18 Management of redundancy and insolvency payment scheme debts

18.1 The Department of Social Protection (the Department) oversees the provision of income support and other social services under a wide range of schemes. These include the redundancy payment scheme and the insolvency payment scheme, which are funded through the Social Insurance Fund (SIF).[1]

- The Redundancy Payments Acts 1967 (as amended) requires employers to compensate workers for the loss of their jobs by reason of redundancy. The redundancy payment scheme operates under the provisions of the Act to ensure that employees receive their statutory entitlements in circumstances where the employer is unable or unwilling to make the payment.
- The insolvency payments scheme operates under the Protection of Employees (Employers Insolvency) Act 1984 (as amended) to pay outstanding wage-related entitlements due to employees in the event of the insolvency of their employer.

18.2 The Department manages the schemes under an agency agreement with the Department of Enterprise, Tourism and Employment which, since October 2020, has policy and legislative responsibility for the redundancy and insolvency payment schemes.

18.3 Together, these payment schemes accounted for expenditure from the SIF of almost €31 million in 2024. The amount paid by the Department under either of these schemes is automatically recorded as a debt due from the relevant employer to the SIF. The Department seeks to recover the debt from the debtor (employer). An overview of the principal features of the redundancy and insolvency payment schemes is set out in Annex 18A.

18.4 The examination was undertaken

- to identify trends arising from redundancy and insolvency payment schemes, and
- to assess the Department's debt management, recovery and write-off processes for these schemes.[2]

18.5 The examination reviewed key documents and data produced by the Department and interviewed relevant members of Department staff. The examination also reviewed a sample of outstanding employer debts and debts written off in 2024 to assess compliance with the Department's debt management policy and procedures.

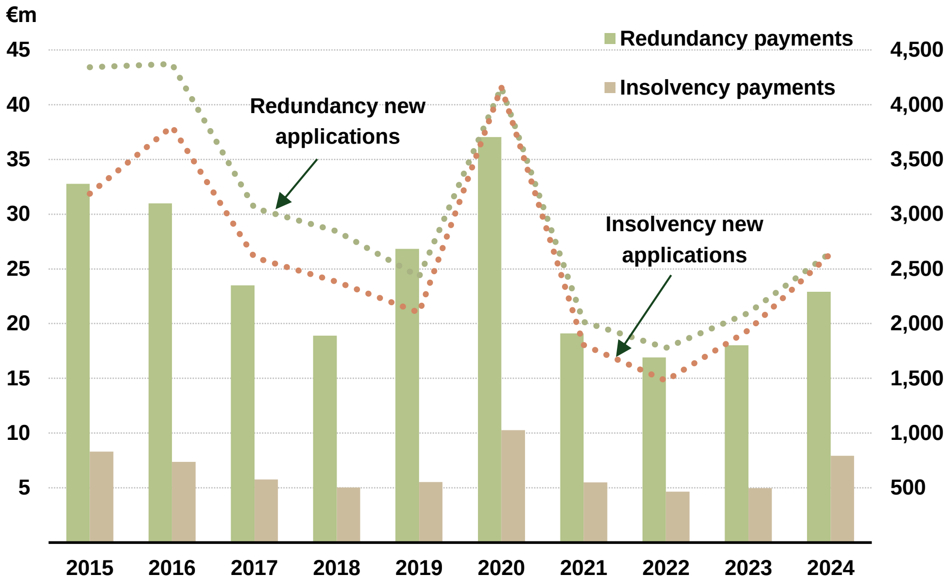
Analysis of scheme expenditure

18.6 In 2024, €22.9 million was paid under the redundancy payment scheme, and €7.9 million was paid under the insolvency payment scheme (see Figure 18.1).

1 These schemes operate to fulfil Ireland's obligations under EU Directive 2008/94/EC, which requires member states to guarantee certain employee entitlements in case of employer insolvency.

2 The Covid-19 related lay-off payment scheme was excluded from this examination as the payments made under this scheme do not give rise to a debt liability for the employer. The scheme was introduced in April 2022 to compensate employees (when being made redundant) for time spent on temporary layoff due to Covid-19 restrictions. Cumulative payments of €1.7 million have been made under the lay-off scheme up to end-2024.

