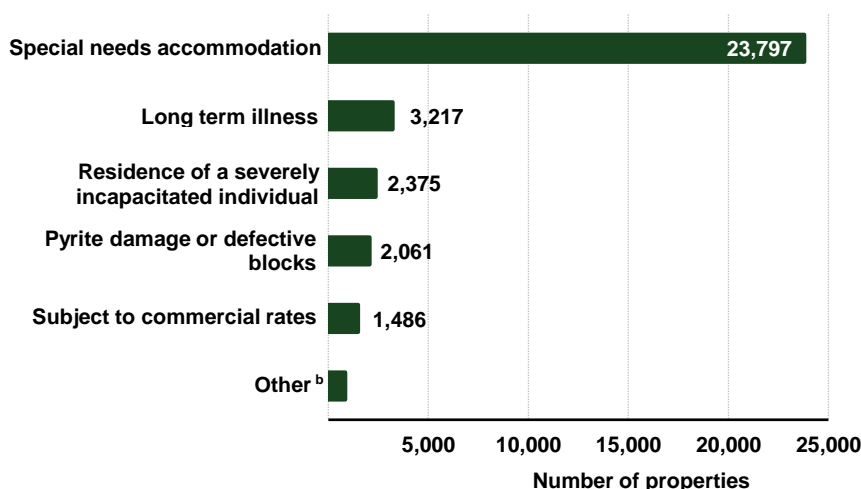
Unlinked properties

- 20.71** Each property recorded on Revenue's property register should be linked to a liable owner. However, as of July 2017 there were 42,000 unlinked properties on the register, with a corresponding LPT debt of €19.2 million. To address this issue, Revenue carried out a project targeting properties with no liable owner that resulted in the number of unlinked properties being reduced to 1,944 as of January 2020 with a corresponding debt of just over €1 million.
- 20.72** The examination team reviewed the 2021 unlinked properties as of May 2022 (when they stood at 1,523) and found that 95% have been on Revenue's property register since 2013. The LPT had been fully paid for 30 properties, and by July 2022, Revenue had linked owners in 28 of those cases. Attempts were made to confirm ownership for the remaining two cases, but these cases remain open. The number of unlinked properties as at August 2023 stands at 1,377 with a corresponding LPT debt of just over €1 million.

Exempt properties

- 20.73** While a number of classes of residential property are exempt from payment of LPT, a liable person has to submit an LPT return in order to claim an exemption. Changes introduced in 2021 resulted in a number of exemptions no longer applying. As a result, certain homes that had been exempt or outside the charge in the period 2013 to 2021 (in the case of properties built after 2013) came within the charge to LPT for the first time in 2022.
- 20.74** According to Revenue, approximately 137,020 properties were liable to LPT for the first time from 1 January 2022. The estimated additional LPT yield for 2022 from new and previously exempt properties is €34 million.
- 20.75** There were almost 34,000 exempt properties on Revenue's property register under various categories in 2022 (see Figure 20.10).

Figure 20.10 Categorisation of exempt properties for 2022^a



Source: Revenue Commissioners

Notes: a The 34,000 exemptions includes almost 14,000 properties that are in the ownership of local authorities and approved housing bodies.

b 'Other' comprises 842 exemptions, for example, relating to nursing homes, charitable recreational activities and diplomatic properties.

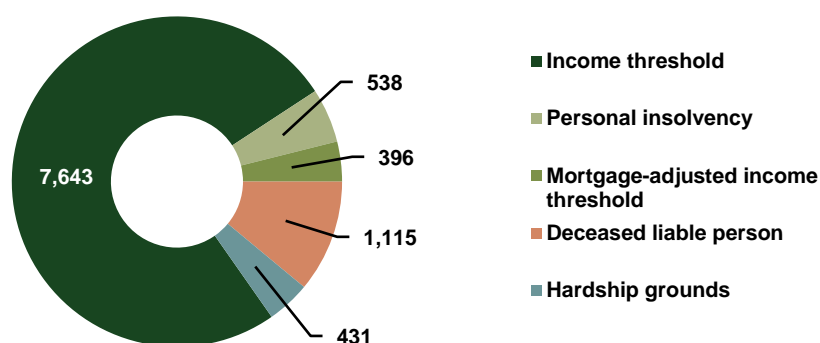
- 20.76** A random sample of 20 exempt properties for 2022 was examined to assess whether the exemption appeared reasonable. No issues were identified for 18 properties. For one property, Revenue confirmed the exemption (claimed on the basis of it being charity/public body owned for special needs) had been claimed incorrectly resulting in an LPT liability of €791. The full amount plus interest has since been paid. For the other property, the exemption no longer applied due to the death of the original property owner. This resulted in an LPT liability of €90 which is outstanding.

Timely collection of the LPT liability

- 20.77** Revenue offers a range of options for paying LPT. A liable person can opt to make a single payment or spread their payments over the course of a year. The date by which the LPT payment is due depends on the payment option chosen.
- 20.78** The timeliness of payments made for a sample of 20 properties was reviewed and no issues were identified in 18 cases. For two cases with late payments, interest had been applied and paid in one case and a minor amount of interest (less than €10) should have been but was not applied in the other case.
- 20.79** In practice, interest is only charged when cases are directly dealt with by a caseworker. Revenue exercises discretion, through applying care and management provisions, with regard to the charging of interest and to facilitate this, interest is not applied automatically on late payments. Revenue stated that, in the majority of cases, the potential interest due would be less than €20.

Deferral of payment

- 20.80** A full or partial deferral of LPT can be claimed if the property owner meets certain criteria. As a deferral is not an exemption, LPT is payable at a later date and remains as a charge on the property until it is paid. Interest accrues on the unpaid amount for the duration of the deferral. Interest at a rate of 4% applied during the period 2013 to 2021. From January 2022, the rate of interest reduced to 3% per year. The duration of the deferral varies depending on the category of deferral being applied and the circumstances of the homeowner applying for the deferral.
- 20.81** As shown in Figure 20.11, there were just over 10,000 claims for a full deferral of property tax in 2022 with almost 76% of them claimed on the grounds of income thresholds. Revenue stated that it does not verify this category of claim because it is a self-assessed tax, and the liable person is obliged to confirm that they meet the criteria of the deferral category being claimed. However, for all other deferral categories eligibility is verified by Revenue.

Figure 20.11 Deferral categories claimed for fully deferred properties in 2022

Source: Revenue Commissioners

Conclusions and recommendations

20.82 Following the introduction of LPT in 2013, Revenue quickly developed a substantial register of residential property. Because the period of validity of the initial valuation of property was extended, and the payment rates were broadly unchanged, LPT receipts have been relatively stable since then, at an average of around €470 million a year.

20.83 The key challenges for Revenue in exercising control over LPT receipts are to ensure

- completeness — all properties liable for the tax are identified and registered in Revenue's management systems
- accuracy — all identified properties are valued by taxpayers at the appropriate market value
- timely collection — all liabilities for LPT are collected at the appropriate time, any deferrals or exemptions claimed are for appropriate reasons, and outstanding liabilities and interest charged are pursued.

Completeness of register

20.84 By the end of August 2023, Revenue's property register contained just over two million residential properties. Comparison of this with the Eircode and CSO databases indicates a variance of 5% between the number of residential properties.

20.85 An inter-agency working group focused on reconciliation and synchronisation of the databases was established in October 2022. This is a useful exercise, especially in the context of changing demography and increasing development of housing units.

Compliance rate

- 20.86** Revenue has reported a consistently high payment compliance rate for LPT — around 97%-98% for most years — in its annual report. There was a decline in the payment compliance rate reported for 2020 and 2021, when it was 94% and 93% respectively of the liable amount received. This decline in payment compliance coincided with the suspension of Revenue's compliance work due to the pandemic.
- 20.87** The compliance rates can continue to increase over time as a result of the compliance programmes carried out by Revenue. For example, when Revenue's compliance programme recommenced in 2022 (after Covid interruption), it included those who had outstanding returns and/or payments for 2020 and 2021. As a result of this compliance work, the compliance rates for 2020 and 2021 had increased to 98% at August 2023. This is consistent with the collection of significant arrears of LPT in 2022.
- 20.88** As of August 2023, the figure for non-engagers in respect of LPT for 2022 stood at around 47,000 (2%). Based on an LPT charge of €225 per property for the average valuation band (band 2), this suggests that there could be almost €11 million in LPT receipts which have not yet been collected as a result of non-compliance for 2022. Any outstanding LPT amounts remain as a charge on the property.

Accuracy of valuations

- 20.89** The LPT valuation bands were expanded for the new valuation period 2022–2025 to recognise the substantial increase in house prices since 2013, while ensuring — as a policy objective — that most homeowners would face no increase in their LPT liability. Properties that were previously exempt were also brought into the taxation system for the first time from 2022.
- 20.90** The change made to the valuation bands broadly involved a 75% increase in the band thresholds based on movements in the CSO's annual residential property price index from 2013 to 2020. In effect, this was the increase that occurred between mid-2013 and mid-2020. The adjustment did not include a forward projection of the trend to account for the additional property price increase that was likely to occur up to the November 2021 valuation date. As a result, the widening of the LPT bands did not fully reflect the market value of residential properties at November 2021.
- 20.91** Although the residential property price increases that occurred up to November 2021 suggest that a significant 'up-rating' of valuations for LPT purposes would have been expected, this does not appear to have occurred. Analysis carried out by Revenue on 2021 valuations returned by property owners found that 65% self-assessed the same valuation band as Revenue's notice of estimate. A further 22% of property owners returned a lower valuation.
- 20.92** Analysis of the properties that declared in valuation bands 1, 2 and 3 in 2013 to establish the band declared in 2022 found that the number of properties declaring in the lowest band 1 increased by over 40%. The majority of the increase related to properties moving down from band 2.

Transfer of residential properties

- 20.93** When a property is being sold or ownership is otherwise transferred, Revenue has an opportunity to test and to satisfy itself that all LPT obligations are up-to-date. Up to date compliance with LPT liabilities is a standard due diligence matter for purchasers of a property. While stamp duty must be paid on a sale, it is not a legal obligation to obtain clearance for LPT liabilities from Revenue prior to selling or transferring a property.
- 20.94** Clearance for LPT purposes may be 'general' or 'specific'. An application does not need to be made to Revenue for general clearance. Instead, the purchaser (or an agent) accesses the LPT online system and prints out the payment history screen to show that all LPT obligations are up-to-date for the property. If the conditions for general clearance do not apply, an application can be made to Revenue for specific clearance.
- 20.95** The seller of a property can amend the LPT valuation bands previously declared prior to a sale so that general clearance applies. The additional LPT arising can be paid, without contacting Revenue, and interest will not be automatically applied. It is also possible to sell a property without obtaining specific clearance, even when the relevant thresholds are exceeded — this was found to be the case in 12 of the 43 property sales reviewed.
- 20.96** While Revenue's stamp duty and LPT systems are linked in terms of updating ownership details on the sale or transfer of a property, they are not linked for valuation purposes.

Recommendation 20.1

Revenue should consider linking the sales consideration recorded on its stamp duty system with the valuation information recorded on its LPT system. This would flag cases where a review of LPT history may be warranted.

Accounting Officer's response

Agreed

Linking the values at stamping to LPT valuation dates will be of limited value as the sale price recorded when a property is stamped will differ from the property valuation provided at the respective valuation dates for various reasons, for example, property price fluctuations, or property improvements. However, such an exercise could identify material anomalies and, in that regard, a manual exercise to determine the value of linking stamp duty sales consideration to LPT valuations will be carried out before consideration of an automated system.

Timeline for implementation

Revenue will initiate a manual review in first half 2024 with a view to considering valuation anomalies arising from stamping returns as a risk identifier in the second half of 2024.

Exemption of properties from payment of LPT

- 20.97** An exemption for 'charity/public body owned for special needs' was claimed incorrectly by an individual. No discrepancy was raised by Revenue's systems to alert caseworkers.

Recommendation 20.2

Revenue should consider updating systems so that exemptions can only be claimed where applicable to a particular cohort of property owners who are registered appropriately, for example, public bodies/charities.

Accounting Officer's response

Agreed.

However, the cost effectiveness of a systems development is disproportionate to the risk involved. Of 10,982 exemptions claimed, 83 had been claimed by individuals. Revenue will implement a manual periodic risk identification programme to identify individuals who have incorrectly claimed an LPT exemption. These individuals will be contacted to correct their position.

Timeline for implementation

Immediate

Revenue has initiated manual checks to identify possible incorrect exemption claims.

Deferral of payment of LPT

- 20.98** A full or partial deferral of LPT can be claimed if the property owner meets certain criteria. The LPT liability remains as a charge on the property until it is paid and interest accrues on the unpaid amount. There are five categories of deferral, but by far the most commonly used category is based on income thresholds. Revenue does not check the income of property owners to confirm that they are within the income thresholds set for claiming a deferral. For all other deferral categories, an application form (reference LPT 2) must be submitted to Revenue and eligibility is verified.

Recommendation 20.3

Revenue should consider introducing a retrospective compliance exercise where a claim for a deferral is made on the grounds of income thresholds, for example, an automated cross check on its own systems to confirm the income of the property owner.

Accounting Officer's response

Agreed.

Revenue will apply a risk focused compliance check on cases where the income threshold deferral has already been claimed. It is noted that

- less than 1% (13,247) of the LPT case base has claimed a deferral at July 2023 for the period 2022 – 2025 and
- the LPT charge remains on the property and will become payable when the property transfers to a new owner.

Timeline for implementation

Immediate

Revenue has initiated manual checks to identify cases where the deferral on the grounds of income is no longer valid. Pending the outcome of those checks, Revenue will consider the cost effectiveness of an IT development to automatically cross check income levels where a deferral is in place to replace the manual checking process. These considerations will take place in the second half of 2024 once the results of the manual checking process are available.

Annex 20A Valuation bands and charges for the first and second valuation periods

Valuation band number	Valuation band May 2013 to end 2021	LPT charge basic rate	Valuation band 2022 to 2025	LPT charge basic rate
	€	€	€	€
1	0 – 100,000	90	0 – 200,000	90
2	100,001 – 150,000	225	200,001 – 262,500	225
3	150,001 – 200,000	315	262,501 – 350,000	315
4	200,001 – 250,000	405	350,001 – 437,500	405
5	250,001 – 300,000	495	437,501 – 525,000	495
6	300,001 – 350,000	585	525,001 – 612,500	585
7	350,001 – 400,000	675	612,501 – 700,000	675
8	400,001 – 450,000	765	700,001 – 787,500	765
9	450,001 – 500,000	855	787,501 – 875,000	855
10	500,001 – 550,000	945	875,001 – 962,500	945
11	550,001 – 600,000	1,035	962,501 – 1,050,000	1,035
12	600,001 – 650,000	1,125	1,050,001 – 1,137,500	1,189
13	650,001 – 700,000	1,215	1,137,501 – 1,225,000	1,408
14	700,001 – 750,000	1,305	1,225,001 – 1,312,500	1,627
15	750,001 – 800,000	1,395	1,312,501 – 1,400,000	1,846
16	800,001 – 850,000	1,485	1,400,001 – 1,487,500	2,064
17	850,001 – 900,000	1,575	1,487,501 – 1,575,000	2,283
18	900,001 – 950,000	1,665	1,575,001 – 1,662,500	2,502
19	950,001 – 1,000,000	1,755	1,662,501 – 1,750,000	2,721
20 ^a	Greater than €1 million	€1,800+	Greater than €1.75 million	€2,830+

Note: a For 2013-2021, for property values over €1 million, owners were required to declare an actual valuation which was assessed at 0.18% on the first €1 million in value and 0.25% on the portion of the value above €1 million. From 2022 to 2025, for property values over €1.75 million, owners are required to declare an actual valuation which is assessed at 0.1029% on the first €1.05 million in value, 0.25% of the portion of the value between €1.05 million and €1.75 million and 0.3% on the portion of the declared market value above €1.75 million.

21 Revenue's tax debt warehousing scheme

- 21.1** The onset of the Covid-19 pandemic in March 2020 presented a direct and immediate threat to the viability of many businesses. Companies were forced to close, or at least to limit their trading, in line with restrictions introduced in the interests of public health. On 13 March 2020, Revenue announced measures to assist small and medium sized enterprises experiencing cashflow difficulties as a result of the pandemic. The measures included the suspension of interest on late payments for certain liabilities, the suspension of all debt enforcement activity and the extension of current tax clearance status. Revenue advised taxpayers to continue to submit tax returns on time, on a best estimates basis, where necessary.
- 21.2** On 2 May 2020, the Government announced the introduction of the tax debt warehousing scheme to support taxpayers affected by Covid-19. It was recognised that some businesses would have had difficulty in paying their ongoing tax liabilities as they arose. The scheme was introduced to allow debt associated with the pandemic restrictions to be deferred or 'warehoused'.
- 21.3** Under the scheme, payment of eligible tax liabilities could be deferred for a period of 12 months after a business resumed normal trading. The scheme only applied to
- Value Added Tax (VAT)
 - PAYE (employer)
 - certain income tax liabilities
 - any overpayments by Revenue of the Temporary Wage Subsidy Scheme (TWSS) and the Employment Wage Subsidy Scheme (EWSS).¹
- 21.4** There are three distinct periods for operation of the scheme
- period one ended on 31 December 2021²
 - period two ran from 1 January 2022 to 31 December 2022
 - period three commenced on 1 January 2023 and runs until the debt is discharged.
- 21.5** Interest did not accrue on the debt warehoused during periods one and two, provided the taxpayer remained in the warehouse and complied with certain conditions relating to ongoing return filing and tax payment obligations. A reduced interest rate of 3% per annum is payable on the debt warehoused for period three (i.e. commencing 1 January 2023).³
- 21.6** In December 2021, changes to the debt warehousing scheme included an extension to the period where tax liabilities could be warehoused where certain criteria are satisfied. To avail of the extension, taxpayers had to
- already be eligible for the debt warehousing scheme, and
 - have made a valid claim for a relevant Government Covid-19 support scheme during the period 1 January 2022 to 30 April 2022.