Figure 18.1 Number of new applications received and value of redundancy and insolvency payments made by the Department, 2015 to 2024[a]



Source: Department of Social Protection

Note: a A new application is generated for each employee. An application can be for a lump sum payment entitlement (redundancy) and/or a pay-related entitlement (insolvency). An insolvency application/payment may contain several components (for example arrears of wages or holiday pay).

18.7 Both schemes are demand-led and liable to impacts resulting from economic factors. This can result in significant fluctuations in the number of applications and expenditure.[1] Also, as the schemes involve once-off payments based on the individual circumstances of each applicant, the correlation between the amount of expenditure and the number of payments can vary significantly.

18.8 Applications for both schemes have been trending upwards since 2022. The number of new applications for the redundancy payment scheme has increased by almost 50% in the last two years. New applications for the insolvency scheme increased by 80% in the same period.

18.9 The Department has stated that measures taken to support businesses from the impact of Covid-19 influenced the number of claims received in the period 2020 to 2023. The increase in applications in recent years is broadly in line with pre-Covid-19 trends, relative to economic activity and employment levels.

18.10 In 2024, 714 employers had scheme payments made on their behalf by the Department with a corresponding SIF debt raised. Of these employers,10% (71) are responsible for over 50% of the total expenditure on redundancy and insolvency payments in 2024.

18.11 The largest redundancy scheme payment made by the Department in 2024 on behalf of an employer amounted to €567,000 (2% of scheme expenditure). It comprised redundancy payments to 62 individual employees of varying amounts based on the employment history of each individual employee. The Department also made a payment, on behalf of the same employer, to the employer representative (liquidator) of €481,000 (6% of scheme expenditure) under the insolvency payment scheme. This payment related to 367 individual pay components for 128 employees.

1 An application — on behalf of each individual employee — is submitted by the employer or employer representative for the redundancy payment scheme and/or by the liquidator on behalf of the employer for the insolvency payment scheme (see Annex 18A).