¹ The transitional phase of the TWSS scheme (26 March to 3 May 2020) had 'in built' overpayments to employers so support could be provided quickly. Employers who had a payable balance following TWSS reconciliation and who were eligible to avail of the debt warehousing scheme, could warehouse the amount payable.

² Period one commenced from 1 January 2020 for VAT liabilities, 1 February 2020 for employer PAYE liabilities and 31 October 2020 for income tax liabilities (for customers filing paper returns) or 10 December 2020 (for taxpayers filing via ROS). TWSS warehousing applied to overpayments arising on or after 26 March 2020 and EWSS applied to overpayments on or after 1 September 2020.

³ Interest is charged on non-warehoused debt at a rate of 8% to 10% per annum, depending on the tax head liability.

- 21.7** The extension applied to the first period end date i.e. 31 December 2021. It allowed eligible businesses to continue to warehouse tax liabilities until 30 April 2022. Thereafter, the liabilities could remain 'warehoused' on an interest-free basis for a 12-month period until 30 April 2023. A reduced interest rate of 3% per annum is applied after this date.
- 21.8** At the end of July 2023, there were just over 60,000 businesses/individuals availing of the debt warehousing scheme with a total of €1.9 billion of debts warehoused (see Figure 21.1).

Figure 21.1 Warehoused debt amounts, by Revenue division, July 2023

Division	Number of businesses/individuals	Total warehoused debt €m	Average debt value €
Business	55,775	1,207	21,636
Personal	2,587	19	7,460
Medium Enterprises	1,550	587	378,423
Large Corporates and Large Cases – High Wealth Individuals	109	116	1,069,530
Total	60,021	1,929	32,141

Source: Revenue Commissioners, Covid-19 Support Schemes Preliminary Statistics, July 2023

- 21.9** This examination focuses on
- the processes in place to ensure that only those that were eligible gained access to the scheme and only the debt related to the eligible taxheads was warehoused
 - Revenue's management of the debt amounts warehoused to ensure that the amount of debt paid will be maximised
 - the compliance work carried out by Revenue to ensure that the conditions of the scheme continue to be met by businesses/individuals availing of the scheme.

Gaining access to the scheme

- 21.10** The conditions that businesses/individuals must adhere to in order to qualify for access to the debt warehousing scheme are
- current tax returns are filed, even if the liability is nil, or liabilities in the relevant periods cannot be paid at the time
 - all current tax liabilities arising after normal trading resumes are paid as they fall due.
- 21.11** Where a taxpayer was seeking to warehouse income tax liabilities, a declaration had to be made on filing their annual return (Form 11) that total income for 2020 and 2021, as applicable, was expected to be at least 25% less than total income for 2019.

Automatic access to the scheme

- 21.12** In accordance with the legislation for the debt warehousing scheme, all taxpayers that are managed by Revenue's Business and Personal Divisions were granted automatic entry into the scheme for VAT, PAYE (employer), TWSS and EWSS.¹
- 21.13** The examination team reviewed a sample of 20 businesses/individuals from Revenue's Business and Personal Divisions to confirm that they were adhering to the scheme conditions, and so maintaining their eligibility. The review found that all 20 cases were in order — they met the relevant scheme conditions and the debt warehoused related only to the eligible taxheads.

Applications to enter the scheme

- 21.14** Where a business/individual managed by Revenue's Medium Enterprises Division (MED), Large Corporates Division (LCD) or Large Cases – High Wealth Individuals Division (LC-HWID) wanted to access the scheme, a specific request had to be made to Revenue (with some exceptions).² All requests were to be reviewed by Revenue prior to the applicant being granted access to the scheme. A form to be completed and submitted to Revenue required provision of the following information

- details of the tax debt by taxhead
- an outline of the business case in support of the request to access the scheme
- an outline of the current financial difficulties being experienced
- confirmation that all tax returns are up-to-date.

- 21.15** Revenue did not specify for taxpayers what supporting documentation should be provided in support of a request to access the scheme. The onus was on the business/individual to submit any documentation they believe would evidence the downturn experienced. Additional supporting documentation could be requested from the taxpayer as part of Revenue's review of the request to access the scheme.

- 21.16** The examination reviewed a sample of 20 businesses/individuals from MED, LCD and LC-HWID to establish whether the form, if one was required, had been submitted to Revenue requesting access to the scheme. The review also confirmed that the debts warehoused only related to the taxheads that were eligible for the scheme. The sample cases were found to be in order.

- 21.17** The examination team noted that, while a detailed review of relevant evidence may have taken place, there was no template for a Revenue caseworker to record details of the review that took place to support the decision-making process.

Phased payment arrangements

- 21.18** Even in normal circumstances, Revenue provides a phased payment arrangement (PPA) option to taxpayers who are having difficulties meeting their tax liabilities as they fall due.

¹ All cases managed by Revenue's Business and Personal Divisions have an annual turnover less than €3 million.

² If a business/individual transferred from Revenue's Business or Personal Divisions to one of the LCD, LC-HWID or MED during the pandemic, these taxpayers were permitted to retain their automatic entry to the scheme. Also, if a business/individual managed by the LCD, LC-HWID or MED was warehousing income tax liabilities there was no requirement to submit an application form.

- 21.19** Taxpayers can apply through Revenue's online service (ROS) to consolidate any debt covered by the warehousing scheme into existing (pre Covid-19) payment agreements. With the introduction of the debt warehousing scheme, amendments were also made to the PPA rules and to the online PPA facility to assist businesses/individuals that were experiencing cashflow difficulties due to business closures or severely restricted trading conditions during the pandemic (see Figure 21.2).

Figure 21.2 Temporary changes to PPA process during Covid-19 and recovery period, reflected in Revenue's guidelines for taxpayers

PPA rules	Pre Covid-19	During Covid-19 and recovery period
Duration of PPA	36 months	60 months
Number of permitted payment deferrals – over the lifetime of the arrangement	3 times	6 times
Length of payment breaks	6 months	12 months
Supporting documentation	Certain documentation mandatory depending on debt values	Documentation requested on a case-by-case basis
Consolidated PPA	Not applicable	New facility to consolidate warehoused debt and non-warehoused debt into an existing PPA
Number of permitted failed payments ^a	3	10

Source: Revenue Commissioners

Note: a This is where a direct debit is cancelled or unpaid on a deduction date.

- 21.20** In October 2022, Revenue announced an extension to the debt warehousing scheme in recognition of the impact of the energy cost crisis. The extension means that taxpayers have until 1 May 2024 rather than 1 January 2023 to enter into a PPA or pay their debt.
- 21.21** All taxpayers with outstanding warehoused liabilities above €500 are required to either have a PPA in place with Revenue or pay their debt by 1 May 2024. There is no obligation on taxpayers to pay or have arrangements in place to pay their warehoused debt until that date. At the end of July 2023, 5% (€99 million) of the value of warehoused debt was subject to an agreed PPA, involving approximately 2,200 of the 60,000 businesses/individuals in the scheme.¹

Reviewing PPA applications

- 21.22** Taxpayers who wish to avail of a PPA are required to submit an application form to Revenue via ROS. Each PPA application is reviewed by Revenue and approved or rejected with reference to set criteria e.g.

- all tax returns are filed and up-to-date
- the debt is greater than €500, including penalties and interest
- there is a down-payment made of at least 25% of the total liability outstanding, including tax and interest (or 40% where the taxpayer is seeking tax clearance).

- 21.23** The examination team selected a sample of 20 PPAs for review in order to confirm that a PPA application form was submitted and an appropriate down-payment was made. The review found that

- in seven of the 20 cases reviewed, an application form was not submitted

¹ At end July 2023, just over 25,000 of those businesses/individuals had liabilities of less than €500, so PPAs will not be required.

- 17 of the down-payments made were below the relevant percentages specified in the Revenue guidelines.

21.24 In response to the findings, Revenue stated that

- the mandatory requirement to submit supporting documentation for all PPA applications was relaxed to recognise that access to agents and relevant accounting services to complete documentation such as application forms, management accounts etc. was severely hampered during the Covid-19 health restrictions, and
- the facility to accept reduced down-payments on a case-by-case basis was an additional flexibility introduced for PPAs. It also noted that when caseworkers are reviewing PPA applications, it is emphasised to taxpayers that a larger down-payment and a shorter PPA duration will result in interest savings. While Revenue's guidelines for taxpayers on the PPA process were not updated to specify that reduced down-payments could be accepted, the online PPA application system was amended to reflect this.

Interest on warehoused debt

21.25 The debt warehousing scheme allowed for the deferral of payment of certain tax debt. The tax debt attracted no interest for a defined period, after which time a reduced interest rate applies. All PPAs include interest. The PPA sets out the amount of debt, interest accrued and projected interest on the expected payments over the lifetime of the arrangement. For warehoused debt, the projected interest became chargeable from 1 January 2023 (or 1 May 2023 if the extended scheme applied). For taxpayers that have a PPA in place, accrued interest of 3% is automatically included in the scheduled monthly payment as part of the PPA.

21.26 For all other payments of warehoused debt, Revenue stated that interest can only be calculated when full payment for a warehoused period has been received.¹ In those cases, once the warehoused debt amount is paid by the taxpayer (excluding any interest charge), the caseworker has to carry out two manual actions in order to raise the interest charge and notify the taxpayer of the amount of interest payable. The caseworker has to

- input certain parameters into Revenue's debt management services (DMS) system (e.g. tax type, period details) so the DMS system can automatically calculate the applicable interest for each period, and
- issue a notice to the taxpayer confirming the interest charge payable.

21.27 Revenue has confirmed that the issuing of interest charges to taxpayers who have fully paid the tax debt for a warehoused period has not yet commenced, but is expected to start in September 2023.

Revoked and reinstated cases

21.28 In order to remain in the debt warehousing scheme, businesses/individuals must continue to file relevant tax returns and pay current liabilities as they fall due. If these conditions are not adhered to, the warehouse status can be revoked and all the liabilities fall due for payment immediately. However, where taxpayers that were revoked from the scheme subsequently address their non-compliance issues, they can request to have their warehouse status reinstated. Reinstatement to the scheme must be approved by the relevant supervising officer in Revenue's Debt Management Unit.²

¹ Interest on warehoused debt for those not in a PPA is calculated retrospectively when the date(s) of the full payment is known. It is only at this point that the number of days from the due date (1 Jan 2023 or 1 May 2023) to the payment date can be calculated and interest charged at the applicable daily rate. This differs from a PPA where the date of each monthly payment is known at the outset, as a payment schedule is agreed with the taxpayer, meaning the 3% interest can be automatically included in the PPA payment schedule.

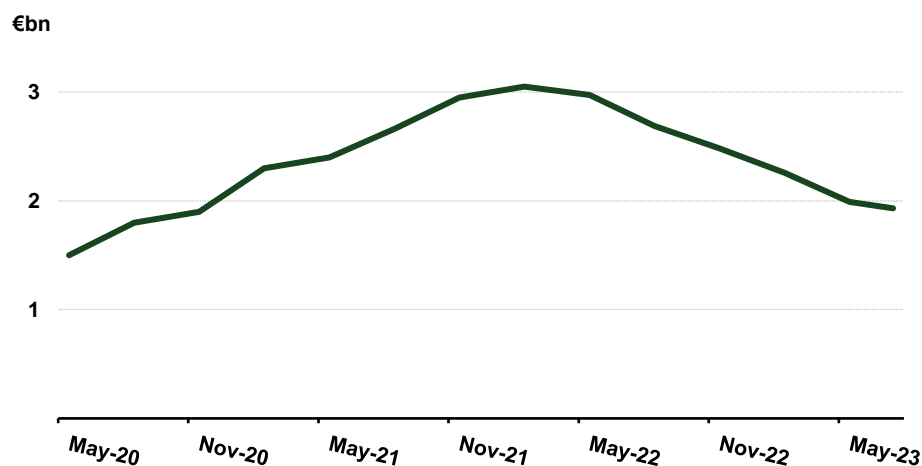
² In most cases, the relevant supervising officer for the reinstatement decision is at Higher Executive Officer grade in the Debt Management Unit, who may consult with more senior grades in the Unit, as required.

- 21.29** At the end of July 2023, there were almost 12,000 businesses/individuals, with debts totalling €310 million (for previously warehoused periods), that had their warehouse status revoked due to non-compliance with the scheme conditions. Of those, 559 cases (covering debts of €58 million) had their warehouse status reinstated once Revenue confirmed that the issues of non-compliance had been addressed.
- 21.30** The examination team reviewed a sample of 15 taxpayers that were reinstated into the scheme. The review sought to confirm that the issues of non-compliance had been addressed and that the request for reinstatement had been approved at the appropriate level within Revenue prior to the business/individual being reinstated into the scheme.
- Eight cases were found to be in order.
 - In six cases, the reinstatement into the scheme was in order, but the required approval was not documented on Revenue's systems.
 - In the remaining case reviewed, the customer was correctly reinstated into the scheme, but the warehouse extension was mistakenly granted until 1 September 2023 which is outside of the scheme parameters. As per the Revenue guidance, the latest extension that can be granted is to 30 April 2023. The extension to September 2023 meant that the taxpayer in question would not incur interest on the warehoused debt until after that date. Revenue has confirmed that this arose due to an input error by a caseworker and that the taxpayer record has now been corrected. The DMS system was updated in March 2023 to ensure that caseworkers are restricted to selecting one of two valid dates for the period two end date i.e. 31 December 2022 or 30 April 2023.

Revenue's management of warehoused debt

- 21.31** Figure 21.3 (below) shows movements in the value of warehoused debt since the introduction of the scheme.
- 21.32** Revenue has confirmed that €85 million of debt previously warehoused by 956 businesses has been identified as uncollectable, mainly due to reasons such as liquidation, examinership, bankruptcy and cessation of trading. These businesses and the associated debt have been removed from the debt warehousing scheme.

Figure 21.3 Aggregate value of warehoused debt, May 2020 – July 2023



Source: Revenue Commissioners

- 21.33** At the end of July 2023, there was just over €1.9 billion of debt warehoused for 60,000 businesses/individuals. Around 10% of the businesses/individuals have debt balances greater than €50,000, and those debts account for almost 85% of the total warehoused debt (see Figure 21.4). The top 247 taxpayers had average warehoused debt liabilities of €2.5 million.

Figure 21.4 Number of businesses/individuals with debt balances over €50,000 each, end July 2023

Debt value range	Number of businesses/individuals	Value €m	Average debt value €
€50,001 to €100,000	2,519	177	70,244
€100,001 to €500,000	2,804	586	208,899
€500,001 to €1,000,000	382	263	687,353
> €1,000,000	247	615	2,489,061
Total	5,952	1,641	275,548

Source: Revenue Commissioners

- 21.34** In July 2023, Revenue commenced an outreach campaign engaging with taxpayers that have debt balances greater than €50,000 with the aim of establishing payment plans, highlighting the interest savings arising from early payment and, where possible, securing payment arrangements in 2023 and early 2024. The engagement is by way of a phone campaign, starting with the 629 businesses/individuals with debts in excess of €500,000. Revenue noted that there has been positive engagement with taxpayers to date but given that there is no obligation to begin payment until 1 May 2024, many may decide to continue to defer their debt until that date.
- 21.35** The examination enquired whether Revenue analyses the data it holds to better understand how taxpayers' financial positions have changed as a result of the pandemic and whether it has identified any specific trends and/or taxpayer cohorts that may have greater difficulty in paying their debts.
- 21.36** Revenue stated that its DMS system manages the tax compliance of all customers on an ongoing basis and highlights compliance issues as they arise. This is the process for the entire case base regardless of sector and indicators of how well a business is doing can be measured, in the first instance, by its ability to meet its current tax obligations as they fall due. Revenue noted that this can also indicate how well a business is recovering from the pandemic and the extent to which they may still be encountering financial difficulty that is impacting the underlying viability of the business. Compliance rates are monitored against the targets that are set at the start of the year, which in turn are used to monitor compliance trends.

Revenue debt management activity

- 21.37** In March 2019, Revenue introduced a new system, Debt Management Services (DMS), to support its management of tax debt. The system analyses the taxpayer case base to identify non-compliance and initiates actions to rectify any compliance issues in taxpayer filings of returns and payments of taxes due. It includes the following compliance checks and actions.
- VAT estimates — where a return for a period is not filed, the system generates and issues an estimate to the taxpayer for the period in question.

- Demands — a request for payment issues to the taxpayer where there is a return filed but the balance remains unpaid after the due date.
- Final demands — a final demand notice issues to the taxpayer where a balance remains unpaid after a demand or estimate has issued and an appropriate amount of time has elapsed.
- Enforcement review — generates a review request for caseworkers where a set period of time has elapsed from the issue of a final demand notice and a balance remains unpaid.

21.38 In March 2020, as the economic impacts of the pandemic began to affect businesses, Revenue announced the suspension of its debt enforcement activity. Accordingly, no notifications of estimates or demands for payment issued to taxpayers with outstanding debts.

21.39 In late 2020, Revenue resumed the collection of debt for certain taxpayers that it considered posed a higher risk of non-compliance. The compliance work was expanded in March 2021 to include debt enforcement activities for taxpayers that had compliance issues and were operating in sectors least impacted by the pandemic. This approach continued until April 2022 when, as the public health restrictions had lifted, Revenue returned to standard debt collection for taxpayers managed by MED and LCD. In August 2022, Revenue resumed standard debt collection for the remaining customers in the Business and Personal Divisions. While taxpayers availing of debt warehousing were not subject to the standard debt enforcement checks during this time, Revenue issued reminders to these taxpayers regarding their obligations under the scheme. Where non-compliance with the scheme's criteria was identified and not addressed in a timely manner, taxpayers were removed from the scheme at which point they were subject to standard debt collection for their debt.

Compliance actions for taxpayers with warehoused debt

21.40 Revenue has a compliance intervention framework in place that provides a graduated response to taxpayer behaviour, ranging from opportunities for taxpayers to carry out a self-review and voluntarily address any issues identified, up to the pursuit of criminal sanctions for cases of serious fraud or evasion. Figure 21.5 outlines the intervention levels in the framework.

Figure 21.5 Revenue compliance intervention levels

Intervention level	Description	Examples of Revenue actions	Qualifying disclosure ^a
Level 1	Aims to support compliance by reminding taxpayers of their obligations and to provide them with an opportunity to correct errors without a more in-depth inquiry.	<ul style="list-style-type: none"> ▪ Reminder notifications of outstanding tax returns ▪ Request to carry out a self-review 	'Unprompted' qualifying disclosure
Level 2	Aims to challenge non-compliance and involves risk-based reviews of data provided by the taxpayer in their returns.	<ul style="list-style-type: none"> ▪ Risk review^b ▪ Audit 	Prompted qualifying disclosure
Level 3	Carried out where Revenue believes, on the basis of available information, that serious tax or duty evasion may have occurred or a Revenue offence may have been committed and may lead to a criminal prosecution.	Investigation	—

Source: Revenue Commissioners

- Notes:
- a A qualifying disclosure is information a taxpayer gives Revenue if they have not reported all of their income or gains or they have made an error on their tax return. A qualifying disclosure can be unprompted or prompted. An unprompted qualifying disclosure is a disclosure made at any time before a Revenue audit notification letter issues, or an investigation starts. A prompted qualifying disclosure is a disclosure made after notice of a Revenue audit has been received.
 - b A risk review is a focused intervention to examine a risk or small number of risks on a tax return.

Reminder notifications of outstanding tax returns

- 21.41** Between November 2020 and March 2022, Revenue issued four separate notifications to all businesses/individuals with warehoused debts. The notifications reminded the businesses/individuals of the criteria to remain in the debt warehousing scheme (i.e. tax returns to be filed on time and current taxes paid as they fall due) and informed them of any returns they had outstanding. It also gave them a deadline to have any outstanding returns filed and up-to-date.
- 21.42** In May 2022, Revenue also issued a 'final notice' to businesses/individuals that had not taken action by that point to address any issues of non-compliance previously raised in the notification letters. The letter noted that if the outstanding returns were not filed within ten days, the business/individual would lose the benefits of the scheme i.e. the debt would become payable immediately and the standard interest rates of 8% and 10% would apply with effect from the original payment due date.

Request to carry out a self-review

- 21.43** In September 2022, Revenue issued a Level 1 notification letter to all taxpayers' eligible for, or already taking part in, the debt warehousing scheme. The notification provided them with a final opportunity to carry out a self-review and make an unprompted qualifying disclosure of any additional, undisclosed period one liabilities. The disclosure had to be made, and all associated liabilities quantified, by 31 January 2023. These liabilities were then added to the debt warehouse. If any additional period one liabilities are identified after 31 January 2023, it will result in revocation of the warehousing arrangements. This means that all period one liabilities (tax, interest and penalties) become due for immediate collection.
- 21.44** 29 taxpayers submitted unprompted qualifying disclosures on or before the 31 January 2023 deadline. Revenue has closed 15 (of the 29) cases, with twelve accepted into the warehousing scheme as qualifying disclosures with a total value of €526,000. In the other three cases, the information was not regarded as a qualifying disclosure as it related to already quantified and known tax liabilities or to a return for which the due date for filing had not yet passed. The remaining fourteen cases are still in progress.

Conclusions and recommendations

- 21.45** The tax debt warehousing scheme was a very significant initiative to support taxpayers whose businesses and incomes were significantly affected by Covid-19 pandemic restrictions. Under the scheme, payment of eligible tax liabilities could be deferred interest free for a period, and if required, benefitting thereafter from a reduced interest rate of 3% until payment.
- 21.46** At the end of July 2023, there were approximately 60,000 businesses/individuals availing of the debt warehousing scheme with a total of €1.9 billion of debt warehoused. This was down from a peak level of warehoused debt of just over €3 billion.
- 21.47** Certain taxpayers were removed from the warehousing scheme because they failed to comply with the conditions, with a small number restored to the scheme once compliance was re-established.
- 21.48** Debts totalling €85 million have also been removed from the warehouse, having been identified as likely to be uncollectable e.g. due to liquidation or examinership proceedings.
- 21.49** The amount of warehoused debt collected to end July 2023 represents a good start to reducing the overall amount of debt in the warehouse.

Scheme application controls

- 21.50** Taxpayers managed by Revenue's Business and Personal Divisions were granted automatic entry to the scheme with other larger scale businesses/individuals having to submit a request to Revenue to participate.
- 21.51** The examination team's review of 20 requests for access to the scheme found that application forms had been submitted in all cases where there had been a requirement to do so. However, the examination team noted that there was no template for a Revenue caseworker to record details of the review that took place to support the decision-making process.

Recommendation 21.1

For any future temporary or emergency relief schemes, Revenue should consider developing and adopting a simple template based on the individual scheme guidelines/conditions to facilitate caseworkers to record details of any reviews undertaken and related decisions made.

Accounting Officer's response

Agreed

For future schemes, where it is necessary and appropriate to do so, Revenue will develop an appropriate process to document reviews undertaken and basis for final decision. Like Revenue's approach throughout the Covid-19 crisis, Revenue's future approach will be to ensure the appropriate balance between speed, agility and responsiveness and transparent and effective governance.

Timeline for implementation

Will only be required in the event of future emergency relief schemes.

Phased payment agreements

- 21.52** All taxpayers with outstanding warehouse liabilities are required either to have a phased payment arrangement (PPA) in place with Revenue, or to pay their debt by 1 May 2024. By the end of July 2023, 4% (€99 million) of the value of warehoused debt was subject to an agreed PPA.
- 21.53** Revenue guidelines for taxpayers require a PPA application form to be completed and a minimum down-payment to be paid which is 25% of the debt total, including any accrued interest or penalties (or 40% down-payment where the customer is seeking tax clearance). Sample testing carried out by the examination team noted that in seven of the 20 cases reviewed, the taxpayer had not submitted a PPA application form, and that 17 of the down-payments made were below the percentages specified by Revenue. In response, Revenue stated that the facilities to accept reduced down-payments and less supporting documentation on a case-by-case basis were among a number of flexibilities introduced for PPAs relating to tax debts covered under the warehousing scheme. It is important that Revenue promptly amends its guidelines for taxpayers to reflect any changes made to scheme rules to ensure there is no lack of clarity among potential or actual scheme participants.
- 21.54** Early settlement of warehoused tax debts, through down-payments and commencement of payment plans, should be encouraged, and should mean reduced interest bills for taxpayers.

Interest on warehoused debt

- 21.55** The debt warehousing scheme allowed for the deferral of payment of certain tax debt. The tax debt attracted no interest for a defined period, after which time a reduced interest rate applies. According to the scheme rules, the projected interest becomes chargeable from 1 January 2023 (or 1 May 2023 if the extended scheme applied).

- 21.56** For taxpayers that have a PPA in place, accrued interest of 3% is automatically included in the scheduled monthly payment as part of the PPA. For all other payments of warehoused debt, interest can only be calculated when full payment for a warehoused period has been received by Revenue. While the DMS system automatically calculates the applicable interest from 1 January 2023 (or 1 May 2023 for the extended scheme) and subsequently raises interest charges onto the customer record, notification to the taxpayer of the interest charge payable is a manual process and has not yet commenced. Revenue has confirmed that the issuing of interest charges to taxpayers who have fully paid the tax debt for a warehoused period will commence in September 2023.

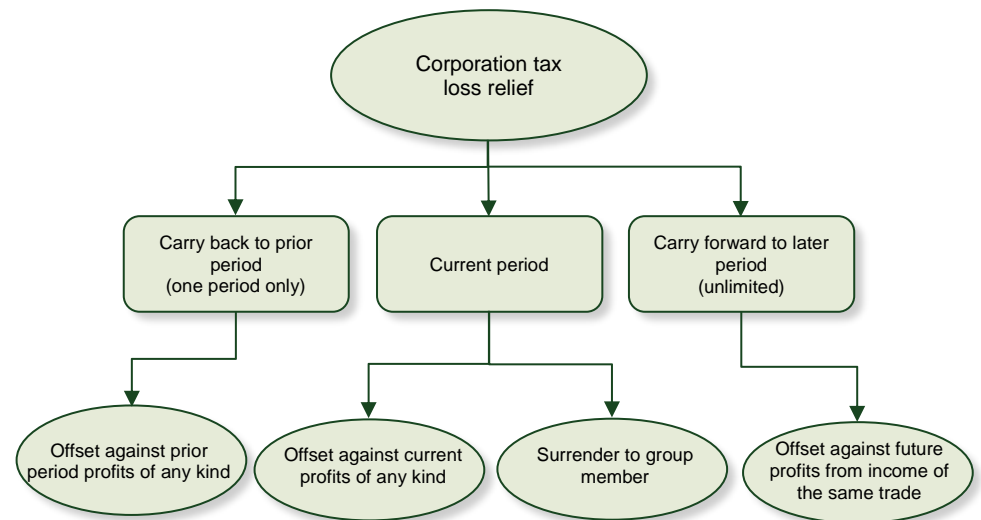
Revenue compliance activity

- 21.57** Revenue has a compliance intervention framework in place that provides a graduated response to taxpayer behaviour, ranging from opportunities for taxpayers to carry out a self-review and voluntarily address any issues identified up to the pursuit of criminal sanctions for cases of serious fraud or evasion.
- 21.58** Compliance activity in respect of the debt warehousing scheme has been focussed on reminding taxpayers of their obligations and providing them with an opportunity to correct errors.
- 21.59** As a result of a request by Revenue to all taxpayers in the debt warehousing scheme to carry out a self-review and make an unprompted qualifying disclosure of any additional undisclosed period one liabilities, an additional €526,000 of debt was accepted into the scheme.

22 Corporation tax losses

- 22.1** Companies are liable for corporation tax on all profits arising from income or gains. Companies operating in Ireland are chargeable to corporation tax at a rate of 12.5% on profits generated from trading activities.¹ A company reporting a trading loss in an accounting period can use that loss to obtain relief from the payment of corporation tax in a variety of ways (see Figure 22.1).

Figure 22.1 Trading loss relief



Source: Office of the Comptroller and Auditor General

¹ A higher 25% tax rate applies in respect of investment, rental and other non-trading activities, as well as certain petroleum, mining and land-dealing activities. Chargeable capital gains are effectively taxed at a 33% rate.

² Claims for capital allowances on 'specified intangible assets' are subject to additional requirements and conditions compared to those on tangible assets. One such condition is that capital allowances for specified intangible assets can only be deducted from income that is generated from 'relevant activities' e.g. the managing, developing and exploiting of specified intangible assets and sales deriving the greater part of their value from the use of specified intangible assets.

³ A company can also claim an accelerated capital allowance (ACA) of 100% for the following: energy efficient equipment including electric and alternative fuel vehicles, gas vehicles and refuelling equipment or equipment in a crèche or gym provided by the company to its employees. The ACA can be claimed in the first year the asset is used in the business.

- 22.2** In general, trading losses may be set against current period profits, surrendered to group companies, offset against profits of a preceding accounting period of equal length or carried forward and offset against income from the same trade in future accounting periods without restriction. Trading losses can also be used on a value basis against non-trading income or gains of the current or preceding accounting period.

- 22.3** In addition, a company can reduce its tax payable by claiming capital allowances on capital expenditure it incurs on certain types of business assets and premises including plant and machinery, motor vehicles, industrial buildings etc.² Capital allowances are generally calculated on a straight-line basis on the net cost of the business asset or premises. These deductions can allow companies to spread the tax relief in respect of expenditure incurred on a capital asset over several tax years depending on the type and useful life of the asset.³ Unused capital allowances in the year (other than certain ring-fenced capital allowances) are carried forward as trading losses to the next year.

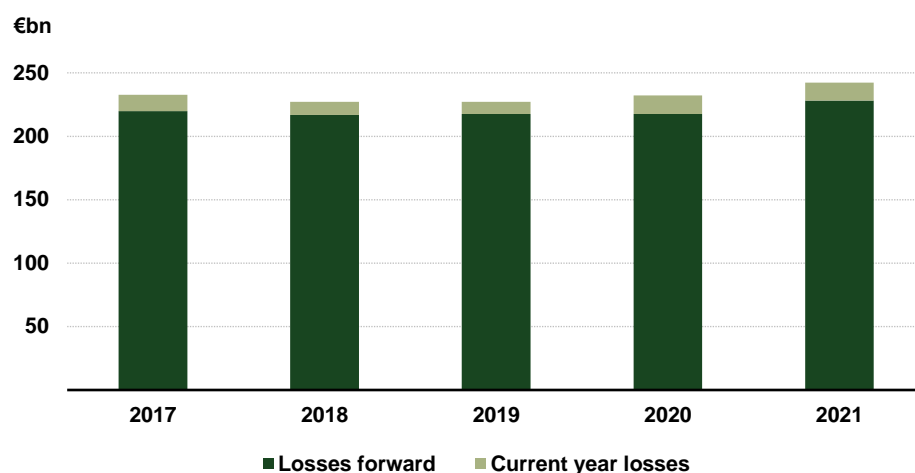
- 22.4** This examination reviews

- trends in corporation tax losses
- verification work undertaken by Revenue in relation to corporation tax loss balances
- temporary acceleration of corporation tax loss relief
- how Revenue uses available data on corporation tax losses for planning and forecasting purposes.

Trends in corporation tax losses

- 22.5** Available corporation tax losses have been relatively stable over the five years up to 2021. In 2021, approximately €242 billion of losses were available for offset against profits, consisting of €228 billion of losses carried forward and €14 billion of current year losses (see Figure 22.2). This potentially reduces the amounts of future profits on which corporation tax is charged, and so equates to around €30 billion in possible future reduced corporation tax receipts for the Exchequer.

Figure 22.2 Trading losses available 2017 – 2021^a



Source: Revenue Commissioners

Note: a The latest available corporation tax data is for 2021. Corporation tax returns for 2022 are to be submitted within nine months after the end of the accounting period.

Corporation tax losses available for offset

- 22.6** In April 2023, Revenue reported that around €35 billion of losses brought forward into 2021 were claims by companies that were either in liquidation or otherwise unlikely to ever use those losses. The bulk of this amount was recorded by companies in the financial sector.¹
- 22.7** Losses carried forward in relation to the 2021 tax year of €228 billion were available to around 63,200 companies. Of these losses carried forward, nearly 90% were incurred by companies that had been claiming losses forward for five years or more.¹
- 22.8** Where capital allowances have created or augmented a trading loss in an accounting period and that loss is carried forward, Revenue's systems do not distinguish between unused capital allowances carried forward and losses carried forward.
- 22.9** In June 2018, the Committee of Public Accounts recommended that Revenue should
- implement procedures to analyse losses carried forward to distinguish between those relating to trading losses and those relating to unused capital allowances, and
 - carry out an age analysis of current losses carried forward and put in place procedures to ensure that such analysis is carried out on a regular and systematic basis.²

¹ Corporation Tax — 2022 payments and 2021 returns, Revenue Commissioners, April 2023.

² Examination of matters in relation to receipts from corporation tax, Committee of Public Accounts, June 2018.

22.10 Revenue informed the examination team that legislative change would be required to enable it to implement either recommendation. It stated that there is no basis in tax law for a distinction between the part of a trading loss that is attributable to capital allowances and the part that is not — for taxation purposes, it is treated as one composite amount.