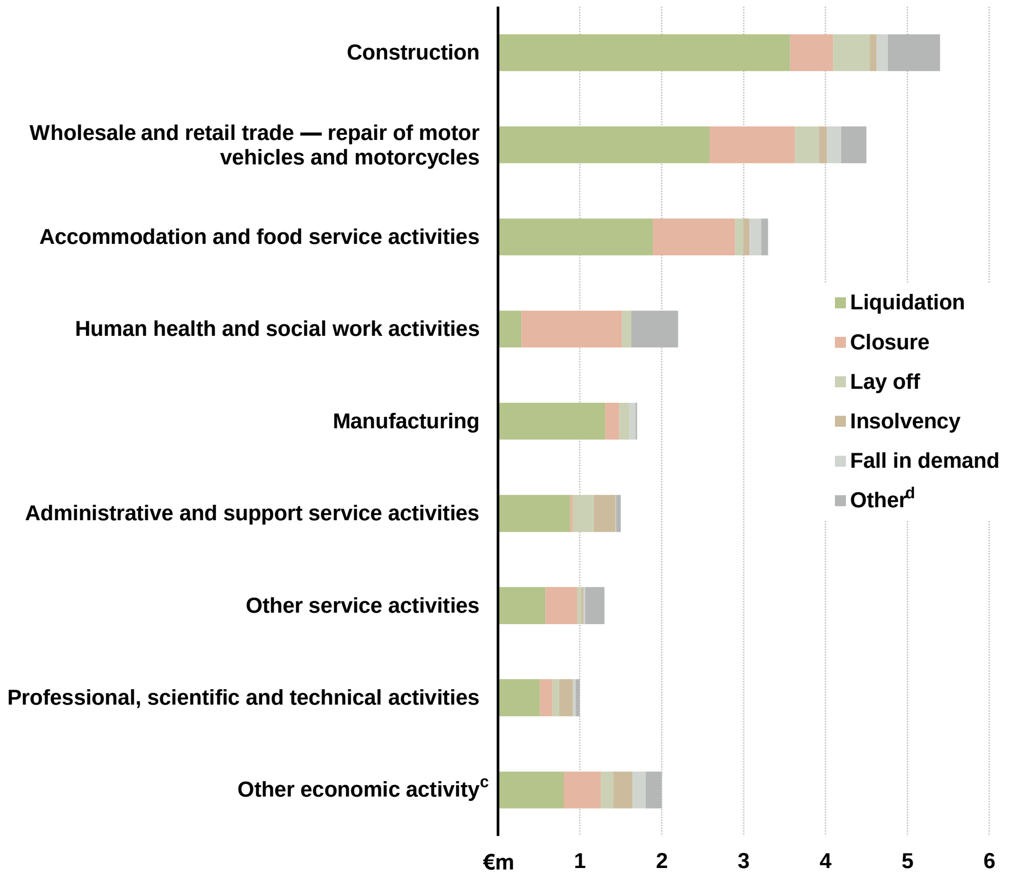
Sectoral trends

1 The Department stated that, as insolvency payments are recorded against individuals, similar information on the relevant economic sector of the employer is not reported for insolvency payments.

18.12 Most of the redundancy scheme payments made in 2024 — €21 million, or 91% — relates to eight economic sectors. The remaining 9% is spread across other classifications of economic activities in Ireland (see Figure 18.2).[1]

18.13 The Department issued payments of €22.9 million for the redundancy payment scheme in 2024. Of this, 54% was due to the company expecting to go into liquidation and a further 22% was due to business closure (see Figure 18.2).

Figure 18.2 Redundancy payment scheme expenditure in 2024 by economic activity of employer business and reason for redundancy[a,b]



Source: Department of Social Protection. Analysis by the Office of the Comptroller and Auditor General.

Notes:

a Data based on payments issued in 2024 includes a small number of applications submitted in 2023 and paid in 2024.

b Classification is by the NACE (Nomenclature générale des Activités économiques dans les Communautés Européennes) structure, which is the statistical classification structure for economic activities in Europe.

c Agriculture, forestry and fishing; arts, entertainment and recreation; education; information and communication activity; public administration and defence; real estate activities; transportation and storage.

d Other includes rationalisation/reorganisation, receivership, examinership, bankruptcy, change of work practice — unable to cope, death of employer, end of contract, sale of business, change of ownership and alternative job offer unreasonable.

Payments arising from awards issued by the Workplace Relations Commission

18.14 If the Department decides not to award a claim under the redundancy and/or insolvency payment schemes as per the relevant legislation, or if an employee is dissatisfied with an aspect of an award, the employee has a right to appeal the decision to the Workplace Relations Commission (WRC).[1]

18.15 Employees can also bring a claim to the WRC against their employer for unpaid statutory redundancy. If the WRC makes an award in relation to statutory redundancy against the employer and the employer refuses to pay the award, the employee can apply directly to the Department for payment under the redundancy payment scheme.

18.16 136 employees (around 5% of applications submitted in 2024) received redundancy payments from the Department in 2024 based on awards issued by the WRC.

Debt management

18.17 The Debt Management Unit (DMU) was set up within the redundancy and insolvency payment section of the Department to manage and recover employer debt. The DMU looks after all aspects of debt management solely for the redundancy and insolvency payment scheme debts.

18.18 The employer debt is automatically recorded, and recovery actions are managed on the Department's general Debt and Receipts Accounting System (DRAS). The system automates many aspects of the processes to seek recovery of this debt and to communicate with debtors. Initial debt invoices, follow up reminders and annual debts statements are issued automatically by DRAS to the employer.

18.19 The DRAS system was introduced in 2014, and any outstanding redundancy and insolvency payment scheme debt balances were transferred over to it. This included outstanding pre-2011 debt brought over onto the Department's system from the Department of Enterprise, Tourism and Employment.[2]

18.20 The examination noted that some of the transferred cases lacked the level of detailed case notes available for more recent cases and have a higher likelihood of the company status information being outdated. However, the Department stated that this information for pre-2011 debts is available outside of DRAS and is checked as part of the debt management process.

18.21 The debt management and write-off policy for redundancy and insolvency schemes was updated by the Department in January 2024. The policy sets out more detailed guidance for the debt recovery and write-off process.

Scheme debt

18.22 Payments made under the redundancy and insolvency payment schemes are accounted for in the SIF account on a cash receipts and payments basis. The balance due from employers at the year-end represents the scheme debts which have not been recovered or written off.