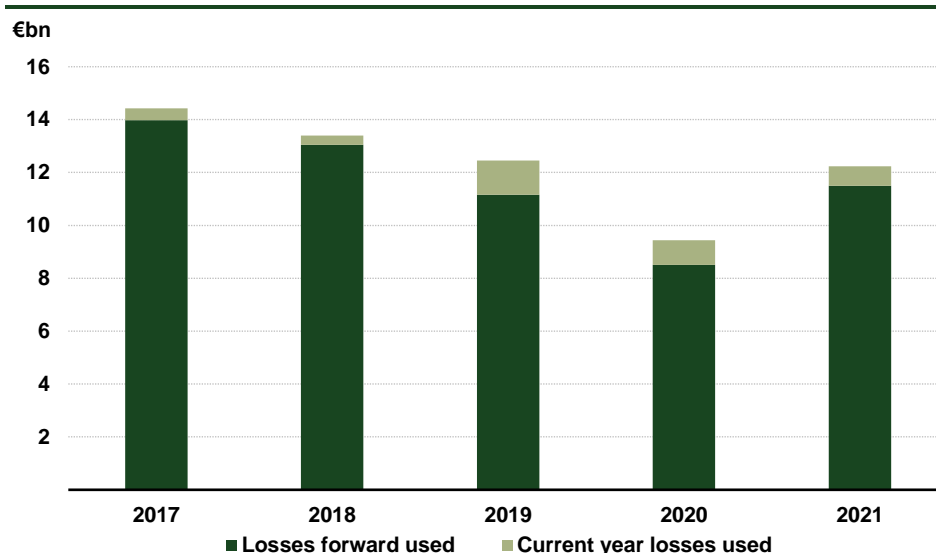
22.11 On the matter of age analysis, Revenue stated that

- the current legislation does not set out any order in which trading losses carried forward from earlier years should be offset, other than to say that they must be used against the first available profits from the same trade
- given that there is no prescription in law on the streaming of losses carried forward by reference to the year in which they are incurred, there is no basis to require taxpayers to provide an age analysis of losses carried forward as it is not relevant to the calculation of their tax liability
- as there is no basis in legislation for streaming losses by year and there is no requirement for taxpayers to provide an age analysis, it is not possible for its systems to carry out an age analysis of trading losses carried forward.

Corporation tax losses used

22.12 While a company must record losses claimed on their corporation tax return (CT1), trading losses can only be used if there is an appropriate corporation tax liability to offset. Figure 22.3 sets out the amount of losses used by companies in the period 2017 to 2021 apportioned over losses carried forward and current year. With the exception of 2020 — where the figure dipped below €10 billion — the corporation tax losses used by companies have remained fairly consistent since 2017 ranging from just over €14 billion in that year to around €12 billion in 2021.

Figure 22.3 Trading losses used 2017 – 2021



Source: Revenue Commissioners

Sectoral analysis

22.13 In 2021, just over €415 billion corporation tax losses and capital allowances were available for offset against profits (2020: €377 billion). This comprised

- losses brought forward of €228 billion
- current year losses of €14 billion
- current year capital allowances amounting to €173 billion.

22.14 Details of the use of losses and capital allowances available in 2021, by sector, are set out in Figure 22.4.

Figure 22.4 Estimate of losses and capital allowances available, used and unused at the end of 2021

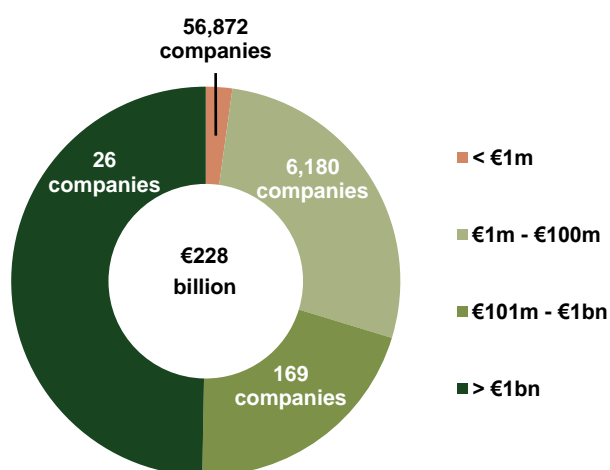
Sector	Losses and capital allowances available 2021 €bn	Used in 2021 €bn		Unused at end 2021 €bn	Number of companies
Financial and insurance activities	108.3	6.7	6%	101.6	4,390
Administrative and support service activities	85.0	18.3	22%	66.7	5,899
Manufacturing	82.7	57.4	69%	25.3	4,618
Information and communication	41.0	12.0	29%	29.0	6,175
Construction	10.7	1.0	9%	9.7	11,227
Wholesale and retail trade	36.0	8.1	23%	27.9	10,140
Transportation and storage	11.9	0.5	4%	11.4	2,156
Other	39.9	7.4	19%	32.5	26,711
Total	415.5	111.4	27%	304.1	71,316

Source: Revenue Commissioners. Analysis by the Office of the Comptroller and Auditor General.

Numbers of companies carrying losses forward

- 22.15** Almost 29,000 companies used corporation tax losses in their 2021 returns. Nearly half of the €228 billion losses carried into 2021 was available to just 26 companies, an average of approximately €4.4 billion each. In comparison, nearly 57,000 of the remaining companies had losses available to them totalling €5.1 billion, an average of approximately €90,000 per company (see Figure 22.5).

Figure 22.5 Concentration of corporation tax losses brought forward, 2021

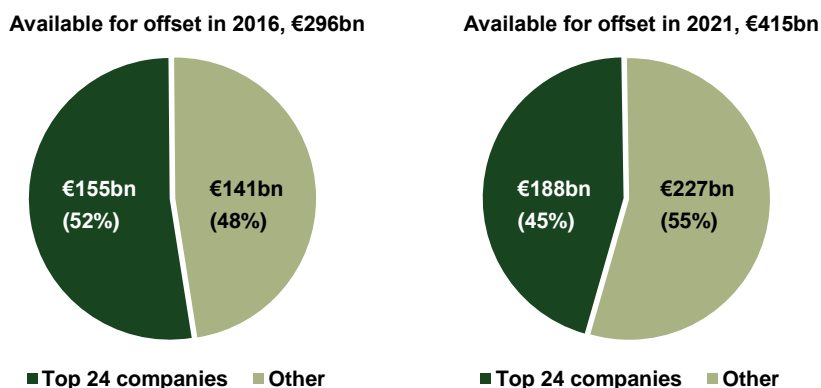


Source: Revenue Commissioners

Analysis of companies with a high level of corporation tax losses

- 22.16** While there is a very high level of concentration of losses available for offset against future corporation tax liabilities, this has reduced somewhat since I previously reported on this matter.¹ In 2016, just over half of the losses then available for offset (€296 billion) was accounted for by the top 24 companies (see Figure 22.6). This had reduced to 45% of the available losses (€415 billion) in 2021.

Figure 22.6 Losses and capital allowances available for offset, 2016 and 2021



¹ Chapter 19, 'Corporation tax losses', Report on the Accounts of the Public Services 2017.

Source: Revenue Commissioners. Analysis by the Office of the Comptroller and Auditor General.

- 22.17** As part of this examination, we tracked the 24 companies with the largest losses in 2016 to establish their position in 2021. Twelve of the companies with the largest losses in 2016 were still in the top 24 for 2021. Of the twelve companies no longer in the top 24 for 2021, nine were profitable and using the losses, one had profits and was claiming capital allowances for 2021, one submitted a CT1 for 2021 but had no trade profits and one company is no longer trading.

Verification of corporation tax losses forward

- 22.18** Revenue's system for verification of the value of losses carried forward for companies comprises a number of elements.

- Corporation tax compliance interventions generally include a review of any losses forward.
- Losses forward are examined as part of the annual risk review for large groups taking part in the Co-operative Compliance Framework (CCF).¹
- When requests for corporation tax refunds and liquidation clearance are received by Revenue, losses forward may be examined.

- 22.19** Revenue carried out 14,810 corporation tax compliance interventions between 2019 and 2022. Revenue's case management system contains caseworker notes and an intervention report that provides the details of each case. This information is generally in the form of free text rather than pre-defined fields that could be used as a basis for extracting statistics. This means that each case would need to be reviewed manually to confirm how many cases included a review of losses.

- 22.20** Revenue has stated that its approach to compliance is tailored to tackle potential or existing risks across its segmented case base, with cases managed differently in each division. For example, of the nearly €223 billion losses forward in 2021 (excluding those relating to excepted trades)

- 80% or around €178 billion was managed by Revenue's Large Corporates Division²
- 12% or around €27 billion related to taxpayers managed by the Medium Enterprises Division and
- the remaining 8% or €18 billion related to taxpayers managed by the Business Division.

Large Corporates Division

- 22.21** The primary method used by Large Corporates Division (LCD) to gain assurance over the value of losses carried forward is case-specific risk assessments. A review of losses is just one element considered during the risk assessment and may include examination of

- group relief claims (including symmetry between losses surrendered and losses claimed)
- any restrictions of losses that should arise e.g. in the event of late filing.

¹ 119 groups comprising 1,252 companies that are registered for corporation tax take part in the CCF.

² Since October 2015, groups with annual turnover greater than €190 million or tax payments greater than €18 million per annum are dealt with by the Large Corporates Division.

- 22.22** A review of the closing losses in one year and the opening losses the following year is routinely carried out as part of a case-specific risk assessment. However, Revenue stated that this is not necessarily documented as the purpose of the risk assessment is to identify a risk to tax. Where no tax risk is identified, the risk assessment is generally not documented.

22.23 LCD also carries out specific compliance projects on losses forward in certain sectors.

- In 2019 and 2021, two projects were carried out on the aircraft leasing sector. The focus was to reconcile losses carried forward at the end of 2016 and 2017 to losses brought forward at the beginning of 2017 and 2018. Entities in this sector have specific excess capital allowances that are not included on the CT1 form which means that losses forward cannot be reconciled solely from the information on the return. The projects reviewed 25 companies which resulted in a restriction of total losses carried forward by the relevant companies of €358 million (10% of the total losses carried forward), resulting in an additional €45 million in tax yield. Amendments have been made to the CT1 for 2021 and later years to allow these specific excess capital allowances to be reported separately on the form.
- In 2021, a project commenced to examine the validity of the 2017 and 2018 losses in 30 companies with the highest losses in two LCD branches. Phase one has been completed, with almost €18 million of losses restricted (1% of total losses carried forward) yielding an additional €2.2 million. Phase two is ongoing and focuses on the validity of losses in 2019 and 2020 in excess of €5 million claimed and surrendered by groups. Revenue has stated that recommendations, if arising, will be made in respect of both phases on completion of the project.

Medium Enterprises Division

22.24 When carrying out a corporation tax compliance intervention where losses are shown in the return(s), the Medium Enterprises Division (MED) reviews the losses for any indication of risk. As part of this review, a schedule of losses is requested. Revenue stated that the conclusions in relation to all matters subjected to risk review, including losses, are documented in the intervention report.¹

22.25 In quarter 3 of 2022, one of the MED branches commenced an exercise to analyse the losses carried forward for the years 2017 to 2021 in respect of the 261 cases managed by that branch with such losses indicated on the relevant CT1 forms. Phase one of this exercise was finalised in April 2023 and while no difference or an easily reconciled difference was found in 192 (almost 75%) of the cases, the exercise noted the following issues in respect of some of the forms

- transcription and calculation errors²
- agents/taxpayers had not completed the losses panel fully (leaving the carry forward box blank).

22.26 The April 2023 exercise also noted that, in cases where there are current year losses, the CT1 form does not allow for a reconciliation of the losses carried forward at the end of one year, with those brought forward to the following year. The MED branch report on the review noted that an additional field should be added to the CT1 form to capture total losses carried forward into the following year, rather than just the balance of losses brought forward from previous years. Revenue stated that this change to the CT1 form is under consideration for the next period (CT1 2024) but that the capacity to implement the change is subject to prioritisation and availability of IT resources.

¹ A risk review considers risks in relation to current year corporation tax losses and carry forward trading and non-trading losses.

² Transcription errors such as misplaced or omitted digits from a number. Calculation errors such as omission of component figure, visible in CT1 but not taken into account in computing the balance.

- 22.27** The MED branch concerned then commenced phase two of the exercise examining 69 cases identified in the initial exercise as requiring a more detailed review. The follow-up review was able to establish the reason for the discrepancy in 93% of those cases. The June 2023 report on the follow-up review noted that some taxpayers/agents lack understanding with respect to certain fields on the CT1 return and this accounted for the associated input errors. As a result, it was suggested that validation of figures on CT1 returns by Revenue could address this. The review also identified five cases for escalation in the form of a risk review.

Review of corporation tax losses by the OCAG financial audit team

- 22.28** As part of the financial audit of the Receipt of Revenue of the State collected by the Revenue Commissioners in the year ended 31 December 2022, a sample of 15 cases was examined by the financial audit team where the losses carried forward from the 2019 CT1 returns varied from the losses brought forward in the 2020 CT1 returns.
- Nine cases, with differences totalling €975 million, were explained by taking factors such as foreign exchange differences, charges, capital allowances, group relief and value based losses into account.
 - Two cases, with differences totalling €294 million, related to entities in the aircraft leasing industry where there are specific excess capital allowances that were not included on the CT1 form for the year under review. However, Revenue confirmed that amendments have since been made to the CT1 form for 2021 and later years to facilitate the inclusion of the industry-specific excess capital allowances.
 - Four cases, with differences totalling €12 million, were attributed to input errors by taxpayers/agents. One of these cases has been resolved by the taxpayer and Revenue is continuing to work with the relevant taxpayers/agents on addressing the remaining three cases.

Temporary acceleration of corporation tax loss relief

- 22.29** Section 11 of the Financial Provisions (Covid-19) (No. 2) Act 2020 provided for a temporary acceleration of corporation tax loss relief for companies as a cash flow support. The provision allowed companies to estimate trading losses for certain accounting periods impacted by Covid-19 restrictions and to make a provisional claim to carry-back up to 50% of those losses against taxable profits of the preceding accounting period on an accelerated basis. This resulted either in a repayment of some or all of the corporation tax paid for the prior period or in a reduction in the amount of corporation tax payable for that period. The last day by which a claim for this relief could be made was 30 May 2022.
- 22.30** Figure 22.7 provides details on the total number of claims received by Revenue for accelerated losses and the amount of losses and accelerated refunds claimed.

Figure 22.7 Accelerated loss relief

Year ^a	Type	Number of claimants	Losses claimed €m	Accelerated refunds claimed €m
2019	Companies with trading profits	247	479.8	60.0
	Companies with excepted trades ^b	30	2.7	0.6
	Total	277	482.5	60.6
2020	Companies with trading profits	106	89.8	11.2
	Companies with excepted trades ^b	23	1.2	0.2
	Total	129	91.0	11.4

Source: Revenue Commissioners

Notes: a 2019 data reflects 2020 losses carried back against 2019 profits. 2020 data reflects 2021 losses carried back against 2020 profits.

b An excepted trade is a trade which consists only of trading operations or activities which are excepted operations such as dealing in or developing land, trade of working minerals or a trade consisting of petroleum activities.

22.31 Revenue stated that for the 24 claims managed by LCD (just under 6% of all accelerated loss relief claims), those claims were notified to the sectoral branches as they arose and interventions were opened on the majority.

22.32 There are no dedicated criteria for selecting claims made for accelerated loss relief on corporation tax for review by caseworkers. As is the case for all other corporation tax refund claims, accelerated loss relief claims may be brought to the attention of the processing team via the standard work item rules in Revenue's Integrated Taxation Processing system.¹ If a taxpayer submits or amends a corporation tax return and a refund is due, a work item may be generated based on the amount of refund that applies.

22.33 In terms of compliance interventions on temporary acceleration of loss relief, Revenue confirmed that twenty interventions were carried out comprising three compliance contacts, three appraisals and 14 aspect queries.² No yield (of additional tax due) was obtained from this compliance work carried out on almost 5% of cases by number and 87% by value of total accelerated refunds claimed.

1 A work item is a 'trigger' generated by Revenue's processing system for a particular issue identified on a taxpayer's return or record that requires a caseworker review.

2 A compliance contact is an intervention by Revenue that, although not at the level of an audit, may involve checks and challenges and direct contact with the taxpayer and/or agent to test compliance.

3 The Department of Finance uses projections of gross operating surplus i.e. profitability, estimates of the impact of budgetary measures and other policy changes, together with information derived from Revenue, to forecast corporation tax receipts.

Planning and forecasting

22.34 Accurate forecasting of tax revenue is a key part of overall public sector budgeting. The Department of Finance has responsibility for the calculation and publication of tax forecasts each year, which is carried out with assistance from Revenue.³ Revenue has stated that the forecasting of the future impact of losses on corporation tax receipts in later years is difficult, given that the future use of losses is dependent on the future profitability and the ability of companies to utilise any losses available to them.

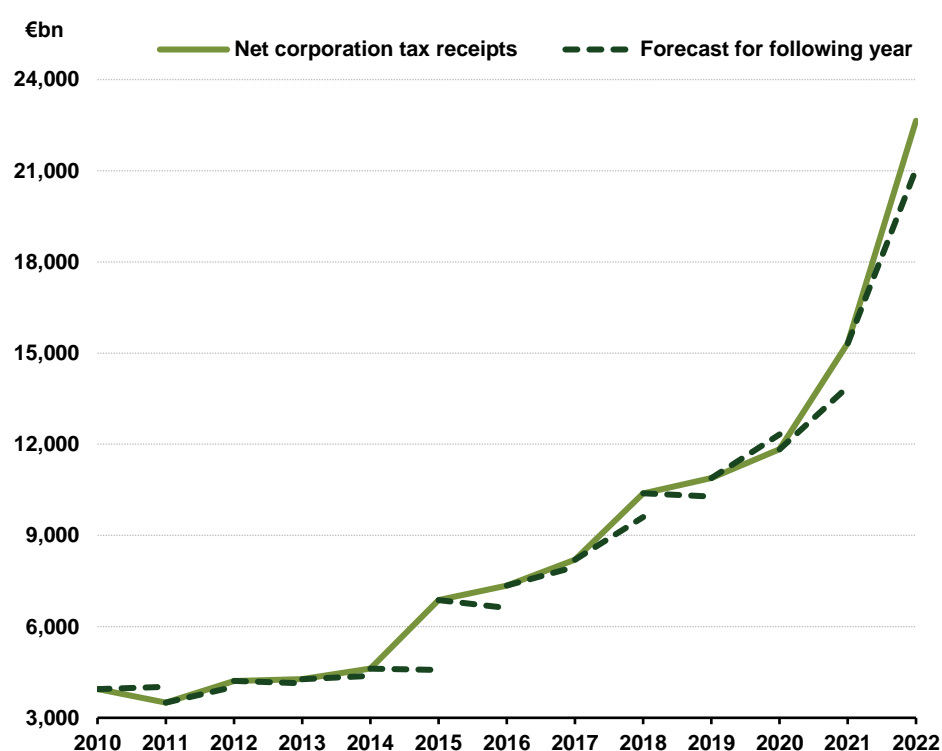
22.35 Corporation tax is highly concentrated, with the bulk of receipts paid by a small number of companies and sectors. As a result, company and sector specific developments, which are difficult to predict, have a significant impact on receipts. For 2021, corporation tax trading losses used reduced the tax receipts to the Exchequer by just over €1.5 billion, and the remaining accumulated losses represent a potential reduction in future tax collection of just over €30 billion. Therefore, the future use of losses is a key component of forecasting.

22.36 I previously reported that corporation tax losses were not forecast separately. In response, Revenue stated that estimates for future years were based on receipts of previous years on a net basis, with losses being an intrinsic part of the tax base for corporation tax.¹ Revenue added that if significant new losses were to be incurred in the tax base, Revenue would expect to capture this through the usual channels and would then adjust estimates accordingly.

22.37 Revenue confirmed that the same approach continues to be taken to forecasting corporation tax receipts as it is considered the most appropriate method. As part of the forecasting process, Revenue gives particular attention to the use of losses by the 'top ten' groups.² Each year, the top ten groups are asked to forecast any significant changes in their tax payments in the forecast year and any associated reasons underpinning these changes, for example, due to increased loss usage. Revenue confirmed that it has not received any responses indicating that losses are a factor influencing variations in tax payments by these groups.

22.38 Figure 22.8 sets out corporation tax forecasts compared to net receipts for the period 2011 to 2022. The annual variance from forecast ranged from 3% to 50% up to 2016. However, the accuracy of forecasting has improved in recent years with net receipts being within 10% of the forecast throughout the 2017 to 2022 period.

Figure 22.8 Corporation tax receipts compared to forecasts, 2010 – 2022^a



Source: Revenue Commissioners

Note: a Comparison of net corporation tax receipts recorded when received by Revenue to tax profiles from the Department of Finance based on receipts in the Exchequer account.

¹ Chapter 19, 'Corporation tax losses', *Report on the Accounts of the Public Services 2017*.

² The top ten groups are defined by Revenue as the top ten corporation tax payers. In 2022, the top ten groups were responsible for approximately 60% of corporation tax receipts.

Conclusions and recommendations

- 22.39** The level of corporation tax losses forward has been relatively stable over the five years up to 2021. At the end of 2021, approximately €242 billion of accumulated corporation tax losses were available for offset against profits. This represents a significant potential reduction in future corporation tax receipts, of the order of €30 billion.
- 22.40** Corporation tax losses brought forward from prior years comprise trading losses incurred and unused capital allowances for companies engaged in investment. Under current legislation, there is no distinction for tax purposes between the portion of a trading loss that is attributable to capital allowances and the portion that is not. Accordingly, the balance between these sources of losses brought forward cannot be readily identified.
- 22.41** Recommendations made by the Committee of Public Accounts in 2018 in relation to distinguishing between trading losses and unused capital allowances and performing regular age analyses of losses carried forward have not been implemented. Revenue has stated that implementation of these recommendations would require legislative changes.
- 22.42** Losses brought forward into 2021 were highly concentrated with just 26 companies accounting for nearly half of the total.
- 22.43** Three major compliance projects on corporation tax losses undertaken by Large Corporates Division since 2019 have yielded an additional €47 million in corporation tax receipts. While other compliance exercises, undertaken to reconcile differences arising between the losses forward figure from one year to the losses brought forward in the following year, were able to establish a reason for the discrepancy in the majority of cases, some issues were highlighted.

Recommendation 22.1

Revenue should introduce a process to investigate instances where significant variations arise between a company's corporation tax losses carried forward from one year and its losses brought forward in the following year.

Accounting Officer's response

Agreed.

Revenue proposes to introduce a work-item to flag significant variation in CT1 losses carried forward from one year compared to the losses brought forward to the following year. While there are many valid reasons for such variations, for example, exchange rate movements or group restructuring, generating this work-item will ensure losses are reviewed by a case worker where a significant variation arises.

Timeline for implementation

For the CT1 2024 by quarter 4 2024.

- 22.44** A scheme of temporary acceleration of corporation tax loss relief, introduced by the Financial Provisions (Covid-19) (No. 2) Act 2020, was administered by Revenue from 2020 to support companies that had become loss-making due to the impact of Covid-19. Aggregate tax refunds of €72 million were paid arising from over 400 claims submitted in respect of the 2020 and 2021 trading periods. Twenty compliance interventions (5% by number and 87% by value) undertaken by Large Corporates Division in respect of the scheme did not result in any additional tax yield.

Other matters

23 Accounts of the National Treasury Management Agency

- 23.1** Section 12 of the National Treasury Management Agency Act 1990 (as amended) (the 1990 Act) requires the National Treasury Management Agency (the NTMA) to keep accounts of all moneys it receives or expends in the form approved by the Minister for Finance (the Minister), and to submit the accounts annually for audit by the Comptroller and Auditor General. Following completion of the audit, the NTMA must submit the accounts and the related audit reports to the Minister, who in turn must present them to the Houses of the Oireachtas.
- 23.2** Separately, section 12 of the 1990 Act requires the Comptroller and Auditor General to report to Dáil Éireann with respect to the correctness of the sums brought to account by the NTMA each year. This is the report for 2022.

Accounts of the NTMA 2022

- 23.3** The accounts audited under section 12 of the 1990 Act are
- National debt of Ireland
 - NTMA administration account
 - Post Office Savings Bank Fund
 - State Claims Agency
 - Ireland Strategic Investment Fund (ISIF)
 - Ireland Apple escrow fund¹
 - National Surplus (Exceptional Contingencies) Reserve Fund.
- 23.4** Separately, the NTMA prepares the financial statements of the Dormant Accounts Fund (under the Dormant Accounts Act 2001) and of the Carbon Fund (under the Carbon Fund Act 2007). These are published by the NTMA together with the other (section 12) accounts it publishes.
- 23.5** The accounts for 2022 have been audited. My reports on the audits were issued on 15 May 2023.

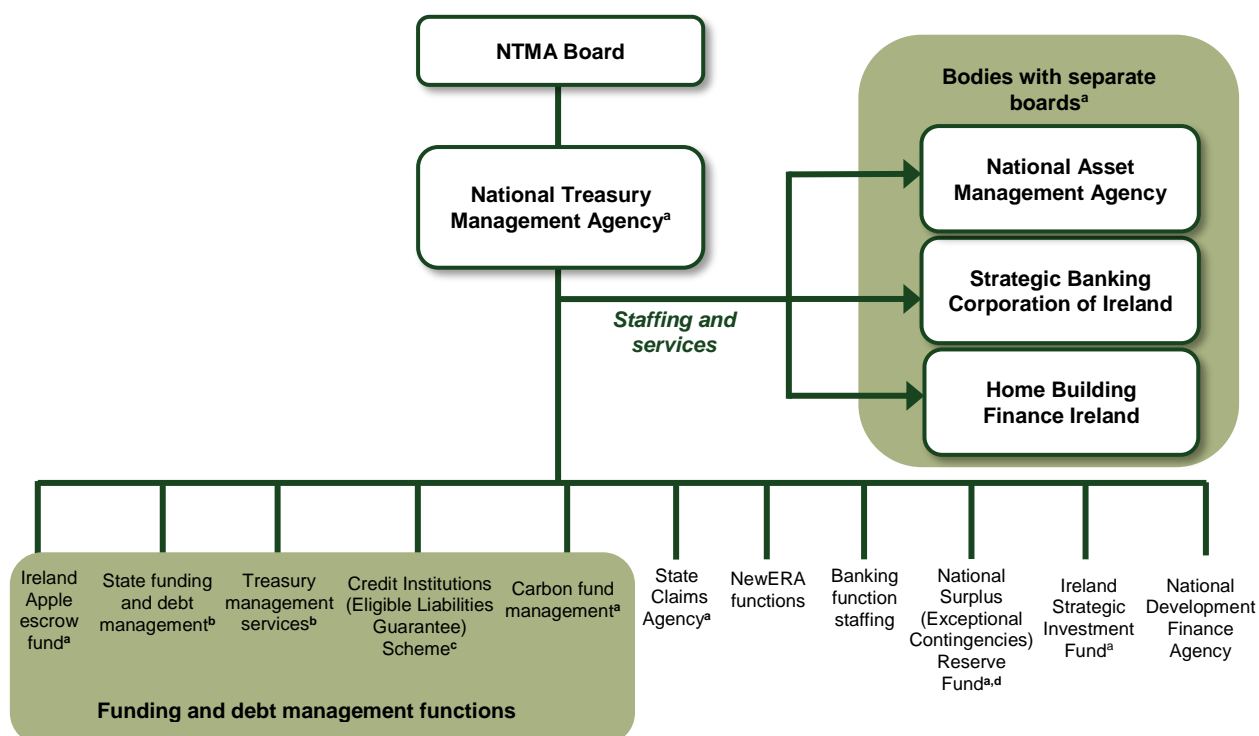
¹ See also *Report on the Accounts of the Public Services 2022*, chapter 24 Performance of the Ireland Apple escrow fund.

Structure, costs and staffing of the agency

23.6 Since the NTMA was set up in 1990, it has evolved into a complex organisation with multiple functions that extend beyond its original and core role in managing Ireland's national debt (see Figure 23.1). Figure 23.2 summarises the distribution of the NTMA's costs across the functions.

23.7 At the end of 2022, NTMA staff numbers totalled 773 on a whole time equivalent basis, across the various functions and activities (see Figure 23.3).

Figure 23.1 Functions of the National Treasury Management Agency



Source: National Treasury Management Agency

- Notes:
- a Separate financial statements are prepared for the activities of each of these functions/entities.
 - b In the functional areas of State funding and debt management, and treasury management services, separate financial statements are prepared for the Dormant Accounts Fund, the Post Office Savings Bank Fund and the National Debt of Ireland.
 - c The Eligible Liabilities Guarantee Scheme (ELG) is closed. There are no remaining liabilities guaranteed under the ELG, with the exception of those arising from the liquidation of Irish Bank Resolution Corporation (IBRC). As the liquidation process is currently paying 100% to unsecured creditors, there have been no recent claims under the ELG scheme in relation to IBRC.
 - d €2 billion was transferred to the National Surplus (Exceptional Contingencies) Reserve Fund from the Central Fund of the Exchequer in November 2022.

Figure 23.2 Cost of operations, by business area, 2019 – 2022

	2019	2020	2021	2022
	€m	€m	€m	€m
NTMA business units				
Funding and debt management	12.3	12.6	12.4	13.4
Ireland Strategic Investment Fund	15.2	16.0	17.2	18.4
State Claims Agency	28.5	28.1	29.2	31.7
NewERA	6.0	5.8	6.1	6.8
Banking Unit (Shareholding and Financing Advisory Division, Department of Finance)	3.9	1.8	2.2	4.4
National Development Finance Agency	12.6	11.3	11.6	12.7
Supported bodies				
National Asset Management Agency	40.7	33.9	30.2	26.2
Strategic Banking Corporation of Ireland	5.9	6.2	6.5	7.8
Home Building Finance Ireland	5.3	5.0	6.0	6.2
Total payments	130.4	120.7	121.4	127.5

Source: National Treasury Management Agency. Any apparent differences in totals are due to rounding.

Figure 23.3 NTMA staffing distribution at year end, 2019 – 2022^a

	2019	2020	2021	2022
NTMA business units				
Funding and debt management	23	23	23	24
Ireland Strategic Investment Fund	47	53	59	66
State Claims Agency	156	166	170	170
NewERA	25	26	29	29
Banking Unit (Shareholding and Financing Advisory Division, Department of Finance)	11	9	8	11
National Development Finance Agency	64	67	67	66
NTMA corporate functions				
Finance, technology and operations	133	145	143	145
Legal, compliance, HR and internal audit	43	48	55	59
Risk	20	20	20	23
Other	3	1	1	2
Supported bodies				
National Asset Management Agency	210	174	145	110
Strategic Banking Corporation of Ireland	23	28	32	38
Home Building Finance Ireland	21	27	31	31
Total	779	787	783	773

Source: National Treasury Management Agency. Any apparent differences in totals are due to rounding.

Note: a Numbers are based on whole time equivalents.

Performance-related pay

- 23.8** Provision for a discretionary performance-related payment is included in the majority of NTMA employee contracts. The Remuneration Committee of the NTMA is responsible for approval of the overall amount of performance-related pay in a year, and for the approval of individual proposed awards to members of the NTMA's executive management team (EMT). Performance-related payment awards to employees below EMT level are approved by the Chief Executive following review by a sub-committee of the EMT.
- 23.9** The EMT comprises the Chief Executive, the Chief Financial and Operating Officer, the Director of the State Claims Agency, the Chief People Officer, the Chief Legal Officer, the Director of the Ireland Strategic Investment Fund, the Director of Funding and Debt Management, the Director of the National Development Finance Agency and NewERA, and the Head of Banking (who is seconded to the Department of Finance).
- 23.10** Performance-related payments of €2.2 million (2021: €2.22 million) were made to 239 employees for 2022 (2021: 231), of which €130,000 was paid to five members of the EMT (2021: €195,000 to six EMT members). The Chief Executive of the NTMA did not receive a performance-related payment in respect of 2022.

Supported agencies

- 23.11** In addition to its own operations, the NTMA assigns staff to the National Asset Management Agency (NAMA), the Strategic Banking Corporation of Ireland (SBCI) and Home Building Finance Ireland (HBFI) and provides them with business and support services and systems on a cost recoupment basis. Each of the supported entities has its own board and is separately accountable to Dáil Éireann.
- 23.12** Performance-related payments of €565,000 were awarded to NTMA staff members assigned to other agencies for 2022, as follows:
- NAMA €341,000 (2021: €371,000)
 - SBCI €136,000 (2021: €85,000)
 - HBFI €88,000 (2021: €55,000).

Banking system functions staffing

- 23.13** NTMA staff involved in the provision of banking system functions have been seconded to the Shareholding and Financial Advisory Division in the Department of Finance since August 2011. At the direction of the Minister, the related staff and professional advisor costs are met by the NTMA.
- 23.14** Costs incurred by the NTMA in 2022 in relation to the Shareholding and Financial Advisory Division totalled €4.4 million (2021: €2.2 million). Professional advisor costs of €2.7 million (2021: €nil) were recovered in 2022 from the relevant financial institutions.

Key NTMA operations in 2022

23.15 Key developments in the NTMA's operations in 2022 include

- a €5.9 billion (2.5%) decrease in the level of the national debt
- a substantial increase in the interest paid to the Post Office Savings Bank Fund in respect of 'ways and means' advances to the Exchequer
- an increase of €0.5 billion in the estimated value of the net assets of the Ireland Strategic Investment Fund
- disposal of the remainder of the State's shareholding in Bank of Ireland, and a further reduction in the State's shareholding in AIB Group plc
- €2 billion transferred to the National Surplus (Exceptional Contingencies) Reserve Fund
- continuation of the upward trend in the estimated contingent liability of the claims being managed by the State Claims Agency.

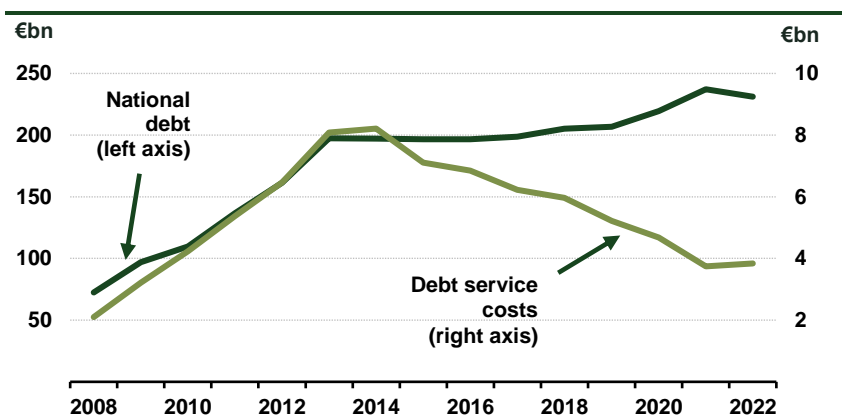
National debt

23.16 The NTMA's primary function is to borrow on behalf of the Minister and to manage Ireland's national debt, defined as the total debt outstanding for the time being of the Exchequer.¹

23.17 At 31 December 2022, the national debt stood at €231,236 million, down from €237,177 million at end 2021 (see Figure 23.4). The decrease of €5,941 million (or 2.5%) in 2022 was largely attributable to the reduction in Irish government bond balances.