1 For all other Department funded schemes, appeals are managed by the Social Welfare Appeals Office.

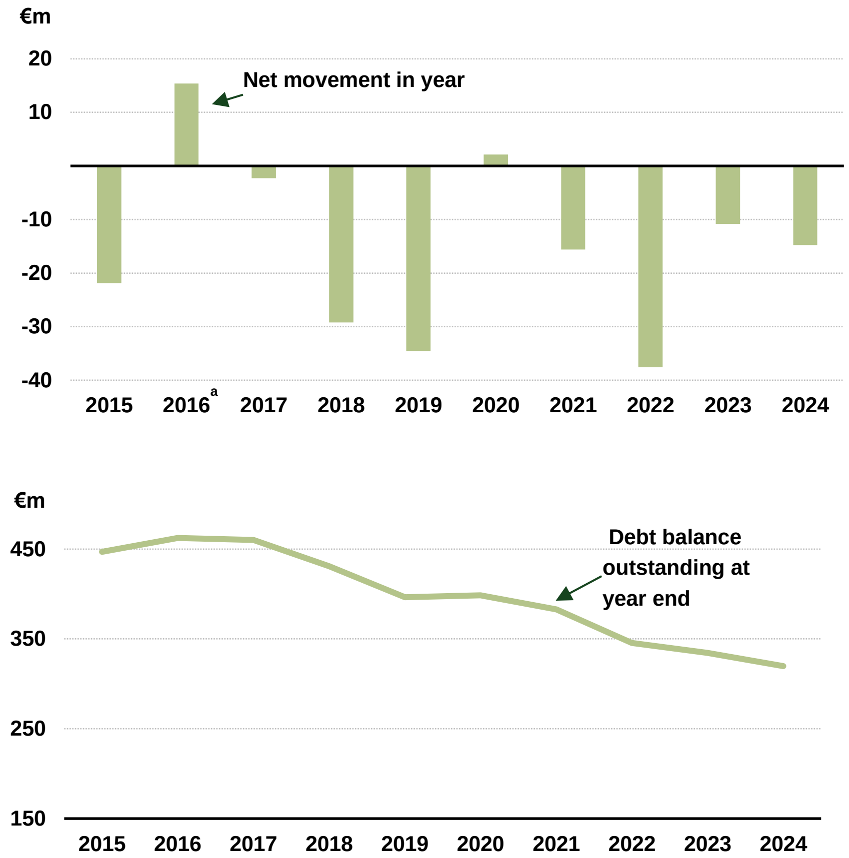
2 Prior to 1 January 2011, the schemes were administered by the (then) Department of Jobs, Enterprise and Innovation, with the associated costs charged to/recouped from the SIF.

18.23 The cumulative debt figure has decreased within the last decade, reducing the overall debt balance from €447 million in 2015 to €320 million in 2024 (see Figure 18.3).

18.24 However, most of the reduction is due to debt being written off. The Department acknowledges that a low percentage of the outstanding balance will be recovered because most of the employer debt relates to insolvent companies.

18.25 Due to uncertainties around the timing and likelihood of scheme debt recovery the Department does not recognise the outstanding debt as an asset in the SIF balance sheet. Instead, the amount outstanding is disclosed by way of a note to the SIF accounts. This is in line with the standard accounting treatment for contingent assets.[1]

Figure 18.3 Net movement and cumulative balance outstanding in employer debts at year end, 2015 to 2024



Source: Department of Social Protection. Analysis by Office of the Comptroller and Auditor General.

Note: a The increase between 2015 and 2016 was due to a once-off adjustment of an opening balance in 2015 by €36.7 million.

Recovery of outstanding debt

18.26 The Department does not set specific targets for debt recovery, reflecting the individual nature of the payments made under the schemes. As a preferential creditor under section 621 of the Companies Act 2014 (as amended), the Department works to recover as much of this debt as possible.

1 *Central Government Accounting Standard 19 — Provisions, contingent liabilities and contingent assets*.

18.27 An invoice is issued to the debtor (employer/employer representative) once the redundancy and/or insolvency amount is paid by the Department on the debtor/employer's behalf. The DMU will attempt to engage directly with the employer (or employer representative) to ascertain its current financial position and its capacity to repay the debt. The DMU monitors this regularly and issues annual statements of debt liability to debtors.

18.28 In cases where employers are not insolvent and are still trading, the Department will actively continue to seek repayment of all debts in full or as part of an agreed repayment plan. The Department stated that a balanced approach is taken, as the companies it is dealing with are often in a financially precarious position.[1]

18.29 Once a business enters a formal insolvency process, or any process where an official has been appointed where the creditors will be impaired, the Department's recourse is with the appointed official. After payment to secured creditors and the payment of liquidation fees or other officials fees, the relevant share of any remaining dividend will be repaid to the SIF.

18.30 Once a company goes into liquidation, all communication from the DMU team, both manual and automatic, is directly with the liquidator only.

18.31 The ability to recover debt usually decreases as a debt ages. However, this is not the case for redundancy and insolvency debt. In 2024, the Department recovered €6.2 million: 25% related to debt raised ten years ago and older and another 29% was five to nine years old (see Figure 18.4).

18.32 Most scheme debtors are in significant financial difficulty during the creation of debt. Recoveries can, therefore, be delayed and often do not materialise until dividends are received once a liquidation process is completed.

18.33 The length of time taken to complete a liquidation is dependent on the individual circumstances arising in each case, with some liquidations continuing for several years.[2]

18.34 The debt recorded as outstanding under the redundancy and insolvency payment schemes includes debt that was raised many years ago and is still potentially recoverable. By value, 41% of debt was raised in 2014 or before and almost 33% was raised from 2015 to 2020 (see Figure 18.5).

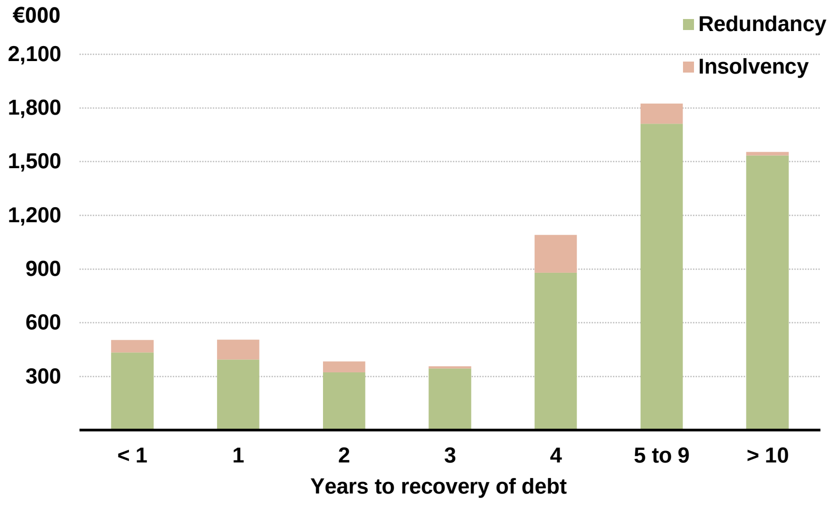
18.35 Standard statute of limitation rules apply to debt collection i.e. if the debt is older than six years and one day, and the Department has not taken any debt recovery action in that period, then no legal action can subsequently be taken to recover the debt.[3] In practice, statute-barred write-offs are rare and have resulted in one or two debts written off per year over the last five years.

1 Reminder letters are issued detailing the outstanding debt balance and seeking an up-to-date financial position.

2 One of the longest liquidations in Ireland took almost 30 years (1970 – 1999).

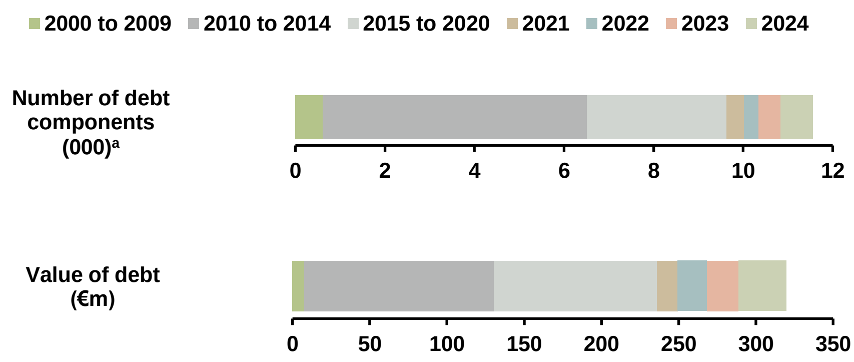
3 [Statute of Limitations 1957, section 11](#).