23.18 Debt service costs paid in 2022 were €3,841 million, including net interest paid, transaction fees and operating expenses. Despite the reduction in the national debt, debt service costs were 2.6% higher than in 2021, breaking the downward trend occurring since 2015. This increase was mainly due to 'ways and means' interest of €146 million in 2022 (2021: nil) and the return to a positive interest rate environment, which resulted in an increase in interest paid on short term paper. The increase was partially offset by a decrease in interest paid on some other categories of national debt. For example, interest paid on EU programme loans decreased by over €100 million.

Figure 23.4 National debt and debt service costs, 2008 – 2022



¹ See section 1 of the 1990 Act.

- 23.19** The NTMA initially planned to raise between €10 billion and €14 billion in bond funding during 2022, in line with, *inter alia*, its debt re-financing objectives. In September 2022, the NTMA confirmed that it had completed its funding programme for the year having issued €7 billion in long term bonds. The decision reflected the strong Exchequer cash position together with the projected Exchequer surplus for 2022. A further €0.1 billion of debt was issued through non-competitive bond auctions, bringing the total bond issuance for the year to €7.1 billion. The total bond funding had a weighted average yield of 1.1% and a weighted average maturity of 14.8 years.
- 23.20** The NTMA raised a further €0.2 billion in other long-term debt issued in 2022 under its Euro Medium Term Note (EMTN) Programme. There were two fixed-rate private placements with maturities of 60 and 100 years respectively at an average yield of just over 2%. This brought total long-term borrowing in 2022 to €7.3 billion.

Short term borrowings

- 23.21** Central government bodies and local authorities with cash reserves frequently purchase short-term paper from the NTMA, as a means of holding cash that is not immediately required. This constitutes part of the NTMA's short-term borrowing, which is recognised as part of the national debt.
- 23.22** At 31 December 2022, €9.9 billion debt was held in short term paper through Exchequer notes of €7.5 billion and central treasury notes of €2.4 billion, with the majority (€9.7 billion) issuing to Government bodies — €7.8 billion to central government bodies and funds, €1.4 billion to local authorities, and the balance to other public sector bodies.¹
- 23.23** Short term paper issued to public sector bodies increased by €6.1 billion between end-2018 to end-2022, reflecting a rapid build-up in the levels of cash balances accumulating in departmental funds and public bodies' balance sheets (see Figure 23.5).

Figure 23.5 Composition of short-term paper issued to public bodies at year end 2018 and 2022

Category	2018	2019	2020	2021	2022
	€m	€m	€m	€m	€m
Central Government bodies	3,361	7,177	4,553	4,166	7,841
Local authorities	—	—	—	—	1,359
Public sector bodies in non-financial and financial corporations	229	162	556	376	523
Total short term paper to public bodies	3,590	7,339	5,109	4,542	9,724
Short term paper to non-public bodies	2,803	2,659	8,918	5,224	186
Total short term paper	6,393	9,998	14,027	9,766	9,910
Percentage of total short term paper issued to public bodies	56%	73%	36%	47%	98%

¹ Central treasury notes (CTN) and Exchequer notes (EXN) are a form of short-term paper debt used largely for intra-government borrowing.

Source: National Treasury Management Agency. Any apparent differences in totals are due to rounding.

Post Office Savings Bank Fund

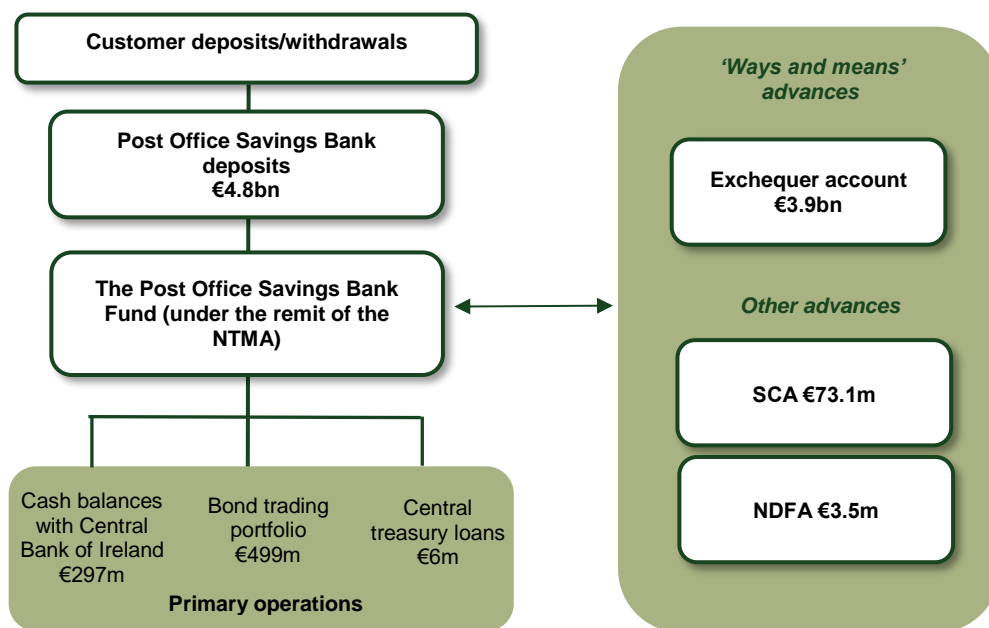
23.24 Proceeds from Post Office Savings Bank (POSB) deposits are the primary source of funding for the Post Office Savings Bank Fund (the Fund). The deposit account balances are reported as liabilities of the Fund.

23.25 POSB deposits are utilised in a number of ways (see Figure 23.6).

- Surplus monies in the Fund are lent to the Exchequer as ‘ways and means’ advances — these are an Exchequer liability that forms part of the national debt. At end 2022, advances to the Exchequer accounted for 81.3% of the Fund assets.
- Some funds are invested in Irish government bonds as part of a secondary bond trading portfolio.
- Some funds are used to provide short-term funding to the State Claims Agency (SCA) and the National Development Finance Agency (NDFA) for the purpose of funding their activities — no interest/financing costs are charged to the SCA and NDFA in respect of these arrangements.
- Some funds are used to provide central treasury loans to designated bodies such as local authorities and other non-commercial state bodies on commercial terms (which include the charging of interest) in accordance with the National Treasury Management Agency (Amendment) Act 2000.

23.26 Under Ministerial guidelines, the NTMA is permitted to pay ‘ways and means’ interest only to the extent required to maintain the POSB’s reserves above a €5 million threshold.¹ In 2022, the Exchequer paid interest of €146 million (2021: nil) on the ‘ways and means’ advances to ensure the Fund’s retained reserves remained above the threshold, primarily due to the fall in the fair value of the Fund’s bond investments. Prior to 2022, ‘ways and means’ interest was last paid in 2011 (€124 million).

Figure 23.6 POSB flow of funds and composition of the year-end balances, 2022



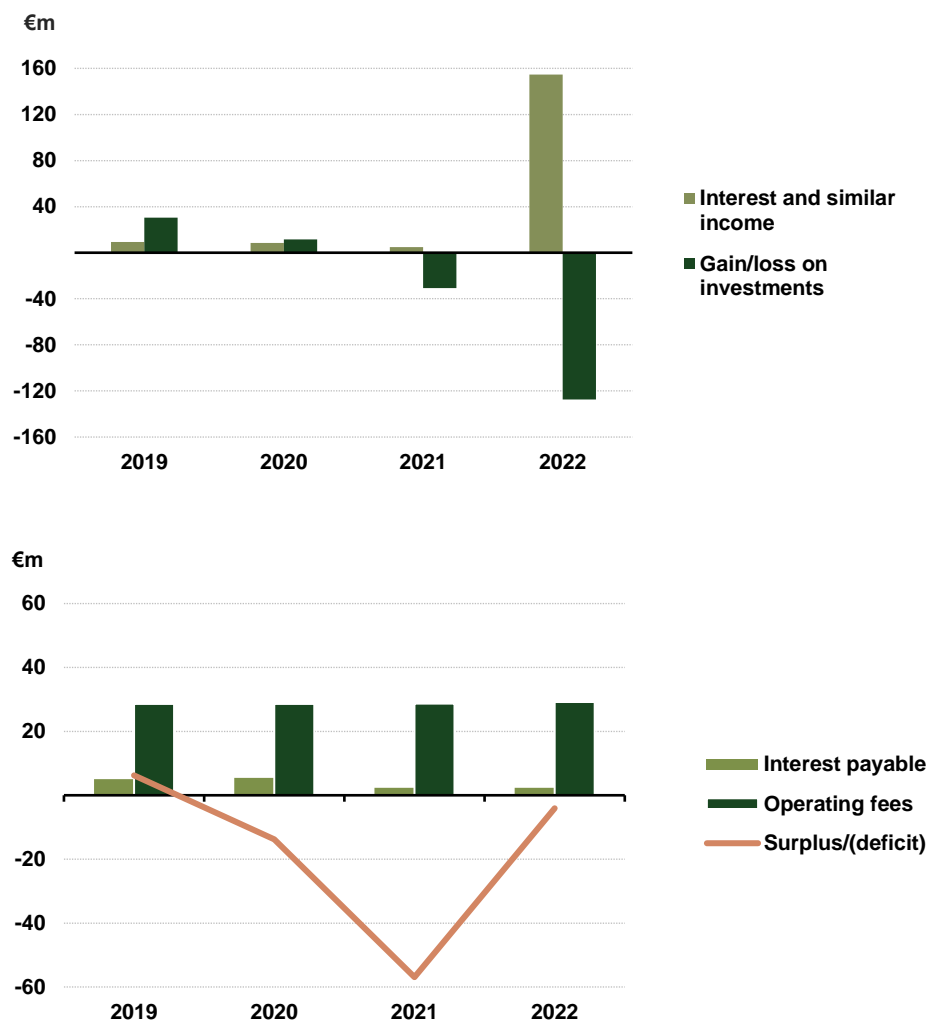
¹ Ministerial guidelines for the National Treasury Management Agency on day-to-day management of the national debt, issued pursuant to Section 4 (4) of the National Treasury Management Agency Act 1990, as amended.

Source: National Treasury Management Agency

23.27 Interest received and investments at fair value are the main sources of income for the Fund. The loss on investments at fair value increased significantly in 2022. This loss reflected the significant increase in yields during the year across the Irish Government yield curve giving rise to a depreciation of bond prices, which resulted in the Fund not being able to cover its costs (including payment of service fees to An Post), without the 'ways and means' interest income (see Figure 23.7).

23.28 In recent years, there has also been a decline in market interest rates together with a decrease in the interest paid to savers on their deposits to the Fund. However, the operating fees payable to An Post remained relatively constant between 2019 and 2022 (totalling €29.2 million in 2022.) The net result was that the Fund incurred a deficit each year from 2020 to 2022.

Figure 23.7 Fund income and expenditure and surplus/(deficit), 2019 – 2022^a



Source: Post Office Savings Bank Fund Financial Statements 2020 to 2022

Note: a The 2020 financial statements included a change in accounting policy for State investments from cost to fair market value giving rise to a prior year adjustment whereby the 2019 reported deficit of €2.1 million was restated to a surplus of €6.2 million. The restated 2019 surplus is included above.

Ireland Strategic Investment Fund

23.29 The Ireland Strategic Investment Fund (ISIF) is a sovereign development fund with a statutory mandate to invest on a commercial basis in a manner designed to support economic activity and employment in Ireland.¹

23.30 The assets of the ISIF are held in two portfolios.

- The **directed investment portfolio** is subject to directions given by the Minister for Finance.²
- The **discretionary investment portfolio** consists of investments made in accordance with the relevant sections of the 2014 Act, where the NTMA holds or invests ISIF's assets (other than directed investments) on a commercial basis.

23.31 At 31 December 2022, the ISIF held net assets of €15 billion (2021: €14.5 billion). The net assets comprised €6.3 billion in the directed portfolio, up from €4.8 billion at the end of 2021; and €8.7 billion in the discretionary portfolio, down from €9.6 billion at the end of 2021 (see Figure 23.8).

23.32 Since 2014, the discretionary portfolio has grown modestly in value, from €7.2 billion at the end of 2014 to €8.7 billion at the end of 2022. This is primarily due to investment gains of approximately €2 billion, partially offset by the net transfer of capital to other Government initiatives, including to the National Surplus (Exceptional Contingencies) Reserve Fund.

Disposals of shareholding in banks

23.33 Since 2014, the net asset value held in the directed portfolio has decreased by 58%. The decrease in value — from €15 billion in 2014 to €6.3 billion in 2022 — is primarily due to the sale of shares in AIB Group plc (AIB) and Bank of Ireland (BOI), and the subsequent transfer of the sales proceeds to the Exchequer. At end 2022, the assets in this portfolio primarily comprised residual investments in AIB.

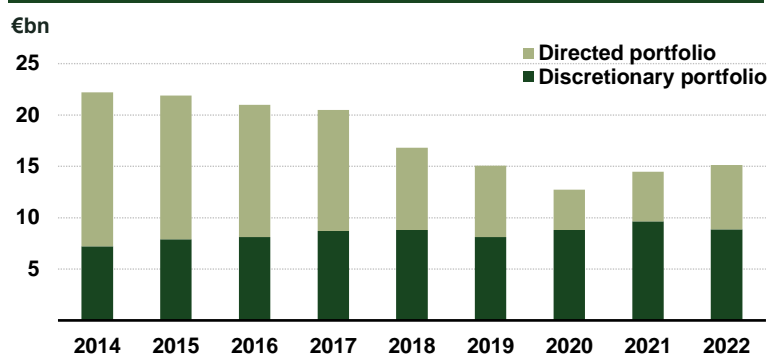
23.34 On 23 September 2022, the Minister for Finance announced the completion of a BOI share trading plan reducing the State's directed shareholding to zero (from 8% at end 2021). A total of 83 million BOI shares were disposed of during 2022, generating net proceeds of €508 million. At end 2022, the State no longer retained a shareholding in BOI.

23.35 During 2022, the Minister for Finance also directed the NTMA to reduce the State's shareholding in AIB, via a share trading plan; through participation in AIB's share buyback programme; and finally by means of an accelerated 'book building' process. The ISIF disposed of a total of 409 million AIB shares during the year, which generated net proceeds of €1,051 million. This reduced the State's shareholding in AIB from 71.12% to 56.8% at the year end.

23.36 A total of €1,355 million raised from the share disposals in BOI and AIB was transferred to the Exchequer in 2022.

¹ The ISIF was established in December 2014, pursuant to the National Treasury Management Agency (Amendment) Act 2014 (2014 Act). On its establishment, the assets and liabilities of the former National Pension Reserve Fund (NPRF) became assets and liabilities of the ISIF.

² Section 43 of the 2014 Act provides that the Minister may give direction to the NTMA in relation to the holding and management of a directed investment, the exercise of any voting rights attaching to a directed investment, or the disposal of a directed investment.

Figure 23.8 Value of ISIF net assets, 2014 - 2022

Source: Financial Statements of the Ireland Strategic Investment Fund, 2014 to 2022.
Analysis by the Office of the Comptroller and Auditor General.

Pandemic Stabilisation and Recovery Fund

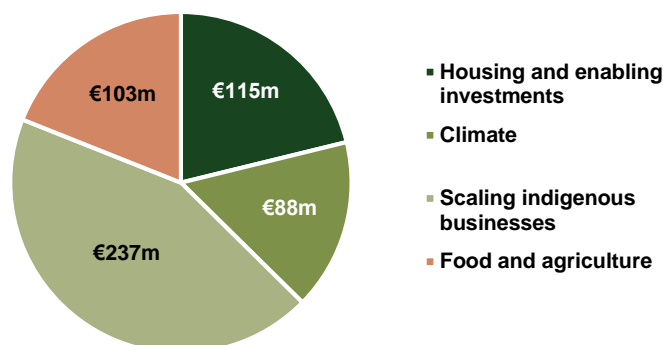
- 23.37** In May 2020, the Minister for Finance instructed the ISIF to make a €2 billion fund available, known as the Pandemic Stabilisation and Recovery Fund (PSRF). Up to its formal closure in June 2022, the PSRF sought — on a commercial basis — to support medium and large enterprises affected by the Covid-19 pandemic in Ireland, focusing on enterprises employing more than 250 employees or with annual turnover in excess of €50 million. The PSRF operated as a sub-portfolio of the ISIF's discretionary portfolio within the existing ISIF statutory mandate.
- 23.38** The NTMA has stated that 42 investments were approved over the period of the PSRF's existence, with a total commitment of €1.3 billion. It also stated that the return/performance of the PSRF was not tracked separately, and is reflected in the overall figures for the ISIF.

Revised investment strategy

- 23.39** In June 2022, a revised ISIF investment strategy was launched, with a focus on four key investment themes: climate, housing and enabling investments, scaling indigenous businesses, and food and agriculture.¹ ISIF committed €823 million to investments in 2022 of which €543 million related to the four priority investment themes (see Figure 23.9).² The housing and enabling investments theme includes an initiative to invest €500 million in various programmes in the five regional cities – Cork, Galway, Limerick, Waterford and Kilkenny.

1 The new strategy has flexibility for the ISIF to invest outside of the four themes and to respond to unforeseen macroeconomic events, such as the Covid-19 pandemic.

2 The non-priority theme commitments relate to legacy strategies (e.g. PSRF stabilisation investments).

Figure 23.9 ISIF's investment, by theme, in 2022

Source: National Treasury Management Agency Annual Report 2022

Irish Innovation Seed Fund

- 23.40** The Irish Innovation Seed Fund was also launched in 2022 with a value of €90 million, consisting of three €30 million investments from each of the fund partners — the ISIF, the European Investment Fund and the Department of Enterprise, Trade and Employment, through Enterprise Ireland.
- 23.41** The fund will focus its investment on early-stage, high-growth companies in Ireland seeking seed capital to further scale their business operations. The programme will also focus on supporting key priorities such as female entrepreneurship, regional development and sustainability.

National Surplus (Exceptional Contingencies) Reserve Fund

- 23.42** The National Surplus (Exceptional Contingencies) Reserve Fund (NSRF) was established on 31 October 2019 on commencement of the National Surplus (Reserve Fund for Exceptional Contingencies) Act 2019 (the NSRF Act).
- 23.43** Under the NSRF Act, the Minister for Finance is to pay a prescribed amount of €500 million from the Central Fund of the Exchequer into the NSRF in each of the years 2019 to 2023 inclusive, unless otherwise resolved by the Oireachtas.¹ A contribution greater than the prescribed amount is permitted.
- 23.44** On 15 November 2019, €1.5 billion was transferred to the NSRF from the ISIF. On 28 October 2020, the full €1.5 billion was withdrawn to aid the Government's Covid-19 pandemic response. The fund balance was nil throughout the remainder of 2020 and 2021. Pursuant to resolutions passed by the Oireachtas, the prescribed amount was not paid into the NSRF in either 2020 or 2021, due to the exceptional circumstances caused by Brexit and the Covid-19 pandemic.
- 23.45** Arising from a further Dáil resolution on 27 September 2022, €2 billion in aggregate was transferred to the NSRF from the Central Fund on 1 November 2022. At the end of 2022, the NSRF had net assets of €2.006 billion — €2 billion invested in Exchequer notes, and interest income of €6 million.

¹ The Oireachtas may, on a proposal brought by the Minister for Finance on or after 1 November in a particular year, pass a resolution authorising the Minister not to pay the prescribed amount into the Fund in that year.

State Claims Agency

23.46 The NTMA manages personal injury, including clinical negligence, and third-party property damage claims on behalf of the State and delegated State authorities. In addition, it has a risk management role, advising and assisting those State authorities in minimising their claims exposure. It also considers and manages third party cost claims against the State and delegated State authorities, arising from all categories of claims. When performing these functions, the NTMA is known as the State Claims Agency (SCA).

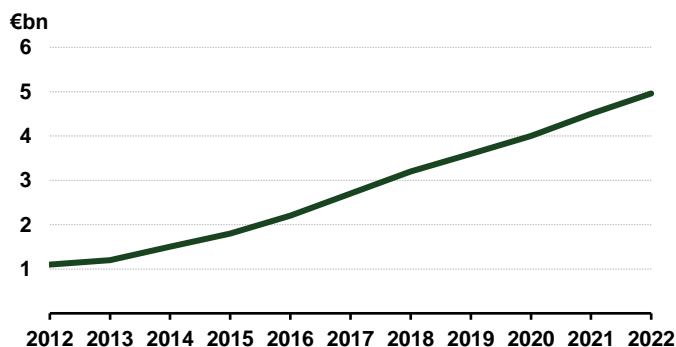
Claim settlement in 2022

23.47 In 2022, the SCA paid awards and associated claim costs totalling €551 million — an increase of 7% on the prior year (2021: €513 million).¹ These amounts are recovered by the SCA from delegated State authorities who are liable in respect of claims managed on their behalf by the SCA.

23.48 In addition to the settlement costs, the NTMA incurred €31.7 million (2021: €29.2 million) in administrative costs in the performance of its SCA functions. The administrative costs are included in the administration expenses of the NTMA, which are charged on the Central Fund. The NTMA does not seek reimbursement of these costs from delegated State authorities.

23.49 The estimated cost of settling outstanding claims has been rising at a steady rate (see Figure 23.10). The outstanding liability at the end of 2022 has been estimated by the SCA at €4.96 billion — almost four and half times the estimated outstanding liability at the end of 2012.²

Figure 23.10 Estimated outstanding claims liability at year end, 2012 – 2022



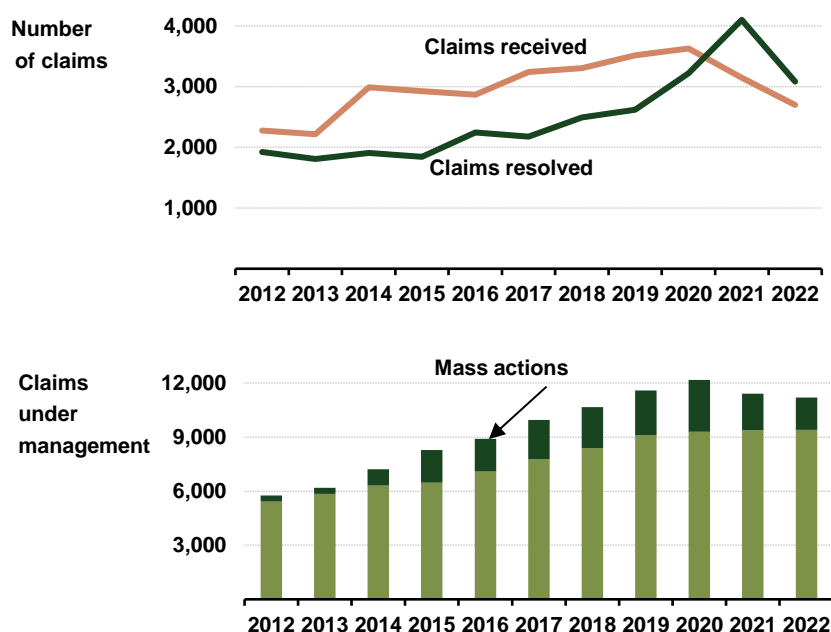
Source: National Treasury Management Agency

¹ Includes all awards and costs paid under the general and clinical indemnity schemes and all other costs paid by the Legal Costs Unit — including Tribunal costs.

² €745 million of the estimated outstanding liability at year-end relates to interim and 'periodic payment' orders.

23.50 Around 3,082 claims were resolved in 2022 — down from 4,100 in 2021. While the number of claims under management by the SCA at the year-end declined, it still remains high (see Figure 23.11). At the end of 2022, there were 11,204 claims under management including 1,795 claims in mass actions (general and clinical).

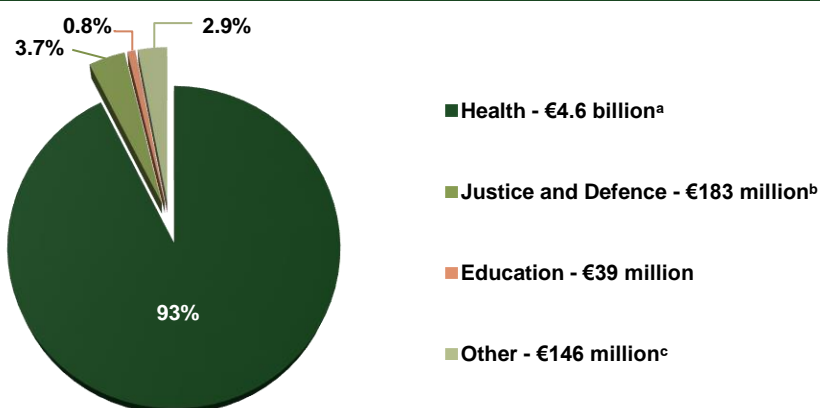
Figure 23.11 Claims received and resolved annually, and claims under management, at the year-end, 2012 – 2022



Source: National Treasury Management Agency

23.51 Health sector bodies (including the HSE and the Department of Health) accounted for 93% of the estimated outstanding liability at the end of 2022, while two other sectors (Justice and Defence, and Education) accounted for a further 4.5% (see Figure 23.12).

Figure 23.12 Proportion of estimated outstanding liability for each State authority sector, at end-2022



Source: National Treasury Management Agency

- Notes:
- a The health sector includes the HSE, Department of Health and bodies under its aegis, and private and voluntary community organisations.
 - b Justice and Defence include the Irish Prison Service, An Garda Síochána, Defence Forces and certain others.
 - c Tusla claims are included within Other, as Tusla falls under the aegis of the Minister for Children, Equality, Disability, Integration and Youth.

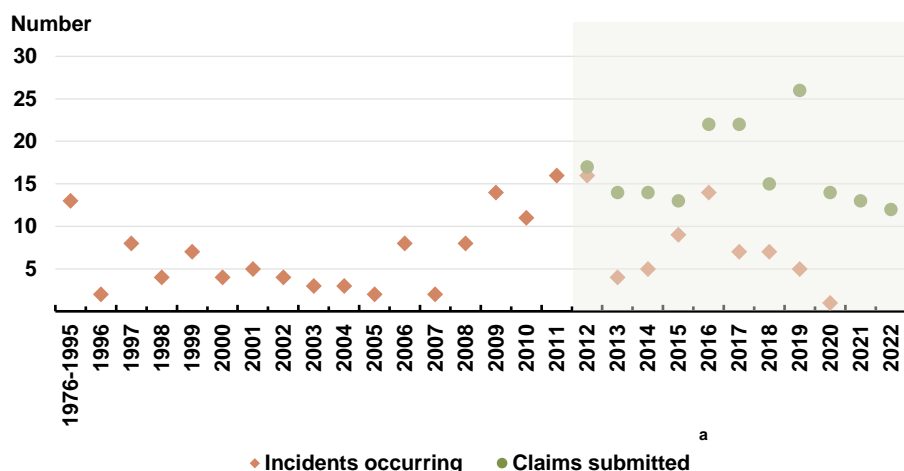
CervicalCheck litigation

- 23.52** By end-2022, the SCA had received notification of 379 claims related to the HSE's CervicalCheck programme (end-2021: 340 claims).¹ This includes 78 psychological injury claims from family members of women who had availed of the programme.
- 23.53** During 2022, 116 CervicalCheck claims concluded, bringing the total number of claims concluded by end-2022 to 181.² Total costs are unknown because most of the claims have been settled by the laboratories involved in the individual claims, and the NTMA stated that it would not, in most instances, have details of settlement payments made by those laboratories. Mediation is offered wherever possible to resolve claims in a non-adversarial manner, although this may not always be under the control of the SCA.
- 23.54** The CervicalCheck Tribunal, in operation since December 2020, provided an alternative system to the courts for processing claims arising. The Tribunal closed the receipt of applications on 26 July 2022, with a total of 25 cases accepted. All cases have now concluded, some of which have been settled. The Tribunal finished hearing cases at the end of July 2023. It was a matter for the plaintiffs in each case as to whether they wished to bring claims to the Tribunal or to pursue them through the courts. Plaintiffs who submitted claims to the Tribunal retain a right of appeal to the High Court.

Cerebral palsy claims

- 23.55** Cerebral palsy (CP) related claims received since 2012 accounted for almost €1.3 billion (26%) of the total estimated outstanding liability at the end of 2022. Some claims received over the period 2012 to 2022 have been settled at a total cost of €621 million (including legal costs (agency/plaintiff) of €66 million).³
- 23.56** A total of 182 CP claims were submitted between 2012 and 2022 of which 138 were still active at end 2022. The average number of claims received was around 17 per year. However, the time interval between a CP incident occurring and a claim being submitted can be significant, with the elapsed time in some cases being decades (see Figure 23.13).

Figure 23.13 Timing of CP incident occurrence for claims received 2012 – 2022



1 The 379 claims include Tribunal cases.

2 Due to subsequent notifications to the SCA by the laboratories, the number of CervicalCheck claims concluded differs from the figures reported in the NTMA's annual report 2022.

3 Claims received since 2012 as recorded on the National Incident Management System (NIMS). NIMS is a confidential end-to-end risk management tool developed by the SCA and used by State authorities to report incidents to the SCA and for their own incident and risk management purposes.

Source: National Treasury Management Agency

Note a The data represents 182 CP related claims received in the period 2012 to 2022.

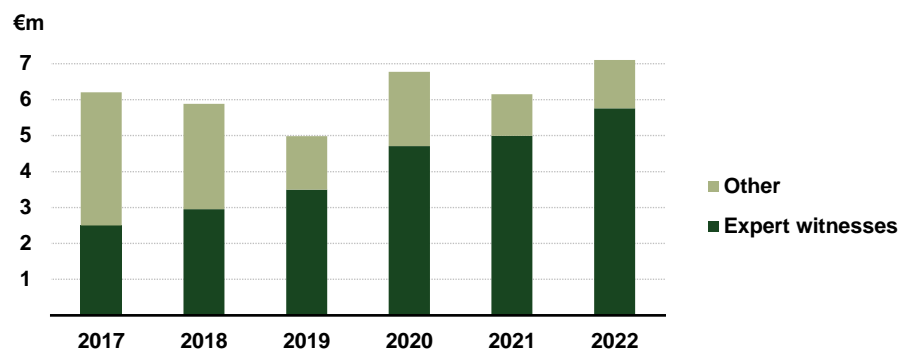
- 23.57** Over 93% of all CP claims costs are associated with incidents that occurred in the State's 19 maternity hospitals/units, which handle widely different numbers of births each year.

Erroneous payments

- 23.58** The NTMA's statement on internal control discloses that thirteen erroneous payments were made in 2022, totalling €690,000 (2021: 15 for €346,000). These erroneous payments represented 0.1% of all payments in the year (both by number and by value). All the payments were fully recovered, and no net losses have arisen. Some of the business processes used by the SCA in making payments to suppliers are manual, and while enhanced controls and procedures have been introduced to mitigate the related business risk, the absence of sufficient checks on those transactions resulted in the erroneous payments.
- 23.59** The NTMA has stated that it is committed to continually reviewing the processes and controls in place to reduce the occurrence of errors in this area. In 2023, it conducted an internal end-to-end review of the payment process to identify possible further measures to strengthen the overall control environment. The findings and recommendations of the review are being progressed.

Procurement exceptions and expert witnesses

- 23.60** During 2022, the NTMA made payments totalling €7.1 million (ex VAT) (2021: €6.15 million, ex VAT) in respect of goods/services that were the subject of procurement exceptions approved in accordance with the NTMA's *Procurement Policy* and *Procurement Procedure*.
- 23.61** The overall level of non-competitive procurement by the NTMA has remained at a relatively consistent level over the last six years. However, the proportion of expenditure associated with expert witnesses retained by the SCA has increased year-on-year over the same period (see Figure 23.14). Non-competitively procured expert witness costs have doubled from 40% of total procurement exceptions in 2017, to 81% in 2022. The SCA's claims portfolio has also increased in size and complexity over that time.
- 23.62** The SCA categorises its expert witnesses in two broad categories — witnesses as to causation and liability (e.g. medical and engineer witnesses), and witnesses as to quantum and fact (e.g. actuarial witnesses). The SCA does not competitively procure witnesses as to causation and liability because it considers that such a procurement process would be likely to give rise to an added level of litigation risk in relation to the independence of such witnesses.
- 23.63** Expert witness costs of €5.76 million (2021: €4.99 million) were incurred by the SCA in 2022. The SCA stated that it doesn't maintain a breakdown of the costs by category of witness.
- 23.64** A panel for the provision of architectural expert witnesses and separately, three panels for private investigator service providers relating to witnesses as to quantum and fact, were put in place on foot of competitive tender processes, in March 2023.

Figure 23.14 NTMA procurement exceptions, 2017 – 2022

Source: Financial Statements of the National Treasury Management Agency, 2017 to 2022. Analysis by the Office of the Comptroller and Auditor General.

Reimbursement of SCA

23.65 The SCA borrows funds from the Post Office Savings Bank (POSB) Fund to cover costs or settlements on behalf of delegated State authorities. As costs are recovered from the delegated State authorities, the POSB Fund is reimbursed by the SCA on a regular basis throughout the year, with no finance costs incurred.¹

23.66 The NTMA issued the November invoice for re-imbursement to the HSE on 2 December 2022, and the December invoice on 21 December 2022. The HSE remitted the payments for both months, totalling €114 million, on 29 December 2022.² With just one working day before the year end (30 December), the NTMA was only able to transfer a portion of the receipt to the POSB Fund before 31 December 2022. The balance of the receipt (€74 million) was transferred to the POSB Fund in January 2023.

¹ Section 16 of the National Treasury Management Agency (Amendment) Act 2000.

² The SCA stated that these would not be considered late receipts from the HSE.

23.67 The NTMA stated that while it deems no specific process improvements are required, it will engage with the HSE on the timing of year-end payments.

24 Performance of the Ireland Apple escrow fund

- 24.1** The Ireland Apple escrow fund is a multi-billion-euro fund held under the terms of a formal agreement between the Minister for Finance (the Minister) and Apple Sales International Limited and Apple Operations International Limited (jointly referred to hereafter as Apple), pending the final outcome of legal challenges to the findings of a State aid investigation undertaken by the European Commission (the Commission).¹
- 24.2** The investment and management of the fund is jointly overseen by the Minister and Apple. The Minister delegated his functions in that regard to the National Treasury Management Agency (NTMA).