Figure 18.4 Extent of debt recovery during 2024, by age of debt component in years



Source: Department of Social Protection. Analysis by Office of the Comptroller and Auditor General.

Figure 18.5 Age of outstanding redundancy and insolvency debt at the end of 2024, by value and number of debtors



Source: Department of Social Protection. Analysis by Office of the Comptroller and Auditor General.

Note: a There are 11,557 individual debt components, relating to 8,925 individual debtors. A separate debt component is raised for each instance of debt.

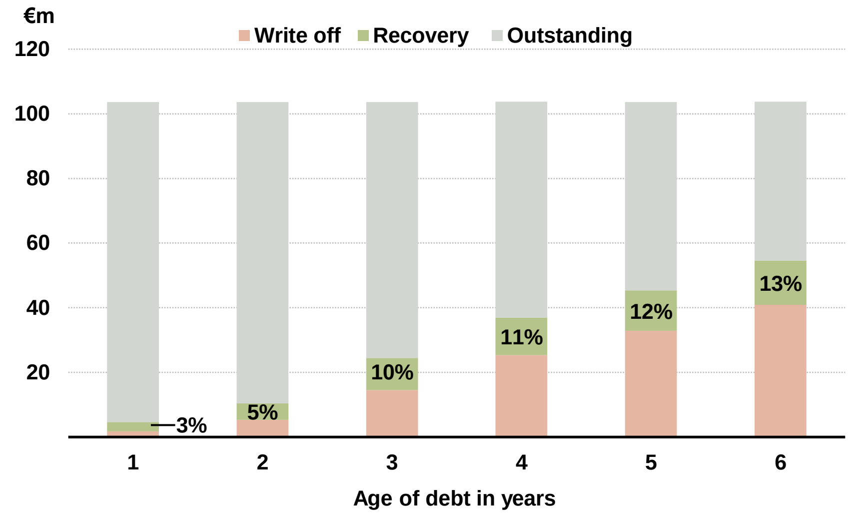
Rate of recovery

18.36 Based on historical recoveries, the Department acknowledges that, on average, less than 10% of the outstanding debt balance will be recovered. The remaining 90% of the employer debt value is forecasted to eventually be written off.

18.37 Figure 18.6 shows the rate of debt recovery over time for debt created in 2016, 2017 and 2018. This analysis of the debt movement shows that by the time this debt was six years old around 13% had been recovered.

18.38 However, the recovery rate year-on-year can be significantly impacted by a large payment from one single debtor. For example, in 2019 a payment of €2.4 million was received from a single debtor relating to a debt created in 2016. Excluding this single payment, the recovery rate of 2016 debt after three years would have been 7% as opposed to 10%. This illustrates the inherent unpredictability of the recovery process for debts related to the payments made under the schemes.

Figure 18.6 Aged analysis of redundancy and insolvency payment scheme debt created from 2016 to 2018[a]



Source: Department of Social Protection. Analysis by the Office of the Comptroller and Auditor General.

Note: a For example, point four on the horizontal axis represents debt that is four years old. Debt created in 2016 will be four years old in 2020, whereas debt created in 2017 will be four years old in 2021.

Recovery projects — targeted approach

18.39 The DMU recently undertook a targeted approach project for debt recovery. Between March 2023 and September 2024, the Unit contacted all debtors not engaging with the Department and with a debt liability of under €20,000.[1] Each debtor was sent a customised letter, with a repayment plan option.

18.40 In total, the Department issued 4,026 targeted letters for employer debts amounting to €27 million. As of October 2024, the Department had received over €750,000 in repayments, with projected total recoveries of just under €2 million on foot of the engagement generated by the targeted approach.

1 The targeted debt was debt that was marked as active, which had no repayments for the last 10 to 12 months and was not on DMU list to follow up, not in liquidation or receivership and not bankrupt/in personal insolvency (sole trader).