Origin of the escrow fund

- 24.3** In June 2014, the Commission opened a formal investigation procedure into the tax opinions issued by the Revenue Commissioners in 1991 and 2007 to Apple.² In August 2016, the Commission issued its decision concluding that Ireland had given illegal State aid to Apple.³
- 24.4** The Commission ordered Ireland to recover, from Apple, the alleged State aid plus interest, related to a ten-year period from 2003 up to 2014.⁴
- 24.5** The Revenue Commissioners computed that the alleged State aid to be collected by reference to the Commission's decision was €13.1 billion plus interest of €1.2 billion. Both the Irish Government and Apple separately appealed the Commission's decision but also agreed to the recovered amounts being held in an escrow fund pending completion of the legal process. Apple transferred €14.3 billion into the escrow account in 2018.⁵
- 24.6** In July 2020, the General Court of the European Union annulled the Commission's decision that Ireland had granted unlawful State aid to Apple. The Commission lodged an appeal of the General Court judgement.
- 24.7** In May 2023, the Court of Justice of the European Union (CJEU) held an oral hearing of the Commission's appeal. The next step in the process will be the publication of the Advocate General's opinion which is scheduled for 9 November 2023. The CJEU's judgement will issue subsequent to that date.

Oversight and management of the fund

- 24.8** Placement of the recovered amounts in an escrow fund allows the escrow parties (the Minister and Apple) to determine jointly how these amounts are invested pending a final judgement by the CJEU, and the ultimate owner of the fund being determined.
- 24.9** The escrow framework deed agreed between the Minister and Apple sets out the detailed legal arrangements governing how the fund is to be managed and how any required releases from the escrow fund are to take place.⁶ The arrangements for oversight, management and monitoring of the fund are summarised in Annex 24A.

1 In April 2023, Apple undertook an intragroup corporate reorganisation whereby Apple Operations Europe Limited (AOE) was absorbed by its Irish incorporated parent company, Apple Operations International Limited (AOI), under the relevant provisions of the Companies Act 2014. Pursuant to the merger, AOI assumed all of AOE's rights, obligations and liabilities.

2 The investigation was focused on establishing whether these opinions conferred any advantage on the Apple Ireland subsidiaries relative to competitors, such that they constituted State aid.

3 Commission Decision on State Aid SA.38373 of 30 August 2016.

4 Article 9, Chapter V of the Commission Regulation (EC) No 794/2004 of 21 April 2004. The Ireland Apple case is the largest State aid recovery ever ordered.

5 Amounts in this report have been rounded.

6 The framework deed was amended and supplemented in early March 2023 to facilitate the merger between AOE and AOI and the continuation of the agreed escrow fund arrangements following the merger. See side note 1 above.

Escrow agent/custodian and investment managers

24.10 At the direction of the Minister, the NTMA oversaw the procurement and appointment processes for an escrow agent/custodian and investment managers for the fund. Following competitive tender processes, an escrow agent/custodian and three investment managers were appointed in 2018 for the duration of the fund's existence, subject to early termination rights.

24.11 Accordingly, each of these contracts remains in place unless and until terminated in accordance with their respective terms, allowing for continuity of service provision for the period until there has been a final determination in the CJEU over the validity of the Commission's decision.

Investment strategy

24.12 The investment principles and parameters for the escrow fund are set out in the investment policy. The objective of the investment policy is to preserve the capital value of the fund to the greatest extent possible in light of the prevailing market conditions. The agreed risk appetite in respect of the escrow fund is 'low', with investments permitted only in securities that have a low degree of inherent risk, such as highly rated fixed income securities of short to medium-term duration. The investment committee periodically reviews the ongoing appropriateness of the investment policy.¹ The NTMA has stated that no changes have been made to the investment policy to date.

24.13 The escrow fund is exposed to a variety of market, liquidity and credit risks. The risk management programme for the fund seeks to minimise the potential adverse effects of the risks on its financial performance.

24.14 The management and monitoring of risks is carried out by the investment managers. The escrow agent/custodian independently monitors compliance by the investment managers with their mandates and reports to the NTMA and Apple on a daily basis. The mandates issued to the investment managers are consistent with the investment policy for the fund. Compliance with the investment policy is considered by the investment committee on a quarterly basis. Regular meetings are held between the investment committee and the investment managers to review the investment managers' performance and that of the overall escrow fund.

¹ The investment committee which is chaired by the NTMA, comprises three NTMA representatives and three Apple representatives.

Performance of the escrow fund

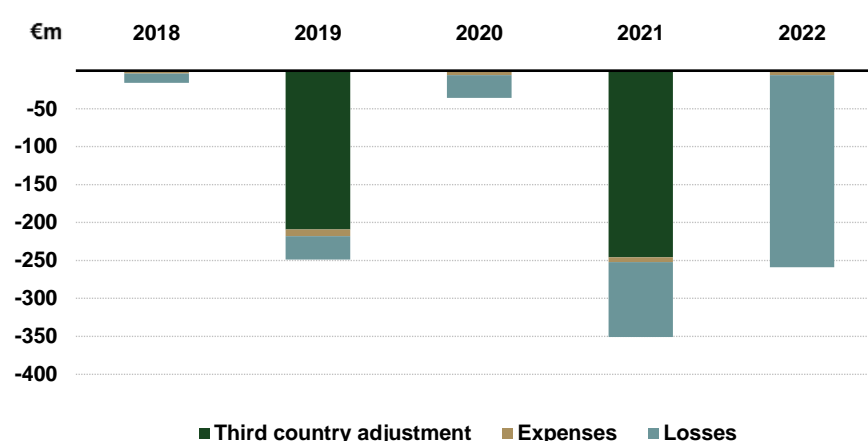
- 24.15** The financial statements of the escrow fund are prepared in accordance with International Financial Reporting Standards (IFRS), as directed by the Minister.^{1,2} All financial assets of the escrow fund are priced at fair value, which is the quoted market value at the close of trading on the period-end date.
- 24.16** In line with the investment policy, the escrow fund is invested in highly rated euro-denominated fixed income securities, or held as cash and cash equivalents. Fixed income securities include sovereign, quasi-sovereign and corporate bonds. Cash and cash equivalents include cash and other short-term investments (with maturities of three months or less).
- 24.17** At 31 December 2022, total assets of €13,376 million were held in the escrow fund, of which around 82% was invested in financial assets and 18% held in cash and cash equivalents. This represents a significant change from the end of 2021, when the total assets were divided between 96% financial assets and 4% in cash and cash equivalents.
- 24.18** The net assets of the fund reduced in 2022 by €259 million to €13,374 million (2021: €13,633 million).³ The decline in value for the year was due to the significant increase in yields across global fixed income markets, and fund operating expenses.
- 24.19** The escrow fund incurred operating costs of €6 million in 2022 (2021: €6 million) which primarily relate to investment managers' fees and escrow agent/custodian's fees.
- 24.20** Figure 24.1 shows the movement in the fund's net assets each year, from 2018 to 2022.

1 As a consequence of the Minister's delegation of the investment functions, the NTMA is required under section 12 of the National Treasury Management Agency Act 1990 (as amended) to prepare annual financial statements for audit by the Comptroller and Auditor General, to be presented (following audit) to the Houses of the Oireachtas.

2 The financial statements of the escrow fund are prepared pursuant to section 28(5) of the National Treasury Management Agency (Amendment) Act 2000.

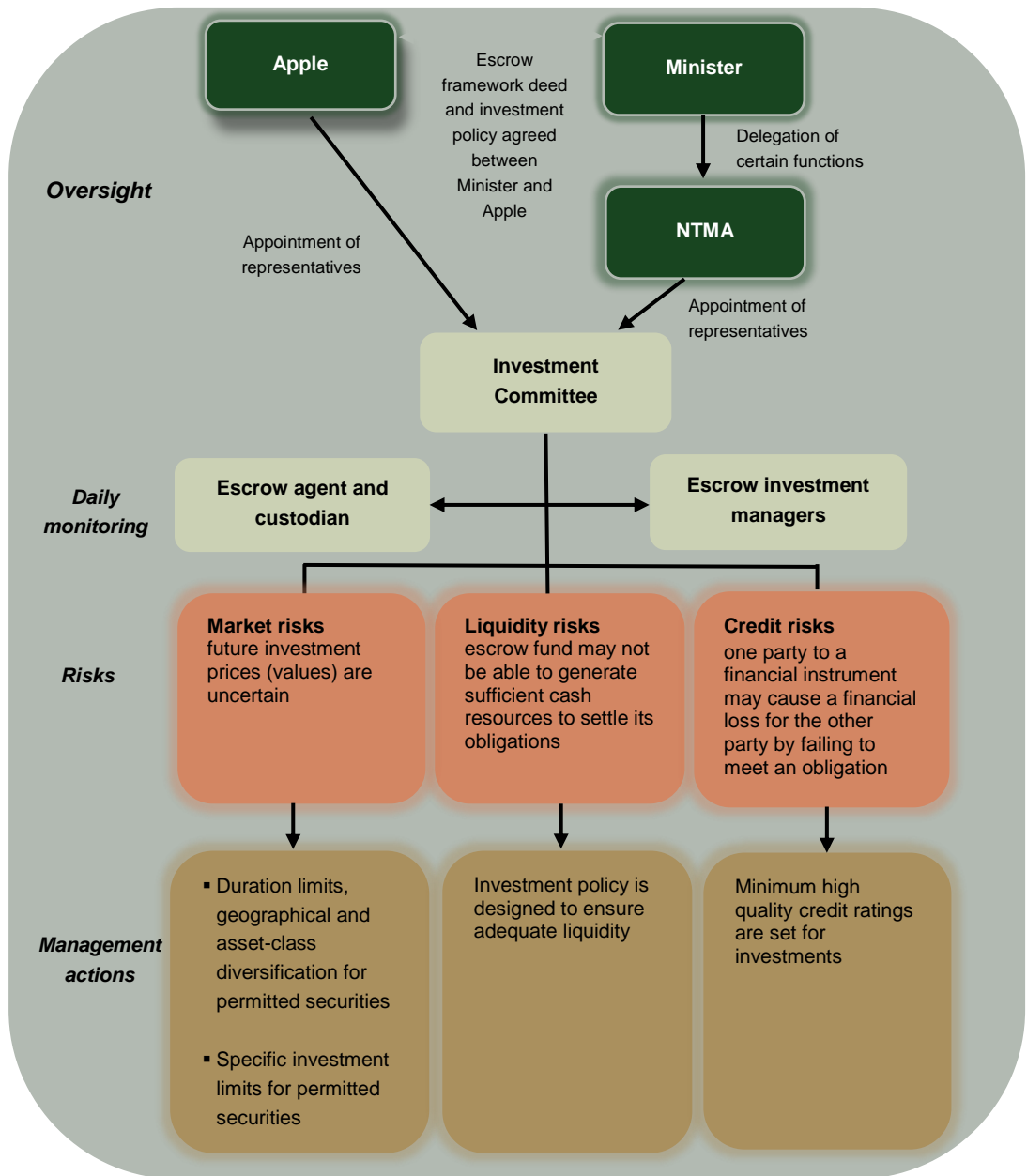
3 The difference between total assets and net assets is liabilities of the fund outstanding at the year end.

Figure 24.1 Movement in the fund's net assets — 2018 to 2022



Source: Financial Statements of the Ireland Apple Escrow Fund, 2018 to 2022

Annex 24A Oversight, management and monitoring of the escrow fund^{a,b,c}



Source: Financial Statements of the Ireland Apple Escrow Fund, 2022. Analysis by the Office of the Comptroller and Auditor General.

- Notes:
- The role of The Bank of New York Mellon, London Branch (BNYM) as the escrow agent and custodian is to open and maintain escrow bank/securities accounts as well as to hold, apply and realise the escrow funds in accordance with the terms and conditions of the escrow agent/custodian agreement.
 - The investment managers — Amundi Asset Management, BlackRock (Netherlands) BV and Goldman Sachs Asset Management International — are responsible for the management of investments in accordance with an investment manager mandate to preserve the fund's capital to the greatest extent possible in light of prevailing market conditions.
 - The escrow fund is held by BNYM, as escrow agent and custodian. The investment and management of the escrow fund is jointly overseen by the Minister and Apple Sales International Limited and Apple Operations International Limited through an investment committee. The Minister for Finance is the beneficial owner for the duration of the escrow fund in accordance with the agreed escrow framework deed.

25 Irish Fiscal Advisory Council

- 25.1** The Irish Fiscal Advisory Council was established under the Fiscal Responsibility Act 2012 (the Act) to provide independent assessments of the Government's budgetary plans and projections and to inform public discussion of economic and fiscal matters.

Accounts of Irish Fiscal Advisory Council

- 25.2** The Chairperson of the Fiscal Council is the officer accountable for the preparation and presentation of its financial statements for audit.¹ Under the Act, the Fiscal Council is required to keep accounts of receipts and expenditure in the form approved by the Minister for Finance (the Minister) and to submit them for audit by the Comptroller and Auditor General within three months after the end of the accounting period to which they relate.² On completion of the audit, a copy of the accounts and of the audit report must be given to the Minister, who in turn must lay them before the Houses of the Oireachtas.
- 25.3** Separately, the Act requires the Comptroller and Auditor General to report to Dáil Éireann with respect to the correctness of the sums brought to account by the Fiscal Council each year. This is the report for 2022.
- 25.4** The accounts of the Fiscal Council for 2022 have been audited, and the report on the audit was issued on 19 September 2023.

1 Mr Sebastian Barnes (OECD) stepped down as Chair of the Fiscal Council at the end of June 2023. Prof Michael McMahon has been appointed as acting Chair of the Council, pending completion of the selection process for a new Chair.

2 The Council's financial statements have been prepared in accordance with Financial Reporting Standard (FRS) 102.

3 Paragraph 9 of the schedule to the Act provides for the funding source and sets the baseline level of spending for the Council on commencement (31 December 2012) at €800,000.

4 The Department of Finance applies the Central Statistics Office Harmonised Index of Consumer Prices (HICP) when determining the ceiling for any year. The HICP rate used in calculating the 2022 ceiling was 2.4%, based on the 2021 HICP return.

5 Income and expenditure are determined under the accrual accounting convention whilst the funding ceiling is cash based.

- 25.5** I am satisfied that the accounts give a true and fair view of the assets, liabilities and financial position of the Fiscal Council at the end of 2022 and of its income and expenditure for the year.

Funding

- 25.6** The Fiscal Council is funded from the Central Fund of the Exchequer, subject to an inflation-indexed annual 'ceiling' amount.³ The cash-based funding ceiling for 2022 was €854,000 (2021: €834,000) and funds of €730,000 (2021: €648,000) were drawn by the Fiscal Council in the year.⁴
- 25.7** The Fiscal Council's income for the year when accounted for on an accruals basis was €904,000 (2021: €836,000).⁵
- 25.8** Current expenditure of the Fiscal Council totalled €901,000 in 2022 (2021: €836,000).
- 25.9** Salary costs accounted for 51% of the expenditure in 2022. The largest element of the Fiscal Council's non-pay administration expenditure related to an administration fee payable to the Economic and Social Research Institute (ESRI) in respect of office accommodation costs and support services in 2022 which totalled around €126,000.

Peer review

- 25.10** In line with its previous strategic plan (2020–2022), the Fiscal Council commissioned the Organisation for Economic Co-operation and Development to conduct an external evaluation to assess the functioning of the Council with respect to its mandate under the Act, its governance structures, how effectively it communicates its work and the impact of its work. This was the second independent external review of the Fiscal Council.¹
- 25.11** The review group's report was published in February 2021.²
- 25.12** The review found that the Fiscal Council performed well relative to international standards, meeting or exceeding the principles and standards in almost all areas. The review noted that the Fiscal Council has helped strengthen fiscal management in Ireland by developing new tools for assessing compliance with fiscal rules and for measuring the economic cycle. The review found that the Council demonstrates high levels of transparency regarding its methodologies and is perceived as independent and non-partisan.
- 25.13** The review made a number of recommendations across six areas: budget, leadership, governance requirements, access to information, staffing and medium to long term fiscal issues.
- 25.14** Arising from the report recommendations, the Fiscal Council identified 28 recommended action points. The Council has decided not to implement two recommendations, and of the remaining 26 recommendations, has identified that implementation of 14 was within its direct control, but that implementation of 12 was outside its control.
- 25.15** The Fiscal Council is implementing the recommendations under its direct control, while engaging with Government on the other issues. Ten of the recommendations under the Council's direct control have been fully implemented, and implementation of the remaining four is in progress.
- 25.16** Of the 12 recommendations not within the Council's direct control, four have been fully implemented as at August 2023. The Council continues to engage with the Department of Finance in relation to implementation of a further seven recommendations. The Council has decided not to pursue a recommended legislative change that would transfer the accountable person role from the Chairperson of the Council to the head of the Council's secretariat.
- 25.17** The Council published a new strategic plan (2023–2025) in January 2023. Its central strategic goal for the period is to deliver on all elements of its mandate i.e. to assess official forecasts, the Government's fiscal stance and compliance with the budgetary rule; and to endorse official macroeconomic forecasts. The strategic plan commits the Council to initiating the next external review of its operations in 2026.

¹ The previous external review was conducted in 2015.

² The 2015 and 2021 external review reports are available at www.fiscalcouncil.ie/.