18.41 In 2025, the DMU plans to initiate a similar undertaking for a further cohort of debtors with balances over €20,000 outstanding. The DMU also intends to review older debtors, cross checking their status with records from the companies' registration office (CRO) with a view to writing off their debts should a dissolved status be confirmed. The exact parameters and timelines for the projects have yet to be determined. These reviews occur on an ad-hoc basis rather than as part of an overall formal approach or strategy.

Write-off of debt

18.42 The Department's policy is to consider write-off for redundancy and insolvency payment scheme debt in certain defined circumstances, to ensure the consistent management of debt. Such circumstances include companies that are dissolved or wound up and the legal entity no longer exists (registered companies) or where an individual is discharged from bankruptcy (sole traders/partnerships).[1]

18.43 The Department has obtained a delegated sanction from the Department of Public Expenditure, Infrastructure, Public Service Reform and Digitalisation to carry out debt write-off in respect of employer debt arising for the redundancy and insolvency payment schemes in accordance with the Department's stated policy.

18.44 Additionally, the employer debt can be examined for write-off when the Department considers it to be not feasible for collection.[2]

18.45 The DMU staff, and the Departments' senior management team are responsible for all redundancy and insolvency employer debt write-offs. Approval levels for write-off decisions are included in the Department's redundancy and insolvency debt management and write-off policy. The levels of authority for making decisions on a single debt for write-off are based on the grade of the staff member and the debt value as a whole.

18.46 However, the policy also allows for the processing of the write-off on the Department's system to be delegated to a DMU officer with less authority if a record of the decision by the officer with appropriate authority is recorded and kept on file. Therefore, the system-controlled write-off limits are not aligned to the authorisation amounts set out in the policy. The Department stated that write-offs are monitored and reported on regularly to ensure debts are written off in line with the authorisation limits set out in the policy.

18.47 When the employer debt is written off, a record of the debt remains on file and the write-off can be reversed if the debt is subsequently repaid or becomes repayable.

18.48 During 2024, the Department wrote off debt to the value of €39.7 million, with

- €38.7 million (97%) written off due to the company being dissolved
- €1 million written off for a variety of other reasons recorded including bankruptcy, extenuating circumstances and death of the debtor.

18.49 Over the last five years, the Department has written off €183 million, with 96.5% because of the company being dissolved. In those cases, either no dividends were available, or the interim dividends received by the Department were not enough to cover the full amount of debt.

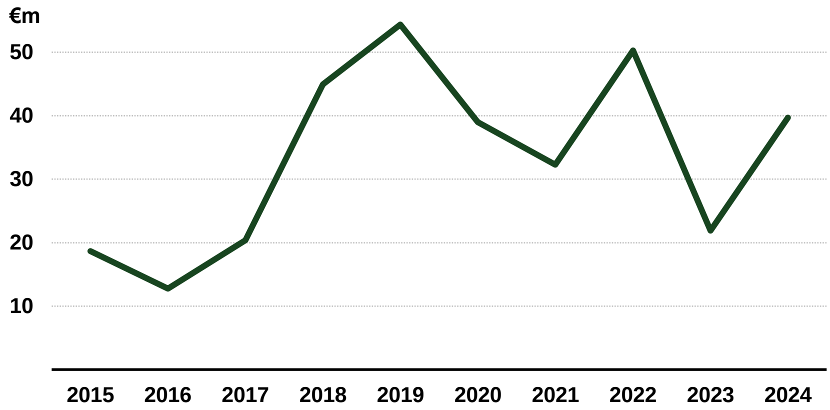
1 Other circumstances include scheme of arrangement (examinership), where legislation supersedes Department policy and where a sole trader/ partnership has ceased to trade or the estate has been wound up.

2 Debt is considered not feasible for collection when it meets the following criteria: is less than €1,000; is over one year old; and no repayments were made for a year and multiple requests for payment were issued. Debt that is part of a Criminal Assets Bureau case is also considered not feasible for collection.

18.50 The overwhelming majority of the write-offs are conducted after the litigation process is completed, the registered company is dissolved and dissolved status is confirmed with the CRO.

18.51 This explains the fluctuations in the write-off trends over previous years. €39.7 million was written off in 2024, almost double the 2023 amount (€21.9 million). This was due to an increase in the number and value of liquidations finalised in 2024 (see Figure 18.7).

Figure 18.7 Write-off trends 2015 – 2024



Source: Department of Social Protection

Conclusions and recommendation

18.52 The redundancy and insolvency payment schemes expenditure is demand-led and vulnerable to economic factors. Any increase in demand and subsequent increase in the payment due to an economic downturn will increase the debt figure and vice versa.

18.53 The amount of redundancy and insolvency payment scheme debts recorded with a balance due from employers is reducing year on year — from almost €450 million at the end of 2015 to €320 million at the end of 2024. However, this reduction is largely due to debt written off.

18.54 The Department expects further reduction of this employer debt due to the number of formal insolvencies nearing final stages, the implementation of the revised debt management policy in 2024 and further planned specific reviews of older debt outstanding and of certain cohorts of debtors by value. However, these reviews occur on an ad-hoc basis rather than as part of an overall debt management strategy.

18.55 The DRAS system was introduced in 2014 and any outstanding balances, including pre-2011 employer debt brought over from the Department of Jobs, Enterprise and Innovation, were transferred to the system. Some of these transferred amounts continue to form part of the outstanding debt balance and can often lack the level of detail and up-to-date information available for more recent cases.

Recommendation 18.1

The Department should introduce a formal strategy for both the regular review of older outstanding debt, in particular for cases pre-2011 and for the targeted review of certain cohorts of debtors by value on a periodic basis.

Accounting Officer's response

Agreed.

The Department acknowledges that a process of periodic reviews of older outstanding employer debt, including pre-2011, will be included in a new debt strategy covering the period 2025 to 2028.

The Department will, as part of this revised strategy, continue to pursue all recoverable debts to maximise recovery.

Timeline for implementation

End of 2025.

18.56 The Department's redundancy and insolvency debt management and write-off policy sets out the levels of authority for deciding to write off an individual debt. However, the authority limits per grade as set out in the policy are not aligned with the debt management system. Staff members can exceed that write-off limit when processing debt write-offs. A separate record of write-off approval and delegated sanction is maintained outside of the debt management system.

18.57 Since 2014, the Department has included a note in the SIF financial statements that it acknowledges that around 90% of the book value of employer debt for redundancy and insolvency payment schemes will eventually be written off. Most of the outstanding employer debt is due from companies in financially precarious situations, many of which are in formal insolvency process, and is highly unlikely to be reimbursed to the SIF.

Annex 18A Overview of redundancy and insolvency payment schemes

Redundancy payment scheme	Insolvency payment scheme
Scheme objective	
It is the employer's responsibility to pay statutory redundancy payments to all eligible employees. If an employer is unable to pay due to financial difficulties, an application for payment from the SIF may be submitted to the Department.	The scheme protects former employees of companies that have become legally insolvent. Employees may claim, through an employer representative, such as the official liquidator or receiver, various pay related entitlements due (arrears of wages and other deductions, outstanding holiday pay, unpaid statutory minimum notice and sick pay).
Application process	
The application is submitted by the employer or employer representative and must include a company statement of affairs, proving that the employer is unable to pay all or part of the statutory redundancy due to the employee.	The application is submitted by the liquidator on behalf of the employer. The liquidator is the employer representative as the employer is deemed to be formally insolvent as per a High Court process.
Rates	
The rate of statutory redundancy is set at two weeks' pay for every year of service plus once additional week (maximum €600 per week).	There are no set rates as the pay related entitlement amount is strictly what is owed to an employee. The weekly pay is capped at €600 per week. The maximum payment per component (e.g. arrears of wages, holiday pay, minimum notice) is €4,800.
Payment recipients and tax implications	
The tax-free payment is made from the SIF to the employee directly, with a debt immediately raised against the employer.	The payment is made to the employer representative, who oversees making the appropriate tax deductions and issuing the remaining amount to the employee.
Employer debt and debt recovery	
For both schemes, the debt is raised against the employer on the SIF and the Department is obliged to make every effort to recover the debt owed to the SIF, in accordance with the Redundancy Payments Act 1967, as amended, and the Protection of Employees (Employers Insolvency) Act 1984, as amended.	
Penalties and costs	
No interest or charges are applied to employer debts.	

Source: Department of Social Protection